



TABCORP Holdings Limited Annual Report

1998



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## ***Notice of Annual General Meeting***

The Annual General Meeting of TABCORP Holdings Limited will be held at the Carlton Crest Hotel, 65 Queens Road, Melbourne on Tuesday, 27 October 1998 at 10.00am. A notice of meeting and proxy form is included with this Annual Report.

TABCORP Holdings Limited ACN 063 780 709.

- Profit after tax \$121.3 million – up 20.4% on last year
- Final normal dividend of 14.0 cents per share fully franked, taking the full year normal dividend to 27.0 cents – up from 23.0 cents last year
- Special dividend of 11.0 cents per share fully franked, bringing the total dividend to 38.0 cents – up from 35.0 cents last year
- A return of capital of 33.0 cents per ordinary fully paid share is proposed, subject to shareholder approval
- Earnings per share 40.0 cents – up 20.2%
- Revenue \$938.0 million – up 15.0%
- Wagering profit before interest and tax \$37.5 million – up 13.1%
- Gaming profit before interest and tax \$146.3 million – up 24.8%
- State gambling taxes contributed by TABCORP businesses \$437.0 million – up 16.2%
- Revenue generated for the Victorian racing industry \$188.2 million – up 11.3%
- TABCORP became the principal sponsor of Surf Life Saving Victoria

# Highlights

TABCORP is one of Australia's leading leisure and entertainment companies with core business activities in wagering and gaming.

# Company Profile

*TABCORP aims to deliver superior returns to its shareholders by providing a total entertainment offering for its customers and pursuing and capitalising on growth opportunities.*

TABCORP's core businesses are wagering and gaming.

The wagering business offers pari-mutuel and fixed odds betting on a wide range of sporting events including thoroughbred, harness and greyhound racing as well as sports such as Australian Rules football, golf and soccer.

The gaming business provides entertainment in hotels and licensed clubs throughout Victoria, under the Tabaret brand. With customer service the priority, Tabaret venues offer a unique leisure experience incorporating an attractive venue environment; quality affordable food; and the most up-to-date, exciting games on a variety of gaming machines.

TABCORP owns licences for wagering and gaming in Victoria and manages these businesses under its joint venture agreement with the Victorian racing industry. The Victorian racing industry receives fees from TABCORP for the provision of racing products and programs and takes up 25% of all revenue and expenses relating to the wagering and gaming businesses. TABCORP takes up and reports 75% of the revenue and expenses of the businesses managed.

TABCORP Holdings Limited was listed on the Australian Stock Exchange on 15 August 1994 with a market capitalisation of \$675 million. The company's market capitalisation was \$2.5 billion at 30 June 1998.

