

TAB - 4
The Business



A History of the Business

1964–1998

1964

- Commenced operations on 9 December

1965

- Telephone wagering operations commence

1970

- First computer system installed

1977

- Trifecta wagering introduced

1981

- Turnover exceeded \$1 billion per annum

1983

- First PubTAB opened and FootyTAB introduced

1988

- Sky Channel introduced into TAB branches and agencies

1992

- Exacta wagering introduced

1993

- One billionth dollar paid to NSW Racing Industry

1997

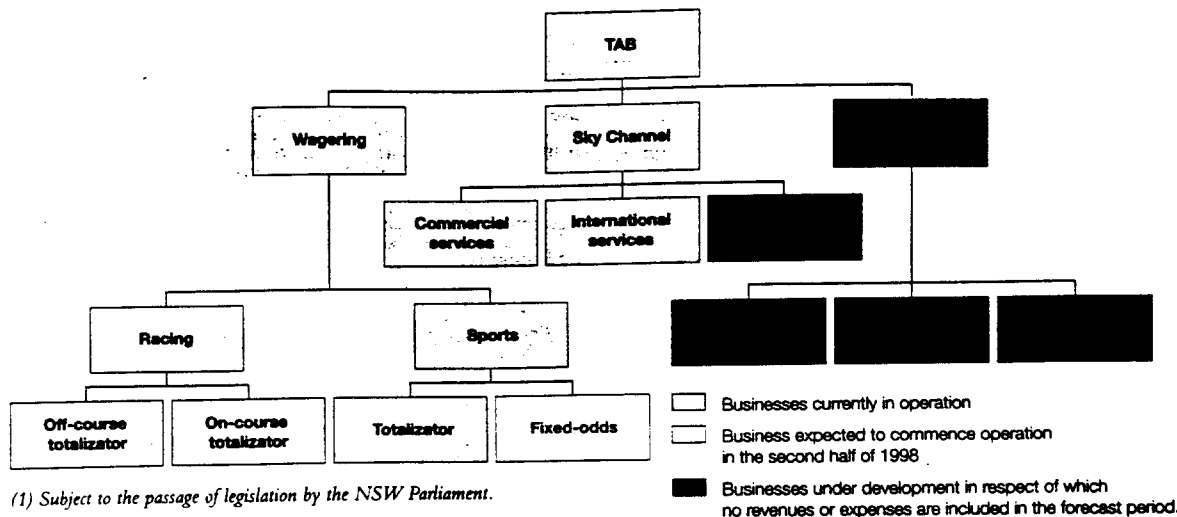
- RDA signed
- New Board appointed

1998

- Licences for wagering and gaming activities acquired
- NSW state wagering taxation rates reduced
- Sky Channel acquired

In 1964, the NSW Government established the Totalizator Agency Board of NSW to provide an off-course wagering service in NSW on thoroughbred, harness and greyhound racing. Initially, TAB was prohibited from conducting a broad range of activities, including advertising and broadcasting race information in TAB agencies. TAB is now more customer focused, having expanded the variety of wagering products offered, increased its race coverage and invested further in its distribution network and technology.

The logo for TAB (Totalizator Agency Board) is displayed in a stylized, rounded rectangular frame.The logo for Sky Channel, featuring the word "SKY" in a large, bold, sans-serif font with a globe icon integrated into the letter "Y", and the word "CHANNEL" in a smaller, bold, sans-serif font below it.



Overview

TAB consists of two businesses, wagering and Sky Channel, and is developing its new gaming businesses. Prior to TAB's acquisition of Sky Channel in April 1998, wagering was the only business operated by TAB. In FY1997, TAB's off-course totalizator business generated turnover of \$3.645 billion.

TAB is authorised to conduct off-course and on-course totalizator wagering in NSW. TAB's wagering licences authorise it to operate in NSW:

- off-course and on-course totalizators on racing; and
- totalizator and fixed-odds wagering on sporting events.

TAB has recently acquired Sky Channel, the principal telecaster of race meetings and racing information to wagering outlets, clubs and hotels throughout Australia. Sky Channel also supplies telecasts of Australian racing for audiences outside Australia.

TAB is developing its new gaming businesses, which it currently expects will commence operation in the second half of 1999. The principal activities are expected to include:

- operating linked gaming machine jackpot systems in NSW;
- operating a central monitoring system of gaming machines in NSW; and
- subject to the passage of legislation by the NSW Parliament, owning, supplying and financing gaming machines in hotels in NSW and gaming machines connected to Links in NSW registered clubs.

Wagering division

Distribution channels

TAB operates an extensive distribution network throughout NSW for its wagering products, consisting of 1,480 outlets.

Whilst TAB agencies and sub-agencies have traditionally

generated more than 50% of turnover, an increased number of PubTABs and ClubTABs has resulted in an increasing proportion of turnover being received through these outlets over the last four years.

The number of agencies decreased from 554 on 30 June 1993 to 477 on 31 March 1998, while the number of PubTABs and ClubTABs (including BETLINK) has increased from 755 to 955 over the same period. Agencies and sub-agencies generated approximately 50% of turnover in FY1997, compared to approximately 59% in FY1993. In aggregate, PubTABs and ClubTABs generated over 31% of turnover in FY1997, compared to 23% in FY1993. TAB expects this share to increase in future years.

Rationalisation of the TAB agency network is expected to continue as TAB seeks to lower its distribution network expenses.

TAB's distribution channels

Distribution channel	No. of outlets as at 31 March 1998
Agencies	477
PubTABs	544
ClubTABs	336
PhoneTAB	n/a
Branches	38
BetStream	n/a
BETLINK	75
Sub-agencies	10
iBet	n/a
Total	1,480

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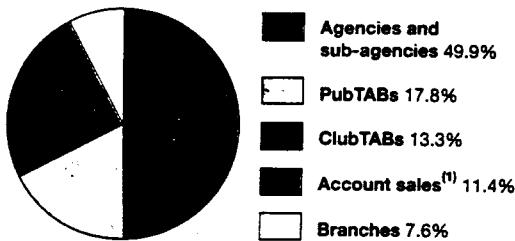
TAB's distribution network comprises:

Agencies (FY1997 turnover: \$1,808 million) An agency is a dedicated TAB retail outlet operated by an independent agent who employs their own staff. The agent transacts on behalf of TAB for which the agent receives an hourly fee, a commission based on turnover and a ticket processing fee.

PubTABs (FY1997 turnover: \$634 million) PubTABs provide TAB facilities in selected hotels throughout NSW and receive a commission based on turnover.

ClubTABs (FY1997 turnover: \$479 million) ClubTABs are TAB facilities in selected registered clubs throughout NSW and receive a commission based on turnover.

TAB turnover by distribution channel – FY1997



(1) Includes PhoneTAB and BetStream.

PhoneTAB (FY1997 turnover: \$361 million) PhoneTAB provides telephone wagering services from three call centres in NSW to over 110,000 PhoneTAB account holders. Customers are able to place wagers using funds deposited in their accounts. PhoneTAB received approximately 14.2 million calls in FY1997.

Branches (FY1997 turnover: \$276 million) Branches are dedicated retail outlets operated by TAB staff, and are mostly high volume outlets located within the Sydney metropolitan area.

BetStream (FY1997 turnover: \$55 million) BetStream allows customers to link a personal computer to TAB to facilitate TAB's receipt of high volumes of wagers.

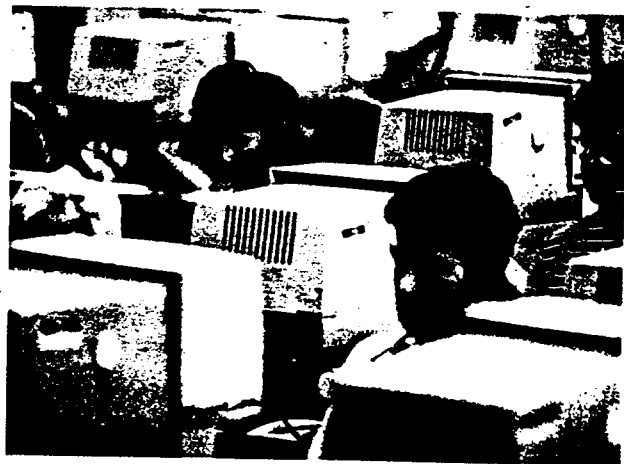
BETLINK (FY1997 turnover: \$21 million) BETLINK is an alternative personal computer-based wagering system for use by hotels and registered clubs, in locations where demand is insufficient to justify installation of a PubTAB or ClubTAB. In contrast to other distribution channels, operators meet equipment and telecommunications costs. BETLINK operators receive a commission based on turnover.

Sub-agencies (FY1997 turnover: \$11 million) Sub-agencies are retail outlets operated by independent agents and provide a TAB service as an adjunct to another business, such as a newsagency. Sub-agents are paid a commission based on turnover.

iBet TAB was one of the first organisations to offer totalizator wagering through the internet. iBet was launched in June 1997 and is available to PhoneTAB account holders with internet access. TAB has over 1,000 registered iBet customers.

iBet is a comparatively low cost distribution channel which TAB believes will generate a greater proportion of its turnover in the future.

Electronic agents TAB intends to increase its use of electronic distribution channels to reach non-Australian bettors, and has appointed a non-exclusive electronic agent to distribute TAB's products via the internet. The electronic agent will receive a commission based on turnover. Development of this service is expected to be completed in the second half of 1998.



Wagering licences

TAB holds licences under the Totalizator Act to conduct off-course and on-course totalizators in NSW on thoroughbred, harness and greyhound racing and totalizator wagering on certain sporting events. There are currently 19 sports on which TAB is authorised to conduct wagering, including rugby league, rugby union, Australian Rules football, soccer, golf and motor racing.

TAB's wagering licences each have a term of 99 years commencing on 6 March 1998. No-one except TAB may be granted a licence to conduct off-course totalizators in NSW until 2013. During that period, only TAB or a racing club may be licensed to conduct on-course totalizators in NSW.

In FY1998, TAB paid the NSW Government \$303 million for its off-course totalizator licence and \$5 million for its on-course totalizator licence. No ongoing licence fees are payable to the NSW Government in respect of either of TAB's wagering licences. Appendix 4 contains further details of the conditions of TAB's wagering licences.

TAB has also received approval to conduct fixed-odds wagering on authorised sporting events, which it expects to commence in the second half of 1998. TAB has no current plans to conduct fixed-odds wagering on racing.

