

Tatts Group Limited - 2015 Annual General Meeting Chairman's and Managing Director/CEO's Address

Attached are copies of the Chairman's and Managing Director/Chief Executive Officer's addresses to be presented at Tatts Group Limited's Annual General Meeting, commencing at 2.00pm (Brisbane time), Friday 30 October, 2015.

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

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TATTS GROUP LIMITED
ABN 19 108 686 040
ANNUAL GENERAL MEETING
30 OCTOBER 2015

Good afternoon Ladies and Gentlemen,

My name is Harry Boon, and I am Chairman of your Company, Tatts Group Limited. On behalf of my fellow Directors and the Tatts Senior Executive Management Team, I am pleased to welcome you to the 2015 Annual General Meeting here in our home city of Brisbane at the iconic Brisbane City Hall.

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

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

The Notice of Meeting and the Annual Report were sent to shareholders and the ASX on 25 September 2015 and I will take the Notice as being read.

The 2015 financial year has been another successful year for Tatts. We produced a strong financial result with net profit after tax lifting 25.7% or 12.9% on a continuing operations basis.

This strong outcome was achieved while we maintained our investment in the ongoing business renewal program, and included a number of highlights, especially:

- **The digital and online initiatives we have implemented** - these are performing exceedingly well, with online sales for wagering up almost 13%, and lotteries up by 21%.
- **The successful launch of the UBET brand** - now live in-market, while still early days, we have seen some very positive signs from the new branding and retailing initiatives implemented thus far.
- **New product innovation in our Lotteries business**, with the new Set for Life game launched on 3 August 2015 aimed especially at a younger demographic. Set for Life is our first new draw lottery game since Powerball in 1996. The successful NSW game, Lucky Lotteries was launched in Queensland, Victoria, Tasmania and the Northern Territory.

Tatts Group achieved revenue growth of 1.8% to \$2.92 billion. This was despite fewer lottery jackpots reaching the important \$15 million level, and the extremely competitive wagering environment in which we operate.

The combination of this revenue growth with prudent cost control resulted in improved operating margins across our range of businesses, and drove a strong increase in net profit after tax, as well as a 23% increase in earnings per share.

Consistent with the increased net profit and earnings per share, and the Board's commitment to high dividend payout ratios, Tatts paid a final dividend of 7.5 cents per share, well up on last year's 5.5 cents. The total dividend for the 2015 financial year of 16.5 cents per share was an increase of 22% over 2014 and represents a 95% payout of our statutory profits. This is the ninth year since listing in 2005 that the dividend payout has exceeded 90% of profit.

The combination of dividends and share price growth over the year produced a Total Shareholder Return (TSR) for FY15 close to 21%. This performance again outpaced the ASX200, which achieved a TSR of only 7.8% over the same period.

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

The business renewal program we commenced in FY13 was designed to challenge and update some of our accepted ways of operating to better position all our businesses for future success in an increasingly competitive environment.

As expected, this resulted in some significant changes in business processes and focus, as well as adjustments to team structures and personnel. Change can sometimes be a difficult and emotional issue, and I would like to acknowledge the positive way the entire Tatts team has embraced the changes we are making.

In discussing our team, I am pleased to report that our diversity program has implemented a number of initiatives that aim to remove any impediments to the 'best and brightest' applying for available roles, irrespective of gender. As mentioned earlier, I am happy to report that we have seen the representation of women in our senior executive management team increase from 27% to 50% in the past year

Tatts has a well-developed sustainability program, which recognises that our licences and authorities to operate are privileges granted by governments, and proudly highlights our significant contributions to both the communities in which we operate and to the industry partners upon whom we rely.

In FY15 we became official partners with two key community organisations. Our Lotteries unit is now an official partner of the Starlight Foundation and our Wagering unit partners with Mates4Mates, an initiative of the RSL. An important part of our sustainability approach involves community support through our responsible gambling programs, and contributions to community organisations such as these.

We have also continued to make significant charitable contributions to a range of programs, including the Channel 9 Children's Hospital Telethon and the Mater Foundation's projects to help mothers and babies, taking our total contribution to these important children's health services to \$10.5 million over the past 7 years.