Totalizator and fixed-odds wagering

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

Revenue earned by TAB from its totalizator operations is not related to the outcome of the event, but is a function of the size of the pool and the level of commissions deducted. Therefore, revenue is a pre-determined percentage of the amount wagered and TAB's revenue is not generally affected by the results of the events it covers.

Fixed-odds wagering differs in that at the time a wager is placed, the bettor is informed as to the odds of the wager. These odds do not normally change, regardless of the pattern of wagering subsequent to the placement of this wager. TAB can make a loss on any event on which it offers fixed-odds wagering, and the extent of its profit or loss depends on the outcome of the event, the management of its book and the extent to which risk is laid off. TAB intends to implement appropriate risk management practices to minimise the potential for loss from this product. Fixed-odds wagering represents less than 1% of TAB's forecast FY1999 revenue.

Racing wagering products

In FY1997, TAB's off-course racing turnover was \$3.629 billion, principally comprising wagering on Win, Trifecta and Place products.

The mix of wagering products impacts TAB's profitability due to the variation in commission rates applied to the different wagering products. Over the last five years, the change in TAB's product mix has generally increased its average commission rate. For example, over that period, the proportion of TAB turnover represented by Place wagering has declined from 20% to 17%. In contrast, more profitable Trifecta wagering has grown from 19% to 22% of turnover, and Exacta wagering has grown from 1% to 3% of turnover.

Racing wagering products

Wagering product	Description: Selection of -	FY1997 turnover \$ million	Current commission rates (%)
Win	Winner of race	1,721	14.25
Trifecta	First, second and third in correct order	782	17.00
Place	One of first three finishers	630	14.25
Quinella	First two placings	265	15.00
Double	Winners of two races	112	17.00
Exacta	First and second in correct order	99	17.00
Superfecta	First six finishers in correct order	20	20.00

Prior to 6 March 1998, commission rates for totalizator wagering in NSW, whether for off-course totalizators or on-course, were identical and regulated by NSW legislation. The return to the operator of the totalizator (that is, TAB or the racing club) varied because the effective rate of Government taxation applied to on-course wagers differed from the rate applied to wagers placed with TAB.

Under the Totalizator Act, from 6 March 1998, the commission deducted by TAB from totalizator pools is set by TAB for each wagering pool, subject to a statutory maximum of 25% of turnover on any particular pool. In any year, TAB must return to customers (exclusive of fractions and any bettor returns not claimed within 12 months) no less than 84% of the total amount wagered in that year, such that in any year, TAB's total commission deductions must not exceed 16% of turnover. Subject to these restrictions, TAB may alter its commission rates and therefore the return to customers.

TAB also offers packaged products such as Mystery Bet and All-up wagering. A Mystery Bet provides the customer with a computer-generated selection. It covers most wagering types and accounted for \$59 million of turnover in FY1997.

All-up wagering allows winnings from one race to be automatically wagered on selections in subsequent races.

Sports wagering products

TAB currently offers totalizator wagering on selected sporting events, such as cricket, rugby league, rugby union, Australian Rules football and soccer. Turnover amounted to \$15.6 million in FY1997. FoortyTAB, first launched by TAB in 1983 to take wagers on rugby league, represents the majority of TAB's sports wagering turnover.



Race meeting coverage

TAB's principal source of revenue is, and is expected to continue to be, wagering on the three racing codes. TAB conducts totalizator wagering on race meetings in NSW and other States and on selected events in New Zealand and other countries. Major international races, such as the Japan Cup, Dubai Cup and Hong Kong Cup, are also covered.

In FY1997, TAB conducted off-course totalizator operations on 1,476 race meetings in NSW, representing 47% of all meetings conducted in NSW. In addition, TAB covered 2,338 interstate race meetings and 40 international events.

TAB has actively pursued the coverage of race meetings both within and outside NSW to provide its customers with more events on which to wager. Consequently, where programming has allowed, the number of race meetings covered has increased over the last five years.

Number of race meetings covered by TAB

	FY1993	FY1994	FY1995	FY1996	FY1997
Thoroughbred	1,256	1,279	1,341	1,392	1,496
Harness	894	926	960	965	1,078
Greyhound	1,062	1,096	1,099	1,135	1,280
Total	3,212	3,301	3,400	3,492	3,854

In recent years, there has been a shift in TAB turnover from wagering on race meetings held in NSW to interstate race meetings. The proportion of TAB racing turnover derived from racing in NSW has fallen from 45.8% in FY1993 to 41.5% in FY1997. This is due in part to the increased competition faced by the NSW Racing Industry from racing industries in other States, particularly Victoria.

TAB racing turnover by race meeting location

\$ million	FY1993	FY1994	FY1995	FY1996	FY1997
NSW	1,469	1,519	1,573	1,585	1,507
Victoria	914	923	970	1,040	1,104
Queensland	427	472	489	576	582
Other States	392	409	434	368	428
Overseas	3	4	5	5	8
Total	3,205	3,327	3,471	3,574	3,629

The parties to the RDA have agreed to certain minimum requirements regarding the coverage of NSW and interstate racing. The minimum programme of NSW meetings to be covered by TAB in FY1999 as specified in the RDA requires TAB to conduct off-course totalizators on a total of 1,426 NSW race meetings. TAB may cover a greater number of NSW race meetings than specified by the minimum programme if it chooses.

TAB's minimum interstate coverage programme in FY1999 is also specified in the RDA. For each subsequent programme year, the interstate coverage programme will be determined by TAB, provided that it contains at least certain race meetings.

Racing information

TAB believes its customers must be provided with accurate, timely and user-friendly racing information in order to enhance turnover. Racing information is currently available through a wide range of media.

Racing information media

Source of racing information	Description
Sky Channel (now owned by TAB)	Is the principal telecaster of race meetings and racing information to wagering outlets, clubs and hotels throughout Australia.
Radio 2KY, including Racing Radio	Provides radio coverage through most of NSW of race meetings covered by TAB.
AUSTEXT	Provides racing and wagering information for televisions throughout Australia with teletext decoders.
TABTEXT	Provides racing and wagering information through Sky Channel.
Newspapers	Provide form guides for race meetings, race results and racing information.
TAB's internet web site	Provides racing and wagering information via the internet.
Electronic form guides	Provide specialised form services by electronic means through third party operators.

TAB believes that pay television may provide a further source of racing information, particularly telecasts of race meetings and racing information targeted to potential new customers.

As part of the RDA, NSW has undertaken to supply TAB with certain racing information for race meetings conducted in NSW. Racing information relating to race meetings conducted outside NSW is accessed by TAB from racing bodies outside NSW. A more detailed explanation of the RDA is provided in Section 8 and Appendix 4.

On-course totalizators

Since 6 March 1998, TAB has been licensed to conduct on-course totalizators in NSW. TAB currently has no substantial on-course totalizator operations. In order to establish an on-course totalizator, TAB must enter into a commercial arrangement with the relevant racing club.

Under the Totalizator Act, where TAB conducts an off-course totalizator on a racing event, any amount wagered on an on-course totalizator conducted by a racing club is received by the racing club as an agent for TAB, and therefore forms part of TAB turnover. The wagers placed with the

racing club are collected and transferred into the totalizator conducted by TAB.

TAB is required, under the RDA, to make payments to NSW as a contribution to racing clubs' costs of conducting on-course totalizators. This contribution is currently 4.9% of wagering turnover received either from on-course totalizators conducted by racing clubs as agents for TAB or from an Authorised Betting Auditorium.

Under the RDA, if a racing club is seeking to renew or extend a contract for the operation of the on-course totalizator by a third party contractor, TAB must be invited to tender. There is no obligation on a racing club to accept TAB's tender. However, if TAB's tender is not accepted but would, if accepted, have reduced the cost of operating the on-course totalizator, TAB's contribution to this cost is set at the level of the costs provided for in TAB's tender.

TAB's customer base

TAB has the largest customer base of any State-based totalizator operator. The age distribution of TAB's customer base is similar to that of the NSW adult population. TAB's customer base is fairly evenly spread over various age groups.

Age distribution of regular TAB customers – July 1997

Age	TAB customers	NSW population
	%	%
18-24 years	15	15
25-34 years	24	23
35-44 years	19	20
45-54 years	18	15
55+ years	24	27
Total	100	100

Source: TAB, Australian Bureau of Statistics 1996 Census of Population and Housing

TAB is continuing to adopt strategies to attract new customers and ensure the maintenance of its long-term revenue base. These strategies include increasing the number of PubTAB and ClubTAB outlets and developing new products which TAB believes may appeal to a younger market.

TAB's operating expenses

TAB's operating expenses consist of NSW state wagering taxes, amounts payable to NSW, other operating expenses and depreciation and amortisation.

NSW state wagering taxes

Prior to the introduction of the Totalizator Act, the Government was entitled to all fractions and unclaimed bettor returns. The sum of the NSW state wagering taxes on turnover, fractions and unclaimed bettor returns meant the rate of taxation in NSW was equivalent to approximately 54% of wagering revenue.

Under the Totalizator Act, the tax on totalizators in NSW has been reduced to 28.2% of wagering revenue exclusive of unclaimed bettor returns. NSW state wagering taxation rates will be the same for both off-course and on-course totalizator pools. TAB will also retain fractions and will be entitled to any bettor returns not claimed within one year.

Fixed-odds sports wagering will be taxed by the NSW Government at 20% of TAB's revenue on those wagers.

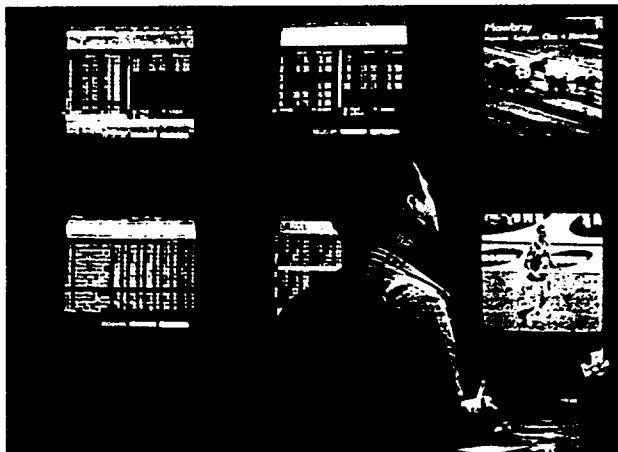
Amounts payable to NSW

The fees which TAB is required to pay NSW under the RDA are:

- the Product Fee of 21.64% of Net Wagering Revenue; and
- incentive fees calculated by reference to 25% of Wagering Earnings and 25% of Gaming Earnings.

NSW is also entitled to contributions in respect of the cost of on-course totalizators operated by racing clubs, currently at a rate of 4.9% of wagering turnover from on-course totalizators conducted by racing clubs as agent for TAB or from an Authorised Betting Auditorium which was operating as of 11 December 1997.

For details of the amounts payable by TAB to NSW, refer to the description of the RDA in Appendix 4.



Other operating expenses

TAB's main other operating expenses are distribution network expenses, salaries, wages and related costs and other

expenses. The level and breakdown of these expenses in FY1997 is discussed below.

Distribution network expenses - \$113.6 million

TAB meets the majority of expenses required to operate its distribution network, including commissions (\$71.7 million), communications and broadcasting (\$15.2 million), property rentals (\$12.2 million) and wagering tickets, printing and stationery (\$6.8 million).

Payments to agents in FY1997 totalled \$49.2 million of which 43% was hourly fees. These payments represented almost 30% of all other operating expenses in FY1997.

TAB recently agreed to a substantial increase in agents' commissions, which is reflected in the pro-forma results for FY1997, the pro-forma forecast for FY1998 and the forecast for FY1999.

Commission payments of \$22.5 million were also made to the operators of PubTAB and ClubTAB outlets.

Salaries, wages and related costs - \$38.8 million

As at 30 June 1997, TAB had a total of 1,686 employees, of which 488 were full-time employees. Total salaries and wages paid in FY1997 were \$32.6 million. TAB also paid \$2.4 million in payroll tax.

In addition, TAB paid \$4.8 million for employee-related costs, such as superannuation, long service leave and recreational leave entitlements.

Other - \$17.2 million

TAB spent \$4.6 million on advertising and promotions in FY1997. TAB intends to increase its level of advertising in the future to market its wagering, Sky Channel and new gaming businesses.

Significant other expenses in FY1997 included the book value of fixed assets disposed of (\$5.9 million), computer hardware and software maintenance (\$2.2 million) and insurance (\$0.8 million).

Depreciation and amortisation

Expenditure on all fixed assets, including buildings, plant and equipment, is depreciated over the useful life of the relevant asset. In FY1997, 45% of TAB's depreciation expenses of \$13.8 million related to computer equipment. In future years, TAB will amortise its wagering and gaming licences and the goodwill resulting from its acquisition of Sky Channel in accordance with Australian generally accepted accounting principles.

Racing Distribution Agreement

The RDA provides the new framework for the relationship between TAB and the NSW Racing Industry.

Under the RDA, TAB makes a range of payments to NSW in exchange for NSW procuring the conduct of an agreed minimum programme of races in NSW and supplying TAB with specified NSW racing information.

The racing clubs which conduct the race meetings are not parties to the RDA. However, the Racing Controlling Bodies are required under the RDA to maintain and enforce directions binding on the racing clubs to enable NSW to comply with its obligations under the RDA.

Except in limited circumstances, TAB must offer NSW the right to acquire a 25% economic interest in any new gaming or wagering business which TAB establishes or acquires (other than a wagering business within NSW, as that is subject to the Product Fee and Wagering Incentive Fee). Detailed provisions of the RDA govern the terms of NSW's option to invest in those businesses. Refer to Appendix 4 for further details.

TAB's obligations under the RDA may restrict its ability to make and implement strategic and operational decisions. Refer to Section 6 for further details.

Technology – wagering systems

TAB places great importance on the maintenance and development of its wagering systems and has introduced formal review processes to ensure the integrity of its computer-based wagering systems.

TAB operates dual site computing systems which monitor the activity of over 6,000 terminals and workstations in an on-line, real time operation. The systems gather and disseminate wagering information to participating operators, the public, the media and the Government.

The reliability of TAB systems is critical to the success of its operations. In this regard, TAB has developed a number of processes and support programmes for quality assurance of systems and rapid response to technical difficulties.

Supplementing the reliability of the wagering systems is the need to continually monitor and upgrade the computer equipment and networks. TAB installed new central computers in 1997 which are expected to accommodate TAB's wagering operations for at least the next three years.

TAB has also developed a comprehensive disaster recovery plan, which includes maintenance of two geographically disparate sites with duplicate computing resources and network capacity. The disaster recovery plan has been tested

to show that operations can be provided from either site on a standalone basis.

Year 2000 compliance

In July 1996, TAB commenced a Year 2000 compliance project. TAB reviewed its potential exposure and concluded that:

- the wagering and wagering support systems are on-line, real time transaction-based systems which support day-to-day operations with little dependence on the year in the relevant date; and
- the day-to-day operations rely significantly on the provision of services such as communications, electricity and broadcasting as well as other totalizator organisations.

In December 1997, TAB established a committee to develop and monitor a strategy aimed at ensuring all TAB systems will be Year 2000 compliant. The strategy includes:

- developing an inventory of all third party products/applications, user-developed applications and external suppliers of product/services together with an assessment of the risk and scope of corrective action. Contingency plans will be developed where necessary;
- contacting all suppliers of products and services critical to TAB operations, requesting information on their Year 2000 compliance; and
- including a statement in all tenders and expressions of interest for new products and services requesting suppliers to advise whether their products are Year 2000 compliant. Actual purchases must be guaranteed Year 2000 compliant by the supplier.

Changes required to existing wagering and corporate systems were identified and in February 1998, updates to most of these systems were completed. Financial systems were not updated as these will be replaced in July 1998 by a system which TAB believes is Year 2000 compliant. The current personnel systems were not updated as these are expected to be replaced or upgraded before the year 2000.

TAB does not expect any substantial further capital expenditure to be required in relation to Year 2000 compliance for its systems.

While TAB believes the measures it has taken will minimise the potential impact of the Year 2000 date change, it can give no assurance that the effect of the date change from 1999 to 2000 will not materially affect TAB operations and financial results.

For details on Sky Channel's Year 2000 compliance, refer to page 32.

Prospects and outlook

Shifting turnover to lower cost distribution channels

Due to the variations in costs incurred by TAB across and within its distribution channels, TAB's profitability varies depending on the proportion of turnover generated by each distribution channel. TAB intends to continue the rationalisation of its distribution network in the future, in order to reduce its distribution network expenses.

Extended event coverage

TAB is committed to extended event coverage and seeks to increase the number of races covered where programming allows.

TAB believes that there is capacity to increase turnover through the scheduling of races in the 'gap' between the afternoon and evening racing programmes. The racing industry is attempting to provide additional racing product to fill these gaps in race programming. Additionally, Sky Channel is seeking sources of additional international racing to provide product at times when local racing product is not available.

The recent commencement of night thoroughbred racing in Victoria and its expected commencement in Sydney is anticipated to generate additional turnover.

Sunday is now a significant TAB trading day. TAB expects that the number of Sundays on which its distribution network will open will increase from 31 in FY1998 to 43 in FY1999, and that this would have a positive impact on turnover and earnings.

New wagering products

TAB has continued to introduce new products. In 1997, TAB introduced 3up and Head to Head sports wagering. 3up is a \$3 wager that gives the customer three chances to win on a race through three mystery \$1 wagers on Win, Exacta and Trifecta.

Head to Head sports wagering has a minimum wager of \$10, is conducted as a totalizator pool and has been offered on sports such as cricket, Australian Rules football, rugby union and rugby league.

Fixed-odds sports wagering is expected to be introduced by TAB in the second half of 1998.

Possible revitalisation of the NSW Racing Industry

Under the RDA, TAB expects the NSW Racing Industry will receive a significant increase in funding. TAB anticipates the NSW Racing Industry may use this additional funding to

assist in improving its competitive position relative to interstate counterparts, for example through the increase of prize money, although there is no obligation on the NSW Racing Industry to do so.



The NSW Thoroughbred Racing Board has recently released its strategic plan which describes several objectives, including increasing the quality of NSW thoroughbred races and the strength of fields, rejuvenating wagering growth and providing industry leadership. Rejuvenation of NSW thoroughbred racing is important to TAB as it believes that field size and the quality of races affect the level of customer interest in NSW thoroughbred racing and TAB's wagering turnover.

In addition, to facilitate dealings between TAB and NSW, a Racing Product Committee has been established pursuant to the RDA to monitor the supply of racing product and TAB coverage. Further, a Business and Strategy Committee will consider operational issues such as TAB's business plans for wagering and NSW's proposed strategies in relation to wagering. Both committees consist of three members from each of TAB and NSW and are solely advisory in nature.

Pay television racing channel

TAB believes that the majority of its customers prefer to wager on races which are televised. This view is supported by the significant increase in turnover which accompanied the introduction of Sky Channel telecasts into TAB outlets. TAB expects that turnover may increase if a domestic pay television racing service is established.

Sky Channel

Overview

Following TAB's acquisition of Sky Channel on 15 April 1998, TAB owns the principal telecaster of race meetings and racing information to wagering outlets, clubs and hotels throughout Australia.

Sky Channel is an Australian satellite delivery television service that telecasts to approximately 1,350 off-course totalizator outlets, 3,500 clubs and hotels and 750 other sites including Australian race clubs. Each Sky Channel commercial subscriber has a satellite receiving dish and decoder box installed to receive the signal.

Sky Channel's principal business is the televising of race meetings conducted by thoroughbred, harness and greyhound race clubs in NSW and throughout Australia. Certain major international races, such as the Japan Cup, are also covered.

Sky Channel has a weekly audience of approximately 1.7 million viewers in Australia. In recent years, Sky Channel has expanded internationally and its racing pictures are seen by audiences in parts of the Pacific, Asia, the Middle East, Africa and the US. Sky Channel's international operations currently comprise a minor part of its business. Across the three racing codes, Sky Channel covers more than 70 meetings a week, representing almost 34,000 races a year with at least eight hours of daily programming.

As well as racing, Sky Channel covers boxing, rugby league, Australian Rules football and several other sports.

Sky Channel also offers business television, production facilities for hire and pay per view broadcasting.

Rights to narrowcast

The Sky Channel satellite transmission narrowcast rights are renewable upon payment of an annual fee and its programme services are subject to a class licensing scheme under the BSA.

Revenue

Sky Channel's principal source of revenue is subscription revenue generated by selling Sky Channel to wagering outlets, clubs and hotels throughout Australia. All State-based totalizator operators currently receive Sky Channel in some or all of their retail distribution outlets. Subscription revenue constituted over 95% of FY1997 Sky Channel revenue.

Other revenue items include advertising, business television, international sales, pay per view broadcasting and production recoveries.

Operating expenses

Sky Channel's principal operating expense is the payments made to racing bodies for programme rights. Other operating expenses include satellite transponder costs, production costs, site maintenance costs and administration and general overheads.