Consistent with our business philosophy, we continued our long and proud tradition of contributing to the communities in which we operate as well as to the racing industry. In FY15 we paid a total of \$1.32 billion to state governments and industry partners in the form of lottery taxes, wagering taxes, wagering product fees and race information fees, with the most significant of these contributions being:

- Queensland \$367.1 million
- New South Wales \$327.1 million
- Victoria \$387.3 million

And I hasten to say that we paid our fair share of corporate taxes on top of all this!

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

Several questions were received relating to the Victorian Pokies compensation case. The High Court of Australia will be hearing the appeal by the State of Victoria against the award of compensation to Tatts on 11 November 2015. If we are successful in the High Court, your Board currently intends to redistribute the after tax amount of compensation received in the most efficient manner in the best interest of all shareholders. We cannot be certain as to the timing of the final judgment by the High Court.

Questions were also received around the current consolidation of wagering companies internationally, and I would like to reassure shareholders that your Board is closely monitoring these consolidations and will position our Company to maximise shareholder value in both the short and long term.

Other questions from shareholders related to the remuneration paid to executives and Directors. The Company's overriding objectives in executive remuneration are to ensure appropriate and transparent alignment between employees and shareholders as well as being market competitive. In this context, it is important to consider that our total return to shareholders continues to outperform the ASX 200, while our total executive remuneration ranks as one of the lowest in our peer group in the ASX 200.

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

Managing Director/CEO Address

Thanks Harry and good afternoon ladies and gentlemen.

It is great to be here today and to have the opportunity to talk about what was an outstanding year by any measure.

I will this afternoon give you an overview of our FY15 results; talk about some of the key initiatives my team delivered in the year; and update you on our year-to-date trading.

As Harry mentioned, we produced another strong result driven by four key factors, namely:

- record lotteries performance despite a softer jackpot sequence;
- great online traction in both wagering and lotteries;
- a very disciplined approach to costs, balanced with an appetite to invest in our businesses to secure future growth and value; and
- proactive management of our debt position delivering a significant reduction in our funding costs.

In parallel we continued our business renewal program, which is positioning the Group for continued growth. This has seen:

- work groups and practices restructured;
- multi-disciplinary teams working with agile practices; and

- an openness to challenge and rethink some of our accepted ways of operating.

We now have the bench strength on board to drive all our innovations and initiatives through whatever channel and via whatever technology. These initiatives all centre around an absolute focus, in all that we do, on our customer.

GROUP RESULT OVERVIEW

We delivered a 25.7% lift in statutory after tax profits, booking a \$252 million result up from \$200.4 million last year.

On a more representative, continuing operations basis this translated to a very healthy 12.9% uplift in profits to \$255.8 million.

Just stepping through our result at a Group level:

- Total revenues were up 1.8% reaching \$2.9 billion – achieved notwithstanding the softer jackpot outcomes and, as expected, facing up to the competitive wagering landscape.
- Government fees were up 0.3% – incorporating higher lotteries tax payments in line with the increased lottery sales, offset in part by lower wagering taxes flowing through from the new wagering deal in Queensland.
- Product and program fees were up \$15.9 million, in the main reflecting the new funding arrangements in Queensland that directly support the wagering industry.
- Total expenses were well controlled at 1.8% up - and noting the cost base now encapsulates the significant step up in wagering marketing activity together with the full complement of personnel in marketing, online and bookmaking required to reposition our wagering business for success. Also included were the launch and marketing costs for Lucky Lotteries and gearing up for the launch of the new Set For Life game.
- EBITDA was up 1.8% at \$507.4 million in line with revenue growth reflecting strong cost control.
- Depreciation and amortisation increased by \$3.2 million a portion of which reflects the increased amortisation of the new licence arrangements in Queensland.
- And finally, net interest costs have dropped a compelling 38.4% - this has been achieved from refinancing activities that secured the benefits of improved pricing and the current interest rate cycle. It also reflects the utilisation of cash generated from operations and the benefit of the pokies compensation proceeds (pending the outcome of the state of Victoria's appeal to the High Court).

Turning now to our three operating units.

LOTTERIES OVERVIEW

Lotteries had nothing short of a brilliant year – growing revenues 2.8% to \$1.98 billion.