During FY1999, Sky Channel intends to move from analogue transmission technology to digital transmission technology. This will require the repositioning of subscribers' satellite dishes and the installation of new decoder boxes. TAB expects the change to digital transmission technology will require capital expenditure of approximately \$5.7 million in FY1999, and that it will result in ongoing transponder lease cost savings.

Programme rights

Sky Channel's programme rights with the major Australian race clubs can broadly be classified into three types: commercial, international and pay television in Australia. The terms of Sky Channel's programming rights are determined through agreements with the various racing bodies. The expiration dates of these agreements are phased.

Commercial

Sky Channel has the exclusive rights to the satellite transmission of the racing signal from major Australian race clubs in the three racing codes to commercial locations (wagering outlets, clubs and hotels). In return, Sky Channel pays the race clubs various rights fees. Certain race clubs receive a fee for each race meeting, some receive no fees and others only receive in-kind support such as promotion or sponsorship.

International

Sky Channel has the exclusive rights to the satellite transmission outside of Australia of the racing signal from Australian race clubs in the three racing codes throughout Australia. Sky Channel has arrangements to supply Australian racing telecasts to a number of customers overseas. Any profits from the sale of the signal overseas are required to be shared equally between Sky Channel and the relevant race club. At present, race clubs do not receive any income from this source as Sky Channel is entitled to recover prior year losses. Sky Channel expects to begin paying the race clubs a share of profits in FY1999.

Pay television

Sky Channel has the exclusive pay television broadcasting rights to the racing signal of certain Australian race clubs in the three racing codes. TAB and Sky Channel are planning to develop a domestic pay television racing service. TAB envisages that this service will be available through major Australian pay television operators at no additional charge to pay television subscribers. Sky Channel has existing pay television rights in respect of certain racing in Queensland, certain harness and greyhound racing clubs in NSW and certain racing codes in South Australia and Tasmania, and is currently negotiating pay television rights with other relevant racing bodies to enable it to provide such a service.

Year 2000 compliance

Sky Channel is undertaking a programme to make Sky Channel's internal systems Year 2000 compliant, and is liaising with suppliers of products and services (including satellite transmission services and uplink facilities) requesting information in relation to their Year 2000 compliance.

All systems and software applications have been assessed as to operational importance and a plan adopted to determine compliance. The most critical operational systems relate to production and transmission.

The critical components of the computer controlled production equipment, the racing data display system and the presentation control system, have little dependence on the year in the date field. Additionally, the central elements of the presentation control system are being replaced in the third quarter of 1998 with equipment which is guaranteed by its supplier to be Year 2000 compliant. The existing B-Mac transmission equipment will be replaced in late 1998 by equipment which has also been guaranteed by its supplier to be Year 2000 compliant.



Sky Channel does not expect any substantial further capital expenditure to be required in relation to Year 2000 compliance for its systems.

While Sky Channel believes the measures it has taken should minimise the potential impact of the Year 2000 date change, it can give no assurance that the effect of the date change from 1999 to 2000 will not materially affect Sky Channel's operations and financial results.

Gaming division

TAB is developing its new gaming businesses, which it currently expects will commence operation in the second half of 1999. TAB expects those businesses will initially consist of the following:

- Links for gaming machines in hotels and registered clubs in NSW;
- CMS for gaming machines in hotels and registered clubs in NSW; and
- subject to the passage of legislation by the NSW Parliament, owning, supplying and financing of gaming machines in hotels in NSW and gaming machines connected to Links in NSW registered clubs.

NSWR is entitled to payments under the RDA in respect of TAB's gaming businesses and an opportunity to invest in any new gaming business. Refer to Appendix 4 for details. See also Section 6 for discussion of the risks associated with the establishment and operation of the new gaming businesses.

TABLink

TAB's strategy is to commission and operate the infrastructure for the provision of Links and CMS. This network infrastructure will be known as TABLink, which TAB expects will be developed and installed over the next four years. The anticipated capital expenditure associated with this project is discussed in Section 5.

It is expected that TABLink will:

- provide high speed data communication between TAB and Venues;
- allow a number of value added services, such as loyalty programmes and numbers games, to be supplied to Venues;
- assist in the consolidation of TAB's wagering distribution expenses by integrating communication with PubTABs and ClubTABs; and
- support several applications, extending to gaming, wagering and sports wagering.

Links

On 30 April 1998, TAB acquired exclusive licences which authorise it to conduct linked jackpot games for gaming machines in NSW hotels and for gaming machines in NSW registered clubs. These licences expire 15 years after a date to be declared by the Minister, which the Minister intends will be the date on which Links becomes operational.

No other licences to operate linked gaming machine jackpot games may be granted until the end of that 15 year period. Links will enable gaming machines, located in a number of different Venues, to pay jackpots from a common pool. TAB will conduct separate jackpot pools for registered clubs and hotels.

TAB expects that participating Venues, based on their own needs and preferences, will be able to choose from jackpot games operated by several Jackpot Game Suppliers. TAB expects registered clubs and hotels will have the opportunity to participate in separate lifestyle jackpots (one large payout), fraternal jackpots (eg linking all NSW rugby league clubs) and regional jackpots. This is the first time that wide area linked jackpot systems will be available in NSW.

TAB expects that Venues will pay a fee to TAB for participation in Links. The level of that fee will be negotiated with the Venues. TAB does not expect the fee to exceed 15% of revenue from linked gaming machines.

TAB will pay a fee or commission to Jackpot Game Suppliers for use of their jackpot games.

Rules for each jackpot game conducted through Links must be approved by the Minister. Those rules are required to make provision for the amount contributed to the jackpot pool for the game and the determination of winnings from the jackpot pool for that game.

For further details of the Links licences, refer to Appendix 4.

CMS

On 30 April 1998, TAB acquired an exclusive licence which requires TAB to design, develop and operate a CMS for gaming machines in Venues. The licence expires 15 years after a date to be declared by the Minister, which the Minister intends will be the date on which CMS becomes operational.

The CMS is a system that connects gaming machines in Venues to a central computer, which will collate and process data in relation to those machines.

All Venues are required, by conditions in their licences, to connect to the CMS all gaming machines of a class

certified by the Minister as being capable of connection to CMS. Connection to CMS must occur by 1 January 2001 (or such earlier date as the Minister may determine for a Venue or class of Venues).

TAB will also be responsible for the collection and processing of data, including the assessment and billing of duty on gaming machines and maintaining records of designated events relating to the integrity of gaming machines.

Venues are required to pay TAB a monitoring fee for providing CMS. The monitoring fee has initially been determined at \$26.10 per machine per month. The determination provides for an increase of \$0.49 per machine per month in April 2000 and a further \$0.74 per machine per month in April 2002, with a review of the rate of escalation of the monitoring fee from April 2003.

It is currently proposed that TAB will be able to provide electronic authorisation of any changes to gaming machine configurations and, subject to the passage of legislation by the NSW Parliament, will charge a fee for processing each authorisation application.

TAB is also authorised to sell to Venues information and analysis in relation to their gaming machines, including for example, in relation to gaming machine usage and utilisation.

For further details of the CMS licence, refer to Appendix 4.

Owning, supplying and financing gaming machines

Proposed legislation currently before the NSW Parliament will, if passed, entitle TAB to an exclusive 15 year gaming machine investment licence, which would authorise TAB to own, supply and finance gaming machines in NSW hotels. TAB would be able to share, on terms agreed with the relevant hotel, in the profits derived from the operation of a machine which TAB has supplied to the hotel or which has been acquired by the hotel with finance provided by TAB.

The proposed legislation also confirms that TAB is authorised, under its Links licence in respect of registered clubs, to own, supply and finance gaming machines connected to Links in NSW registered clubs.

Other prospects

TAB is investigating other prospective gaming businesses, including the possibility of introducing a numbers game linked across some NSW hotels.

5 | Financial Information

Introduction

Set out opposite is a summary of TAB's pro-forma results for FY1995, FY1996 and FY1997, pro-forma forecast for FY1998 and forecast for FY1999.

The pro-forma results are based on the historical results contained in the financial statements of TAB audited by the Auditor-General of NSW. The pro-forma forecast for 1998 is based on the Forecast Reported Result for FY1998. Adjustments have been made to the historical results and the Forecast Reported Result for FY1998 to reflect the following:

- the effect of changes to the off-course wagering regulatory regime introduced by the Totalizator Act and the impact of the RDA, as if these had been in effect from 1 July 1994; and
- the removal of the results of a discontinued business and of a one-off contribution to TAB made by the NSW Government in FY1998 resulting from the introduction of the revised racing industry arrangements.

The pro-forma results and the pro-forma forecast for FY1998 are presented before interest and Federal income tax as:

- TAB will in future be operating under a new capital structure; and
- TAB will be subject to Federal income tax from the date when the NSW Government ceases to beneficially own all shares in TAB. Historically, TAB has not paid Federal income tax.

The following have also been included in the pro-forma forecast for FY1998 and the forecast for FY1999:

- turnover from NSW on-course totalizators from 1 October 1997;
- amortisation of TAB's off-course and on-course wagering licences from 6 March 1998, the date of acquisition of those licences;
- results of Sky Channel from 15 April 1998, the date of acquisition of Sky Channel by TAB; and
- expenses associated with TAB operating as a listed company from the date of listing on the ASX.

The pro-forma forecast for FY1998 comprises actual unaudited results for the nine months to 31 March 1998, adjusted as outlined above, plus a forecast for the remainder of

FY1998 (no adjustments are necessary in respect of the period from 6 March 1998, when the Totalizator Act commenced).

No revenue or expenses in relation to TAB's proposed gaming businesses are included in the pro-forma forecast for FY1998 or the forecast for FY1999, as these businesses, and the 15 year exclusive period of the licences acquired by TAB to operate them, are not expected to commence until after the end of FY1999. No revenue or expenses in relation to the potential domestic pay television racing service currently under investigation by TAB and Sky Channel are included in the forecasts as there is currently insufficient certainty that such a business will be introduced in the forecast period.

The financial information should be read together with the assumptions and sensitivity analysis in this Section, the risk factors in Section 6, the Additional Financial Information in Appendix 2 and other information contained in the Offer Document and the Appendices.

Basic forecasts

The pro-forma forecast for FY1998 and the forecast for FY1999 are based on assumptions concerning future events and the implementation of TAB's business strategy. Many of these assumptions are subject to significant uncertainties outside the control of TAB.

Forecasts by their nature are subject to uncertainties and unexpected events, including those described in Section 6. Accordingly, the Directors can give no assurance that the pro-forma forecast result or cash flow for FY1998, the forecast result or cash flow for FY1999 or the Forecast Reported Result or cash flow for FY1998 will be met as actual events may differ from the assumptions adopted in their preparation.

In addition, due to the adjustments outlined above, the Forecast Reported Result for FY1998 (EBIT of \$47.4 million, profit after income tax of \$47.4 million and profit after income tax and distributions to NSW of \$26.7 million) will differ significantly from the pro-forma forecast for FY1998. Refer to Appendix 2 for the Forecast Reported Result for FY1998 and to Appendix 3 for the Investigating Accountants' Report for further details of the adjustments made to the historical results.

Pro-forma and forecast financial information

Year to 30 June \$ million	1995 pro-forma	1996 pro-forma	1997 pro-forma	1998 pro-forma forecast ⁽¹⁾	1999 forecast ⁽²⁾
Off-course turnover ⁽³⁾	3,492.4	3,590.3	3,644.6	3,598.0	3,756.0
On-course turnover ⁽⁴⁾	-	-	-	303.0	388.0
Total wagering turnover	3,492.4	3,590.3	3,644.6	3,901.0	4,144.0
Less bettor returns ⁽⁵⁾	(2,928.2)	(3,009.2)	(3,053.7)	(3,268.4)	(3,479.6)
Total wagering revenue⁽⁴⁾	564.2	581.1	590.9	632.6	664.4
Sky Channel revenue ⁽⁶⁾	-	-	-	14.5	72.5
Other	3.4	5.0	7.1	2.9	4.0
Total revenue	567.6	586.1	598.0	650.0	740.9
Less					
NSW state wagering tax	156.6	161.3	164.0	175.6	184.2
NSWR fees	147.2	151.6	153.6	161.5	165.7
Other operating expenses:					
Distribution network	105.8	109.1	113.6	122.7	119.3
Salaries, wages and related costs	35.4	37.1	39.8	42.2	47.5
On-course ⁽⁴⁾	-	-	-	14.8	19.0
Sky Channel expenses ⁽⁶⁾	-	-	-	10.5	55.4
Other	10.6	15.2	17.2	14.1	22.5
Total operating expenses	455.6	474.3	488.2	541.4	613.6
EBITDA	112.0	111.8	109.8	108.6	127.3
Depreciation	17.7	14.5	13.8	13.9	15.6
Amortisation ⁽⁷⁾	-	-	-	3.5	15.0
EBIT	94.3	97.3	96.0	91.2	96.7
Net interest expense					8.0
Profit before income tax					88.7
Income tax					38.4
Profit after income tax					50.3
Profit after income tax but before amortisation⁽⁷⁾					65.3

The result which TAB expects will appear in TAB's financial statements to be published in its 1998 annual report ('Forecast Reported Result') will differ from the pro-forma forecast for FY1998, due to the factors outlined on page 34.

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.

Refer to Appendix 2 for details.

(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, and forecast results for the three months to 30 June 1998.

(2) The forecast for FY1999 reflects the elimination of inter-company revenues and expenses.

(3) Off-course wagering turnover for FY1999 includes \$50 million from fixed-odds sports wagering.

(4) On-course wagering turnover, revenue and operating expenses are included from 1 October 1997.

(5) Net of fractions and unclaimed bettor returns.

(6) Revenue and expenses for Sky Channel are included from 15 April 1998.

(7) 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.

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 and pro-forma forecast for FY1998;
- Sky Channel's audited result for FY1997 as presented in Sky Channel's financial statements;
- Sky Channel's forecast result for FY1998 (excluding abnormal items); 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⁾

Year to 30 June \$ million	1997 supplementary pro-forma ⁽²⁾	1998 supplementary pro-forma forecast ⁽³⁾
Revenue		
TAB	598.0	635.5
Sky Channel	67.2	72.9
Elimination on consolidation ⁽⁴⁾	(5.8)	(5.7)
Pro-forma combined revenue	659.4	702.7
Operating expenses⁽⁵⁾		
TAB	488.2	532.0
Sky Channel	50.9	52.7
Elimination on consolidation ⁽⁴⁾	(5.8)	(5.7)
Pro-forma combined operating expenses	533.3	579.0
EBITDA before abnormal items		
TAB	109.8	103.5
Sky Channel	16.3	20.2
Pro-forma combined EBITDA	126.1	123.7
Depreciation		
TAB	13.8	13.6
Sky Channel	1.3	1.4
Pro-forma combined depreciation	15.1	15.0
Amortisation		
TAB	-	1.0
Sky Channel	-	-
Pro-forma goodwill amortisation ⁽⁶⁾	11.9	11.9
Pro-forma combined amortisation	11.9	12.9
EBIT before abnormal items		
TAB	96.0	88.9
Sky Channel	15.0	18.8
Pro-forma goodwill amortisation ⁽⁶⁾	(11.9)	(11.9)
Pro-forma combined EBIT before abnormal items	99.1	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 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, 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 revenues 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.

The forecast financial information for the three months to 30 June 1998 (which forms part of the pro-forma forecast for FY1998) and for FY1999 has been prepared on the basis of various assumptions, including the material assumptions set out below. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring and is not intended to be a representation that the assumptions will occur. Investors should be aware that actual events may differ in size or timing to those assumed in the forecasts which may have a positive or negative effect on the forecast financial information.

The forecast financial information has been prepared on the following basis:

General assumptions

- Federal income tax expense is based on a corporate tax rate of 36% and assumes no significant changes to existing Federal income tax administration and law;
- there is no substantial change in TAB's or Sky Channel's existing competitive or regulatory environment;
- TAB continues to comply with the terms of its wagering and gaming licences and there are no material changes to the terms of those licences, applicable legislation or regulations;
- Sky Channel's satellite transmission narrowcast rights continue to be renewed (annually) and Sky Channel's programming continues to comply with the BSA;
- there is no material amendment to any material agreement regarding TAB's or Sky Channel's businesses, including for TAB the RDA. TAB and Sky Channel continue to comply with the terms of those agreements;
- TAB's accounting policies remain consistent with previous years, as disclosed in the Investigating Accountants' Report in Appendix 3; and
- there are no changes in Australian Accounting Standards, Statements of Accounting Concepts or other mandatory professional reporting requirements, being Urgent Issues Group Consensus Views, and the Corporations Law which would have a material effect on TAB's financial results.

Wagering operating assumptions

Turnover

- off-course totalizator turnover is forecast to decrease by 1.3% in FY1998 and to grow by 3.0% in FY1999. In addition, the FY1999 forecast assumes \$50.0 million

in turnover from the introduction of fixed-odds sports wagering from 1 September 1998:

- there is no material change in the mix of wagering products in FY1998 and FY1999 compared to FY1997; and
- on-course wagering turnover is forecast to decrease by 4.0% on an annualised basis in FY1999 compared to FY1998. The forecasts assume that TAB does not take over the operation of any on-course totalizators.

Revenue

- TAB will earn an average commission (including fractions) of 15.9% on totalizator wagering turnover and revenue from fixed-odds sports wagering is assumed to be 6.0% of turnover; and
- fractions and unclaimed bettor returns as a percentage of turnover are forecast to remain consistent with previous years.

Expenses (including capital expenditure)

- NSW state wagering tax on totalizators is payable at the rate of 28.2% of wagering revenue exclusive of unclaimed bettor returns and on fixed-odds sports wagering at 20.0% of wagering revenue exclusive of unclaimed bettor returns;
- NSW fees are a combination of the Product Fee and Wagering Incentive Fee. The Product Fee is 21.64% of Net Wagering Revenue. The Wagering Incentive Fee is 25% of Wagering Earnings;
- on 6 March 1998, TAB acquired the wagering licences for a total consideration of \$308.0 million. These licences are amortised on a straight line basis over the 99 year period of the licences;
- forecast distribution network expenses include the impact of the continuation of the agency network rationalisation programme. In the year of closure, no net benefit is included as, in aggregate, the cost savings from closure are assumed to equal the costs of closure;
- salaries, wages and related costs for the majority of employees are forecast to increase by 5.0% in FY1998 and 7.6% in FY1999;
- advertising expenses are forecast to be \$5.5 million in FY1998 and \$8.4 million in FY1999;
- expenses of \$2.2 million are forecast to be incurred in FY1999 as a result of the operation of fixed-odds sports wagering; and
- capital expenditure of \$17.1 million in FY1998 and \$12.9 million in FY1999 is forecast to be incurred.

Sky Channel operating assumptions

- Sky Channel revenue (after eliminations on consolidation) is forecast to increase to \$72.5 million in FY1999 from \$67.2 million in FY1998;
- payments to racing bodies for programming rights are forecast to increase from \$24.5 million in FY1998 to \$27.3 million in FY1999;
- transponder expenses are forecast to decrease in FY1999 as a result of the move to digital technology;
- other expenses are forecast to decrease in FY1998 (as a result of savings in link and bearer costs) and to increase broadly in line with the Consumer Price Index in FY1999; and
- capital expenditure of \$10.7 million is forecast to be incurred in FY1999.

Gaming operating assumptions

- on 30 April 1998, TAB acquired the CMS and Links licences for a total consideration of \$30.0 million. These licences will begin to be amortised when the licences are activated (upon commencement of the business) and the 15 year licence period commences. Because the licences are not expected to be activated until the second half of 1999, no amortisation of these licences is included in the forecast period;
- no revenues or expenses in relation to CMS or Links are included in the forecast period as these businesses are not expected to commence operation until after the end of the forecast period and all material pre-commencement expenditure related to CMS and Links will be capitalised; and
- capital expenditure of \$3.3 million in FY1998 and \$15.0 million in FY1999 is forecast to be incurred.

Other assumptions

- there is an increase in the Consumer Price Index of 2.5% in FY1999;
- interest expense is calculated based on a rate of 5.1% per annum until November 1998 and 6.0% per annum thereafter. Interest income is calculated at 4.5% per annum; and
- TAB is forecast to incur approximately \$6.0 million in share registry and other shareholder-related costs in FY1999 following completion of the Offer. The NSW Government has agreed to reimburse TAB for any such costs incurred in FY1999 in excess of \$3.0 million. The resulting forecast reimbursement of \$3.0 million in

FY1999 is included in other revenue. (In FY2000 and FY2001, the NSW Government will reimburse any such costs incurred by TAB in excess of \$4.0 million and \$5.0 million respectively. There will be no reimbursement thereafter.)

Review of operating assumptions and key performance indicators

Comparison of FY1998 to FY1997

Off-course wagering turnover is forecast to decrease by 1.3% to \$3,598.0 million in FY1998 from \$3,644.6 million in FY1997.