This is quite an accomplishment when you consider there were 2 fewer jackpots at or above the influential \$15 million mark and a reduction in the average value of our 1st division pools. The hidden gem in this performance was the operational leverage our lotteries business displayed – growing the 2.8% revenue increase to a 5.9% lift in EBIT, producing a record \$287.5 million result.

Our digital performance was outstanding with initiatives undertaken driving a 20.9% increase in sales via this channel. This saw 11.1% of all our lottery sales produced online - up from 9.4% a year ago.

Our lotteries team achieved this stellar result while also delivering a full pipeline of initiatives, the highlights including:

- The expansion of 'Lucky Lotteries' beyond its NSW and ACT homeland on 30 March this year. We introduced the product into Queensland, the Northern Territory, Tasmania and Victoria. At year's end these new markets had embraced this iconic 84-year old raffle style game and were driving close to 20% of its sales.
- In February this year the team completed the re-integration of Instant Scratch-its in Victoria with sales lifting above levels achieved by the previous operator. Once again demonstrating our leading capacity to work with government and deliver seamless licence transitions.
- Significant effort was directed in getting ready for the launch of our first new lottery draw game since 1996 – with 'Set For Life' going live on the 3rd of August and delivering on its promise, with a younger audience and exceptionally strong online sales above the 20% mark.
- The team also instigated the introduction of new products and features in our Scratch-Its product line-up which have been well accepted in the market.
- Our trial selling lottery products through seven Coles Express outlets in Victoria ended on 28 June. Simultaneously we sealed an agreement with Woolworths Petrol to commence selling through 54 of its fuel outlets across our market places – this is an exciting opportunity. It will build on the year-on-year growth achieved in the convenience fuel channel already delivered by the "On the Run" chain in South Australia.
- Last but not least the 'tuning' of the purchase funnel on our lotteries website drove a significant lift in online sales as demonstrated by Set for Life (above 20% online) and Lucky Lotteries (above 15% online).

WAGERING OVERVIEW

In wagering, our whole of business evolution went live on 30 April. We received a very positive consumer response to UBET, the brand marketing, our new digital assets and our initial two next generation retail stores.

Clearly though our UBET initiatives were only in place for the final two months of the financial year, and with the tough retailing environment in Queensland (excluding the slightly more buoyant South East corner) we experienced a 1.5% drop in wagering revenue to \$632.9 million.

In terms of our distribution channels:

- Our digital sales grew 12.5% to represent 25.7% of all wagering sales up from 22.9% in FY14.
- As expected phone-based sales were down 11.2% and to the extent one assumes transference, the increase in digital sales more than offset this decline, with digital growth outpacing the phone sales decline 4 to 1.
- Our 'bricks and mortar' franchise showed a 2.3% reduction in sales impacted, as mentioned, by regional softness in some of our jurisdictions. To put this in perspective in Queensland (our largest territory) retail sales growth of 0.4% was achieved in the SE corner whilst the balance of the state experienced a 8.1% decline.
- Our fixed price offering continued to perform strongly growing 21% in the year with win rates for racing remaining in line with last year, and on sport we achieved a lift in win rates in the year.

Wagering EBITDA for the year was down 4.5% at \$153.5 million, reflecting the well-flagged and very necessary investment to reposition the business. The resultant EBITDA margin at 24.3% was consistent with levels we previously indicated, and underwrote the reinvestment necessary to enable the business to compete.

UBET is now armed with the key elements to deliver a world-class omni-channel customer experience. To this end the work undertaken in the year involved:

- the selection and development of our new brand, UBET, and securing the UBET.com domain;
- up-scaling our online capabilities (including development, online marketing and customer relationship management personnel);
- development of new apps and the website;
- production and launch of advertising across all media;
- design and rollout of our category-leading next generation retail outlets;
- doubling the team's bookmaking resources;
- integrating an automated bookmaking platform to provide significantly expanded and enhanced markets (pre-match and in-play);
- development and introduction of our rewards program 'UBET+';
- a market ready category-leading virtual sport and racing solution;
- development of new self-service betting terminals with cash handling and ticket-in ticket-out capability;
- development of our new age retail terminal; and
- development and retail launch of 'UBET Live', which provides a unique in-venue in-play betting module.