TAB believes that the forecast decrease in turnover reflects factors including the current state of the NSW Racing Industry, the impact on TAB turnover of the opening of the permanent Sydney casino in November 1997 and growth in the number of poker machines operating in NSW.

Turnover from on-course totalizators commenced from 1 October 1997, the effective date under the RDA from which TAB receives the economic benefits from the operation of on-course totalizators for events on which TAB conducts off-course totalizators.

Other operating expenses are forecast to increase by 4.9% to \$179.0 million in FY1998 compared with \$170.6 million in FY1997, excluding operating costs associated with on-course totalizator operations and Sky Channel, each of which were not operated by TAB in FY1997.

Distribution network expenses are forecast to increase by 8.0% to \$122.7 million in FY1998 from \$113.6 million in FY1997. This forecast increase is attributable to an increase in the rate of commission payable to agents pursuant to the settlement reached with TAB agents in March 1998, to additional remuneration payable to agents as a result of the expansion of Sunday racing and to additional expense associated with the TAB Form Guide.

Salaries, wages and related costs are forecast to increase by 6.0% to \$42.2 million in FY1998 from \$39.8 million in FY1997, principally due to a 5.0% remuneration increase for most staff employed pursuant to industrial awards.

Other expenses are forecast to decrease by 18.0% to \$14.1 million in FY1998 from \$17.2 million in FY1997, principally due to a reduction of \$4.4 million in the value of non-current assets disposed of, offset in part by privatisation expenses and an increase in advertising expenses.

Depreciation is forecast to increase to \$13.9 million in FY1998 from \$13.8 million in FY1997.

Comparison of FY1999 to FY1998

Off-course totalizator turnover is forecast to increase by 3.0% to \$3,706.0 million in FY1999 from \$3,598.0 million in FY1998. This increase is forecast to result from improved race programming with coverage of Sunday race meetings to increase by 12 to 43 Sundays in FY1999 together with the introduction of twilight meetings and Sydney night thoroughbred race meetings.

In addition, turnover of \$50.0 million is forecast in FY1999 from fixed-odds sports wagering.

On-course wagering turnover is forecast to increase by 28.1% to \$388.0 million in FY1999 from \$303.0 million in FY1998, representing the first full year of on-course wagering turnover in TAB's results. On an annualised basis, on-course wagering turnover is forecast to decrease by 4.0% in FY1999 compared to FY1998.

Sky Channel revenue is forecast to increase to \$72.5 million in FY1999 from \$14.5 million in FY1998, reflecting Sky Channel's first full year contribution to TAB revenue. Based on Sky Channel's pro-forma forecast revenue of \$67.2 million in FY1998, Sky Channel's revenue is forecast to increase by \$5.3 million in FY1999, principally due to increases in subscription rates for hotels and clubs and amounts due from other State-based totalizator operators.

Other operating expenses are forecast to increase 29.1% to \$263.7 million in FY1999 from \$204.3 million in FY1998, principally reflecting the first full year of operating expenses associated with on-course totalizator turnover and the first full year of expenses for Sky Channel. Other factors that contribute to the forecast increase are discussed below.

Distribution network expenses are forecast to decrease by 2.8% to \$119.3 million in FY1999 from \$122.7 million in FY1998, principally due to the full year impact of the elimination on consolidation of fees paid by TAB to Sky Channel and a reduction in expenses associated with the TAB Form Guide, offset in part by increases in agents' commission and additional costs associated with fixed-odds sports wagering.

Salaries, wages and related costs are forecast to increase by 12.6% to \$47.5 million in FY1999 from \$42.2 million in FY1998, principally due to an effective increase in salary and wages rates of 7.6%, a 1% increase in the Federal government superannuation guarantee levy and an increase in staff numbers.

Sky Channel expenses, as included in TAB's consolidated results, are forecast to increase to \$55.4 million in FY1999 from \$10.5 million in FY1998, reflecting the first full year of

consolidation of Sky Channel's results. When compared to Sky Channel's forecast full year FY1998 expenses of \$52.7 million, the FY1999 forecast represents an increase of 5.1%, resulting from increases in programming costs and other general Consumer Price Index increases, offset by savings achieved through the introduction of digital transmission technology.

Other expenses are forecast to increase to \$22.5 million in FY1999 from \$14.1 million in FY1998. This is principally due to \$6.0 million of expenses relating to share registry and other shareholder-related matters to be incurred following completion of the Offer. This is partly offset by \$3.0 million of other revenue representing reimbursement from the Government of share registry and other shareholder-related costs. Advertising expenses in FY1999 are forecast to be \$8.4 million, compared to \$5.5 million in FY1998.

Depreciation is forecast to increase by 12.2% to \$15.6 million in FY1999 from \$13.9 million in FY1998, principally due to the depreciation of capitalised costs associated with the digitisation of the Sky Channel satellite service.

Amortisation is forecast to increase to \$15.0 million in FY1999 from \$3.5 million in FY1998. This increase reflects the first full year of amortisation of the wagering licences and of amortisation of the goodwill associated with the Sky Channel acquisition.

Net interest expense of \$8.0 million is forecast in FY1999. This includes net interest expense of \$5.2 million on TAB's borrowings and notional interest attributable to the deferred consideration on TAB's acquisition of Sky Channel.

Sensitivity analysis

The forecast financial information is based on certain economic and business assumptions about future events. TAB's EBIT is sensitive to movements in a number of key variables.

Set out below is a summary of the sensitivity of the forecast for FY1999, to variations in a number of these key assumptions.

Care should be taken in interpreting these sensitivities. The sensitivity analysis treats each movement in the variables in isolation to the others, whereas in most cases any movements will be inter-dependent. In practice, TAB management would be expected to respond to any adverse changes in one variable by taking action to minimise the net effect on TAB earnings.

Off-course wagering turnover

A 1% increase or decrease in off-course wagering turnover could be expected to affect TAB's EBIT by \$1.9 million, assuming no change in the level of on-course totalizator turnover.

On-course wagering turnover

A 1% increase or decrease in on-course wagering turnover could be expected to affect TAB's EBIT by \$0.1 million, assuming no change in the level of off-course totalizator turnover.

Commission rates receivable by TAB

A 0.1% point increase or decrease in the average TAB totalizator commission rate could be expected to affect TAB's EBIT by \$1.5 million, assuming no change in the level of totalizator turnover.

Distribution network expenses

The remuneration of members of TAB's distribution network is structured so it is partially dependent on the level of turnover achieved. Distribution network expenses can also vary due to a change in the structure of the fees paid by TAB or if the component of the distribution network expenses not linked to turnover varies.

A 1% increase or decrease in agency distribution network expenses which are not a function of TAB totalizator turnover could be expected to affect TAB's EBIT by \$0.6 million, assuming constant levels of totalizator turnover.

Sky Channel subscription revenue

Sky Channel generates subscription revenue by selling its telecast racing service to State-based totalizator operators, including TAB, and to hotels and clubs throughout Australia. The majority of these contracts are for periods in excess of one year and incorporate agreed fees payable to Sky Channel. However, a 1% increase or decrease in the level of Sky Channel subscription revenue could be expected to affect TAB's EBIT by \$0.7 million.

Sky Channel programme expenses

Each year Sky Channel pays Australian race clubs fees for the rights to telecast race meetings and racing information. The majority of these contracts are for terms of several years. However, a 1% increase or decrease in the level of Sky Channel programme expenses could be expected to affect TAB's EBIT by \$0.3 million.

Dividend policy

The Directors currently intend that if TAB achieves its forecast for FY1999, TAB will pay fully franked dividends in respect of FY1999 which total \$40 million or 8 cents per share. The Directors intend to pay the first interim dividend of 4 cents per share in March 1999. If TAB achieves its forecast for FY1999, the Directors intend to pay a final dividend in respect of FY1999 of 4 cents per share in September 1999. The Directors can give no assurance as to future levels of dividends, as they are subject to the achievement of satisfactory operating performance and the ongoing capital expenditure requirements of TAB.

Over time, the Directors will endeavour to provide shareholders with fully franked dividends. However, the Directors can give no assurance as to the future level of dividends or the level of franking credits.

Pro-forma and forecast cash flow

The cash flows presented represent the pro-forma and forecast net cash flow before interest and tax after adjustment for the items described on page 34 and do not represent the actual cash generated and retained in the business in FY1998.

In the three years to FY1997, TAB's capital expenditure on wagering varied between \$7.1 million and \$10.9 million per annum, and consisted primarily of expenditure on improvements to retail outlets and on computer and selling equipment.

Pro-forma forecast cash flows for FY1998 and forecast cash flows for FY1999 include \$3.3 million and \$15.0 million respectively of capital expenditure for the TABLink network. TAB expects that further capital expenditure on TABLink will be incurred beyond the forecast period. The ultimate level of this expenditure will depend on a number of factors, including technology issues, Ministerial determinations affecting the nature and extent of the TABLink network and other factors which are described in Section 6. TAB currently estimates that this expenditure will amount to approximately \$115 million in the four years following FY1999.

TAB expects to pay a fully franked interim dividend in respect of FY1999 of \$20 million in March 1999.

Pro-forma and forecast cash flow

Year to 30 June \$ million	1995 pro-forma	1996 pro-forma	1997 pro-forma	1998 pro-forma forecast ⁽¹⁾	1999 forecast
EBITDA	112.0	111.8	109.8	108.6	127.3
Decrease/(increase) in working capital	2.5	2.8	9.2	0.5	(1.2)
Operating cash flow before interest and income tax	114.5	114.6	119.0	109.1	126.1
Purchase of property, plant and equipment					
Wagering	(10.3)	(10.9)	(7.1)	(17.1)	(12.9)
Sky Channel	-	-	-	-	(10.7)
Gaming	-	-	-	(3.3)	(15.0)
Proceeds from sale of property, plant and equipment	1.7	3.3	5.7	1.6	-
Net cash flow before interest and income tax	105.9	107.0	117.6	90.3	87.5
Income taxes paid					(23.1)
Interest paid					(5.2)
Cash flows from financing activities					6.2
Dividend paid					(20.0)
Net cash flow					45.4

(1) Cash flows relating to Sky Channel are only included from 15 April 1998. The Forecast Reported Result cash flow is set out in Appendix 2 and includes the investment and financing cash flows associated with the acquisition of Sky Channel, and the wagering and gaming licences.

TAB has secured a \$200 million unsecured floating rate loan facility which expires in October 1998. TAB expects to have drawn down the facility to the amount of \$121.5 million at the date of transfer of Shares under the Offer. These borrowings were used by TAB to partially finance the acquisitions of its wagering licences and Sky Channel.

TAB believes that cash flow from operating activities and the above facility (including its replacement which TAB expects to be able to renegotiate) will be sufficient to fund its liquidity and working capital requirements for the foreseeable future.

The pro-forma balance sheet as at 31 December 1997 (the most recent date of audited financial statements of TAB and Sky Channel) has been prepared as if TAB had acquired Sky Channel and its wagering and gaming licences as at 31 December 1997 and the capital structure following the date of transfer of Shares under the Offer was in effect.

The pro-forma balance sheet is based upon:

- TAB's audited balance sheet as at 31 December 1997 as presented in the Investigating Accountants' Report in Appendix 3;
- Sky Channel's balance sheet as at 31 December 1997 as presented in its financial statements, audited by Ernst & Young; and
- the pro-forma adjustments as described in the notes to the table which follows.

Pro-forma balance sheet as at 31 December 1997

\$ million	TAB	Sky Channel	Pro-forma adjustments	Pro-forma TAB and Sky Channel
Assets				
Cash	70.9	0.4	(59.7) ⁽¹⁾⁽²⁾⁽⁴⁾	11.6
Receivables	14.1	2.2	(10.8) ⁽²⁾⁽⁴⁾	5.5
Licences	-	30.0	338.0 ⁽²⁾⁽⁴⁾	368.0
Inventories	1.6	8.9	-	10.5
Property, plant and equipment	102.8	7.9	-	110.7
Goodwill	-	-	238.1 ⁽¹⁾	238.1
Other assets	-	4.3	4.3 ⁽¹⁾	8.6
Total assets	189.4	53.7	509.9	753.0
Liabilities				
Customers' balances	18.9	-	-	18.9
Provisions	8.6	8.3	12.0 ⁽¹⁾	28.9
Other creditors	44.9	15.3	62.6 ⁽¹⁾⁽²⁾	122.8
Borrowings	-	3.4	121.5 ⁽¹⁾⁽⁴⁾	124.9
Total liabilities	72.4	27.0	196.1	295.5
Net assets	117.0	26.7	313.8	457.5
Shareholders' equity				
Contribution by NSW Government	9.0	-	(9.0) ⁽⁵⁾	-
Share capital	-	0.1	249.9 ⁽¹⁾⁽⁴⁾⁽⁵⁾	250.0
Share premium reserve	-	24.9	153.7 ⁽¹⁾⁽⁴⁾⁽⁵⁾	178.6
Asset revaluation reserve	29.8	6.0	(6.9) ⁽¹⁾⁽⁵⁾	28.9
Retained earnings	78.2	(4.3)	(73.9) ⁽¹⁾⁽⁵⁾	-
Total shareholders' equity	117.0	26.7	313.8	457.5

(1) Acquisition of Sky Channel on 15 April 1998 as follows:

	\$m	Pro-forma adjustment to:
<i>Cost of acquisition (a):</i>		
Cash	100.0	Borrowings
Shares (b)	102.5	Share capital/Share premium reserve
Fair value of \$60 million deferred consideration	54.0	Other creditors
Acquisition related costs net of cash adjustment (b)	0.6	Cash
	<u>257.1</u>	
Elimination of Sky Channel's capital and reserves (as above)	26.7	Share capital and reserves
<i>Fair value adjustments:</i>		
Provision for onerous contracts	(12.0)	Provisions
Future income tax benefit relating thereto	4.3	Other assets
	<u>19.0</u>	
Goodwill	238.1	Goodwill

(a) The final acquisition price of Sky Channel will include a completion working capital adjustment in respect of the net result of Sky Channel for the period from 1 January 1998 to the date of acquisition. This will not impact goodwill as there will be a corresponding adjustment to the net assets acquired and accordingly it has not been reflected above.

(b) The shares to be issued to PBL and News as part consideration for Sky Channel are to be issued at a price equal to the Final Price with a cash adjustment to the extent that the total issue price of the shares differs from \$100 million. The pro-forma balance sheet has been based on a Final Price of \$2.05 per Share. At this price, the 50 million, \$0.50 par value shares to be issued to PBL and News will be issued at a premium of \$77.5 million which will result in a cash adjustment receipt of \$2.5 million by TAB.

(2) Acquisition of CMS and Links licences from the NSW Government for \$30 million funded by a short-term financing facility to be repaid from maturing cash deposits by the date of transfer of Shares under the Offer.

(3) The balance of \$8.6 million of a \$19.4 million one-off contribution due from the NSW Government to facilitate the payment of amounts due to NSWGR in accordance with the transitional arrangements under the RDA to 5 March 1998 has been reflected in Receivables and Other creditors.

(4) Acquisition of on-course and off-course wagering licences from the NSW Government for \$308 million met by:
 - \$0.6 million in cash and \$50.0 million in borrowings of which \$28.5 million will be repaid from cash by the date of transfer of Shares under the Offer;
 - set-off of the \$19.4 million one-off contribution from the Government referred to in (3) above; and
 - \$238 million by the issue of 162.1 million \$1.00 par value shares (prior to a 2 for 1 share split) at a premium of \$75.9 million.

(5) Issue of 62.9 million \$1.00 par value shares to the NSW Government (prior to a 2 for 1 share split) for \$88.1 million giving rise to share premium of \$25.2 million in order to capitalise TAB's existing contribution from NSW Government of \$9 million, retained earnings of \$78.2 million and realised asset revaluation reserve of \$0.9 million.

Price Waterhouse Corporate Finance Pty: Ltd.

A.C.N. 007 296 755
(a member of Price Waterhouse)



Licensed dealer under the Corporations Law.

4 May 1998

The Honourable Michael Egan
Treasurer of New South Wales
Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Board of Directors
TAB Limited
495 Harris Street
ULTIMO NSW 2007

Dear Treasurer and Directors,

Report on Forecast Financial Information

We have prepared this report on the forecast financial information of TAB for the years ending 30 June 1998 and 30 June 1999 for inclusion in the Offer Document to be dated 4 May 1998.

The forecast financial information set out in Section 5 and in Appendix 2 (the 'forecasts') has been prepared for the purpose of providing investors applying for TAB Shares using the Offer Document and the Appendices with a guide to the future profitability of TAB. The Directors are responsible for the preparation and presentation of the forecasts and the information contained therein, including the assumptions on which the forecasts are based as set out under 'Preparation of forecasts' in Section 5. Expressions used in this report have the same meaning as defined in the Offer Document. We have conducted an independent examination of the forecasts in order to report to the Directors on their preparation and presentation for the purpose of the Offer. We disclaim any responsibility for any reliance placed on this report, or on the forecasts to which it relates, for any purpose other than that for which it was prepared.

Scope and basis of report

Our examination of the forecasts has been conducted in accordance with Auditing Standard AUS804, The Audit of Prospective Financial Information, and other Australian Auditing Standards and the opinion expressed in this report has been formed on the following basis. Our procedures included an examination, on a test basis, of evidence supporting the amounts and other disclosures in the forecasts and an evaluation of accounting policies to provide reasonable assurance that the forecasts present a view which is consistent with our understanding of the past, current and anticipated future operations of TAB and the assumptions adopted by the Directors. These procedures have been undertaken to enable us to form an opinion as to whether, in all material respects, the forecasts have been properly prepared on the basis of the stated assumptions and are presented fairly in accordance with

accounting policies prescribed in Australian accounting standards and other mandatory professional reporting requirements, being Urgent Issues Group Consensus Views, and on a basis consistent with the accounting policies adopted by TAB.

It is not possible to obtain the assurance necessary to provide the same level of assurance on assumptions underlying forecast financial information as they are predictions only and their achievement is uncertain. However, we have undertaken procedures including discussions with the Directors and management of TAB and an examination, on a test basis, of evidence supporting the assumptions to enable us to form an opinion as to whether anything has come to our attention which causes us to believe they do not provide a reasonable basis for the preparation of the forecasts.

Report on forecasts

We report, based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the assumptions set out in Section 5 do not provide a reasonable basis for the preparation of the forecasts.

In our opinion:

- the forecasts are properly prepared on the basis of the stated assumptions; and
- the forecasts are presented fairly in accordance with accounting policies prescribed in Accounting Standards and other mandatory professional reporting requirements and on a basis consistent with the accounting policies adopted by TAB and disclosed in the Investigating Accountants' Report in Appendix 3.

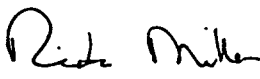
Due regard should be given to the sensitivity of the forecasts to the various uncertainties including the risk factors set out in Section 6. As anticipated events frequently do not occur as expected, actual results are likely to be different from the forecasts and the variation may be material. Therefore, we express no opinion as to whether the forecasts will be achieved.

Disclosures

Details of the involvement of Price Waterhouse Corporate Finance Pty Ltd and Price Waterhouse in the Offer Document and the Appendices and declarations relating to interests are set out in Appendix 4.

Yours faithfully

Price Waterhouse Corporate Finance Pty Ltd



RJ Millen
Director

6 Risk Factors

An investment in TAB involves the general risks associated with any investment in shares of companies which are listed on a stock exchange. Many factors may affect the financial performance of TAB and/or the price of its shares, including overall economic conditions in NSW and Australia, changes in government policies, investor perceptions and movements in stock markets.

Prior to making an investment decision, prospective investors should also carefully consider the following risk factors, as well as the other information in this Offer Document and the Appendices.

Competition from other forms of wagering and gaming products

The performance of TAB may be adversely affected by competition in wagering and gaming markets in NSW and, to some extent, other States.

TAB competes with providers of gaming products such as casinos and registered clubs and hotels which operate gaming machines. NSW hotels have recently been permitted to operate poker machines, contributing to an increase in the total number of gaming machines in NSW hotels and registered clubs from 75,760 as at 30 June 1996 to an estimated 91,170 as at 31 March 1998. Proposed legislation currently before the NSW Parliament will, if passed, remove certain restrictions currently imposed on hoteliers, which may contribute to an increase in the number of gaming machines in NSW. In the future, new technological developments such as in interactive gaming may also increase competition faced by TAB.

In wagering markets, TAB competes with operators of on-course totalizators and bookmakers in NSW. To some extent, it also competes with interstate and international wagering operators, who can accept off-course wagers from customers located in NSW through telecommunications media such as telephones and personal computers.

If changes to the regulatory regime enable:

- a decrease in the minimum level of wagers able to be accepted by telephone by bookmakers operating on-course;

- a decrease in taxation rates applicable to bookmakers;
- a combination of the above two changes; or
- a combination of the first point above and changes in the current practice whereby bookmakers' odds are not generally widely publicised.