GAMING OVERVIEW

Our Gaming team kicked goals with all three businesses contributing positively to earnings – with Maxgaming producing a strong result and Talarius continuing to outperform.

Maxgaming is our gaming venue services division. We monitor approximately 131,000 gaming machines in 3,729 venues – our franchise is exclusive in NSW and NT – in QLD we have an 80% segment share. The focus in this business is on innovating new value-add products – the product suite currently includes:

- Maxconnect – a customer relationship and promotional vouchering management system – now on close to 14,000 gaming machines up from 12,400 a year ago;
- TITO - successfully trialled in FY14 and now on 5,400 machines;
- ECash – our paperless payout system;
- Player Loyalty – now installed on more than 18,000 machines in QLD; and
- Pre-commitment systems.

Our revenue is generated:

- 55% from monitoring;
- 22% machine maintenance; and
- 23% value-add services.

Maxgaming lifted its revenues by 2.2% - building on revenue growth achieved last year - this is the second consecutive year of growth after 4 years of decline. The business also lifted its EBIT by 3.2% to \$51.3 million.

Moving to our UK based slots business **Talarius**. Our UK team has built on last year's strong performance and made another positive contribution to Group profits delivering \$6.2 million in EBIT. This is a 51.7% lift on last year. The team retained its focus on repositioning the business and getting our customer proposition right - this has seen:

- the roll out of server based games – which have received an excellent customer response;
- the streamlining of our venue footprint to reduce outlet overlap;
- driving our 'no-frills' model in lower performing outlets;
- extending opening times in high performing outlets;
- refurbishing venues considered to have higher performance capability; and
- a continuing focus on cost control.

With the UK displaying an improved regulatory environment for 'Adult Gaming Centres' and the encouraging economic outlook, this operation has a bright future. This is in stark contrast to the years immediately following Tatts' acquisition of this business.

Finally turning to our **Bytecraft** operation – the team has been working through a turn-around program and after two challenging years is seeing the benefits come through. I would like to make special mention of the commitment of our Bytecraft team - they have faced some really tough times as we have had to make significant cuts to our team to reposition this operation. The business is now refocusing on its core activities - specifically time critical technical support services to gaming and network infrastructure operators. This focus has seen the business exit or not renew a number of non-core and largely unprofitable contracts.

The 2.7% decline in revenue reflects this strategy and the benefits are starting to become apparent with a positive EBITDA result of \$2.8 million up from a loss of \$0.4 million last year. EBIT has also turned around from a loss of \$2.5 million last year to a profit of \$0.6 million in FY15.

LOOKING FORWARD

We have set an even more ambitious program of initiatives for the current year. The team thrives on the challenge and we plan to deliver the following key components in our renewal strategy in FY16:

In Lotteries:

- we will launch a new suite of digital assets along with a next generation lottery retail format;
- this will coincide with a network-wide omni-channel experience to unify the customer journey through all our touch points;
- the year will also see the rollout of lotteries into a select number of Woolworths Petrol outlets – this commenced in September and will continue through the remainder of the year; and
- we will have 'Set For Life' in our game portfolio for the year and sales to date have been very encouraging with stronger participation in a younger demographic and great traction online.

In Gaming:

- the team is developing a portal delivering enhanced gaming venue business intelligence;

- this portal will ultimately also feature a number of innovative functions for venues including an online store for the purchase of gaming products.

In Wagering:

- we will continue to be active in the market, building the UBET brand position nationally - through traditional media, online and through affiliate arrangements – we have no expectation that the competitive landscape will soften;
- FY16 will be our first full year in market with a well resourced digital team and a fully enabled fixed price team;
- our focus this year is on further developing our newly established digital assets so as to position UBET as the market leader;
- we expect post January 2016 to commence the roll-out of our new generation self-service terminals; and
- the first wave rollout of our next generation retail stores (with a target of 50 by Christmas this year) is on track with 28 stores now up and running – this will then enable us to evaluate the return generated from a reinvigorated retail network in the second half of the financial year.

Outside our operations, we expect to have outcomes in relation to our NT TAB licence imminently and the NSW CMS licence in the near term, coupled with this we now have clarity as to the Victorian Government's proposed lotteries licence structure for 2018 and beyond. This visibility greatly assists in mapping our potential capital requirements. We also hope to have a final outcome in our pokies compensation litigation in the current financial year and as Harry has mentioned if we are successful in the High Court, the Board's current intention is to redistribute the after tax proceeds to shareholders in the most efficient manner possible.