TAB's competitive position may be adversely affected.

Interstate and international operators may be subject to different tax and regulatory regimes that may provide these operators with competitive advantages over TAB. The success of such operators in attracting customers in NSW may adversely impact the profitability of TAB.

Competition in the NSW wagering market may increase if the current restrictions on interstate and international operators advertising in NSW are relaxed. These restrictions are expected to be reviewed some time during the balance of 1998. There can be no assurance that the current restrictions on advertising will continue to apply.

Privatisation of other State-based totalizator operators may also result in increased competition in the Australian wagering market.

Further, if customers who currently wager through other distribution channels began to wager through on-course totalizators, TAB's profit may be adversely affected as the contribution of 4.9% of turnover payable by TAB to NSWRT in respect of on-course totalizator turnover is currently substantially higher than that paid in respect of turnover generated by TAB's other distribution channels.

Although TAB believes its businesses can compete effectively against other wagering and gaming products, no assurances can be given that TAB's businesses and operating results will not be adversely affected by competition in the wagering and gaming industries.

Racing Distribution Agreement

TAB's obligations under the RDA may restrict its freedom to act in its own commercial interests and its ability to make and implement strategic and operational decisions in the interests of its shareholders. These obligations do not require TAB to make or continue capital investment which could not provide TAB with appropriate commercial returns for similar businesses.

Otherwise, the RDA requires TAB to take actions and make decisions with the intent of maximising the total amount payable by TAB to NSW under the RDA (other than contributions in respect of on-course totalizators). Amounts payable to NSW are based on TAB's wagering and new gaming businesses, including any new wagering business in NSW, any new wagering business outside NSW in which NSW invests or any new gaming business in which NSW invests (refer to the description of the RDA in Appendix 4). TAB must not take any action or make any decision which could reasonably be expected to materially reduce the total amount of those payments.

If TAB takes any action or decision that results in a material reduction in the total amount of those payments to NSW from that which could have reasonably been expected if the action or decision had not been taken, TAB must take all steps necessary to alleviate the adverse effect of that action or decision on NSW.

Industry regulation

Legislation provides a framework within which wagering and gaming activity in NSW must be conducted. Actions and policies of the current or any future NSW Government in changing legislation, regulations or licence conditions in relation to wagering and gaming or in administering the regulatory regime may adversely impact on TAB. The regulatory regime in NSW may change over time in light of factors such as new Government policies and industry developments, including any arising from the recently announced Federal government inquiry into gambling.

Within the existing regulatory regime, there are a number of Ministerial determinations and approvals which may have a significant impact on TAB, including those described on page 47.

Racing product

TAB's wagering business is dependent on the provision of racing product to its customers. TAB does not control the racing product or the activities of racing bodies that supply the product upon which TAB accepts wagers.

Publicity relating to the racing industry and the racing product in Australia also impacts public sentiment towards the industry and the attraction of wagering on racing. TAB cannot control the public image of racing. Any adverse publicity directed towards the industry in general, and in particular the NSW Racing Industry, has the potential to reduce TAB turnover.

TAB believes that it is important for its turnover that its customers are provided with accurate and timely racing information. If the quality of coverage of racing and racing information in print and broadcast media materially deteriorates, TAB's business may be adversely affected.

During the 1990s, the NSW Racing Industry has faced increased competition from racing industries in other States, particularly Victoria and Queensland. The increased level of funding which TAB expects the NSW Racing Industry to receive due to the RDA may assist the NSW Racing Industry to increase the attractiveness of racing in NSW. However, if the competitive position of the NSW Racing Industry further deteriorates, TAB's turnover may be adversely affected.

No Australian race club currently levies charges on interstate State-based totalizator operators such as TAB for the provision of their racing product. TAB would resist any attempt by any interstate race club to levy such charges. However, any charge accepted by TAB for the provision of racing events may adversely impact the profitability of TAB.

TAB's reputation for integrity

In providing wagering and gaming services, it is essential that the operator has a reputation for the highest integrity. The TAB brand name is widely recognised within NSW and is a significant asset to TAB. The occurrence of any event or events which could have a material adverse impact on the reputation and integrity of TAB may have an adverse impact on its profitability.

Sky Channel

Sky Channel's business is based on contracts with Australian racing bodies for the supply of rights to televise race meetings and on contracts with subscribers (including off-course wagering operators in each State) for the provision of Sky Channel telecasts. Sky Channel's business may be adversely affected if contracts with racing bodies or significant subscribers are terminated, not renewed, or renegotiated on terms less favourable to Sky Channel than existing arrangements.

TAB and Sky Channel are planning to develop a domestic pay television racing service. A number of issues, including obtaining necessary programming rights, need to be resolved to determine whether it is commercially viable to provide that service.

There can be no assurance that the proposed domestic pay television racing business will commence operating at all or without unforeseen delay or will provide TAB with

satisfactory returns. Further, if the principal Australian racing bodies do not grant pay television rights to TAB or Sky Channel, or if TAB or Sky Channel cease to hold such rights, their ability to provide a domestic pay television racing service may be adversely affected.

TAB's proposed new gaming businesses

No revenue in respect of any of TAB's proposed new gaming businesses is included in TAB's forecast financial information contained in the Offer Document. TAB currently expects to commence operation of its new gaming businesses in the second half of 1999.

There can be no assurance that any of the businesses will commence operating without unforeseen delay or within budget, or that the businesses will provide TAB with satisfactory returns. TAB's proposed new gaming businesses are also subject to a number of specific risks including the following:

TABLink

TAB is planning substantial capital expenditure to establish the TABLink network and associated software required to operate CMS and Links. Refer to Section 5 for details.

Projects of this nature carry a variety of risks, including the risks of potentially substantial cost overruns, time delays and inability to develop appropriate technical solutions.

Development of the TABLink network has not as yet commenced. TAB can give no assurance that the TABLink network and associated software will be capable of successfully operating the CMS and Links businesses or be completed on time or within current cost estimates.

The viability and extent of the TABLink network may also be affected by a number of Ministerial approvals or determinations, including:

- Ministerial approval of specifications for all systems to be used in relation to CMS and Links. The Minister may at any time direct changes to the specifications for the systems used in relation to CMS; and
- Ministerial determinations of the gaming machines which are required to be connected to CMS and the manner in which gaming machines, classes of gaming machines or gaming machines in certain classes of Venues must connect to CMS (which may be by methods such as electronic data transfer or the lodgement of returns, whether or not electronically).

These approvals and determinations may affect the design, extent and cost of the TABLink network which may affect

the viability or, if commenced, the profitability of TAB's CMS and Links businesses.

Links

Customer demand for Links may be influenced by the size and regularity of jackpots, the returns to players and the marketing appeal generated by the Links concept. No assurance can be given that player acceptance of Links will be sufficient to make Links commercially viable and justify the required capital investment by TAB.

The revenue to be received by TAB from Links will be dependent on the number of linked machines installed by hotels and registered clubs, the levels of turnover achieved on the linked machines and the level of fees in respect of Links. TAB has limited ability to influence both the number of machines participating in Links and the turnover on linked machines.

TAB has announced its intention to enter into arrangements with the NSW registered club industry in relation to Links. There can be no assurance that satisfactory commercial arrangements will be agreed. If satisfactory arrangements are not agreed, the take-up of Links may be adversely affected. No assurance can be given as to the commercial viability or profitability of that business.

CMS

TAB's CMS licence requires it to design, develop and operate a CMS. If TAB's CMS business proves not to be commercially viable, TAB would need the Minister's consent if it wished to surrender the CMS licence in order to avoid those requirements.

Owning, supplying and financing gaming machines

Proposed legislation currently before the NSW Parliament, but not yet passed, provides for TAB to be entitled to a licence to own, supply and finance gaming machines in hotels in NSW and for confirmation that TAB can own, supply and finance gaming machines connected to Links in NSW registered clubs. The licence is to be for a term of at least 15 years. However, the effective start date of the licence and the conditions which will be imposed have not yet been determined.

There can be no assurance that the proposed legislation will be passed by the NSW Parliament in its current form or at all. If the legislation is not passed or is passed with significant amendments, this may adversely affect the commercial

viability or profitability of TAB's proposed new business of owning, supplying and financing gaming machines.

The commercial viability or profitability of TAB owning, supplying and financing gaming machines in NSW hotels may also be adversely affected by the conditions imposed by the NSW Government on TAB's licence.

Computer systems

Effective and efficient computer systems are integral to the successful operation of a wagering or gaming business.

Although TAB has been able to consistently achieve a high level of operational systems availability for its off-course totalizator systems, no assurances can be given that substantial business losses and costs of systems recovery would not be incurred by TAB in the event of partial or total failure of its systems.

In addition, the integrity and reliability of TAB's totalizator operations are dependent on other linked totalizator systems, such as the on-course totalizators in NSW which are operated by third parties. Should any of these systems fail, there is the potential for TAB operations to be adversely affected until the fault is rectified. TAB has no recourse for any loss of revenue due to the failure of third party totalizator systems.

Year 2000 date change

In common with computer users around the world, TAB (including Sky Channel) continues to investigate the implications for its systems of the date change from 1999 to 2000. TAB is undertaking a programme designed to make TAB's computer systems Year 2000 compliant.

TAB is also investigating with its key suppliers ways to ensure its operations will not be adversely impacted by the Year 2000 date change on such suppliers' systems.

No assurance can be given that the Year 2000 date change will not adversely affect TAB's operations. Refer to Section 4 for details of the Year 2000 compliance projects.

Fixed-odds sports wagering

TAB expects to commence fixed-odds wagering on sporting events in the second half of 1998. TAB expects that turnover on fixed-odds sports wagering during the forecast period will not be significant in comparison to totalizator turnover on racing. In contrast to totalizators, fixed-odds wagering by its nature carries a degree of risk, as it will be possible for TAB to make a loss on any event on which it offers fixed-odds wagering.

TAB intends to implement appropriate risk management practices. However, TAB's risk will depend on the management of TAB's book of wagers and the extent to which risk is laid off. If TAB is unsuccessful in managing its risk, TAB's profitability may be adversely affected.

Potential changes to tax law

The State or Federal governments may in future implement changes to tax law which may be applicable to TAB. These changes may impact adversely on TAB's profitability. For example, the Federal government has foreshadowed the possible introduction of a broad-ranging consumption tax. If such a tax is introduced and TAB's businesses became subject to the tax, this may have an adverse impact on TAB's operations and profitability.

The tax law in relation to the basis on which investors are taxed may also change.