TRADING Q1

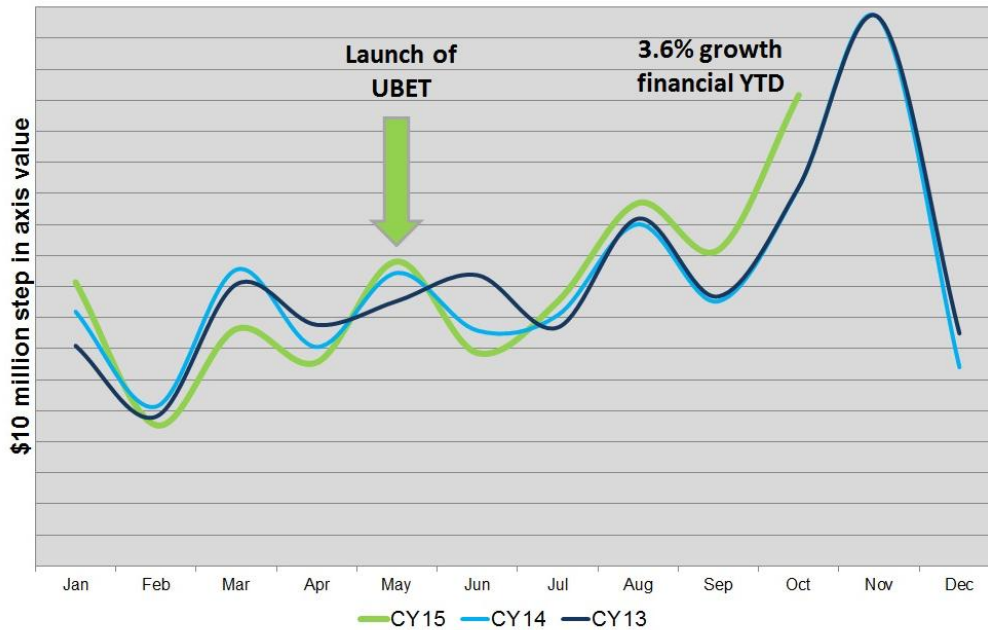
In terms of trading performance we have had a solid start to the year.

Our Lotteries operation is performing ahead of Q1FY15 with:

- a slightly improved jackpot run with 13 jackpots at or above \$15 million mark year-to-date versus 12 same period last year;
- 1st division pools being lower than last year averaging \$26.9 million compared to \$31.3 million on a like-for-like basis; and
- this being supplemented by Set for Life which has established itself in the market and is performing ahead of our model; and
- is also supported by Instant scratch-it sales which are tracking 12.4% up.

In Wagering, there are a number of positive signs:

- we have seen our wagering turnover return to growth with a turnover lift of 3.6% on the same period last year. It must however be emphasised it is still early days. The trend we are seeing is best demonstrated in this chart;



- the lift in turnover has been achieved notwithstanding continued softness in regional Queensland noting that the position is improving. The SE corner has achieved turnover growth of 3.1% compared with 1.3% in the same period last year. Regional Queensland year to date remains 4.1% down but this compares favourably against the 7.5% decline in the same period last year.
- our blended win rate is circa one percentage point lower on those achieved in the same period last year although we continue to achieve a healthy double-digit win rate. This reflects a combination of more competitive positioning in the market, migration from pari-mutuel to fixed price and some results running against the book.
- in terms of margin performance our first quarter EBITDA margin is in the targeted range - at 23.4%. This compares with the full year margin in FY14 of 24.3%. It should also be noted that the H1 FY14 margin was significantly higher due to the timing lag between the introduction of the new fiscal arrangements in Queensland and the associated committed additional in-market spend.

In Gaming our performance is tracking above last year in all three divisions with Talarius continuing to power ahead with revenue up 29.7% in the 1st quarter.

In closing I would like to thank the entire team at Tatts for their efforts in delivering the result presented to you today and my thanks to you all for taking the time to be here today at our AGM.

Back to you Harry.