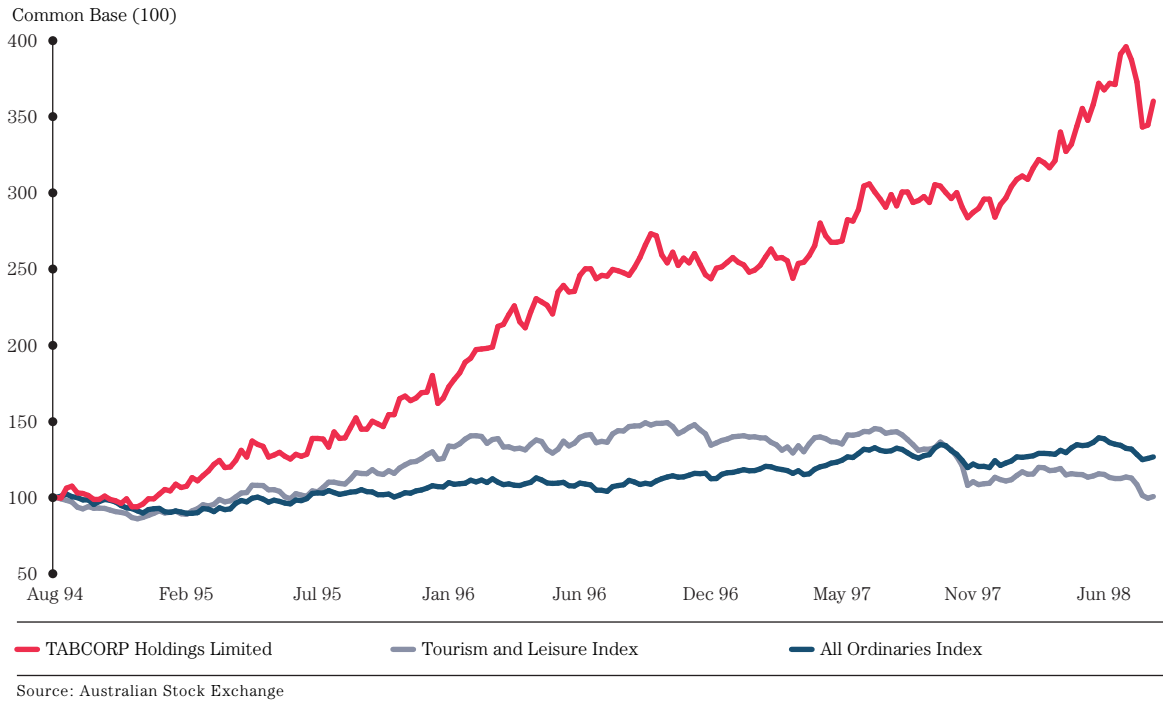


Entertainment | leisure



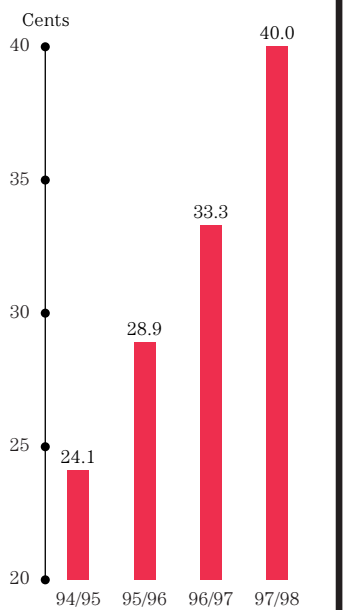
# TABCORP | at a Glance

## TABCORP Share Performance



## Earnings per Share

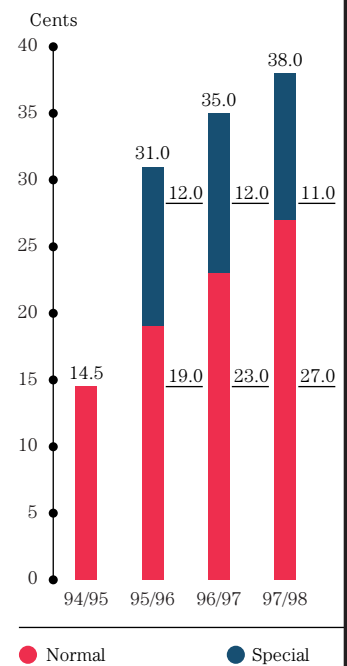
(cents per share)



Source: TABCORP

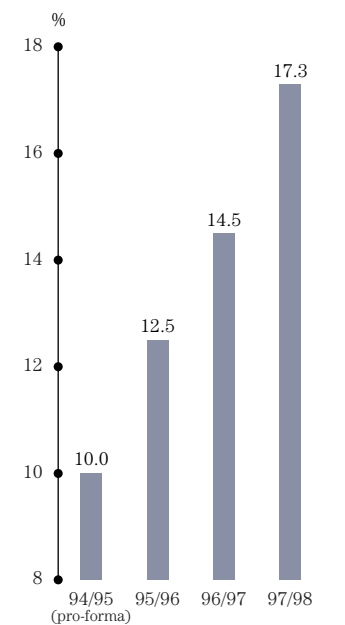
## Dividends per Share

(cents per share)



Source: TABCORP

## Return on Shareholders' Funds



Source: TABCORP

Chairman's

# Report



## *Overview*

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I am pleased to report that in 1997/98 TABCORP has continued its record of success and further strengthened its position as a leading Australian leisure and entertainment company and major contributor to Victoria.

The company declared a profit after tax of \$121.3 million, an increase of 20.4% on last year's profit of \$100.8 million. This strong performance has enabled the directors to declare a fully franked final normal dividend of 14.0 cents per share, bringing the full year normal dividend to 27.0 cents per share, up from 23.0 cents last year.

In consideration of the company's strong cash position, the directors have further declared a fully franked special dividend of 11.0 cents per share, fully utilising available franking credits. This takes the total dividend for the year to 38.0 cents per share, up from 35.0 cents.

Subject to approval of shareholders and after taking into account the company's planned future cash requirements, the directors have determined to make a return of capital of 33.0 cents per ordinary fully paid share. The return of capital has been recommended at a level that will enable the utilisation of surplus cash while leaving the company in a strong position to take advantage of future opportunities for expansion.

Should the return of capital be approved by shareholders, it will mean that including fully franked dividends, a total of \$1.515 per share will have been distributed since the company's listing in August 1994.

The company has a record of providing superior returns to shareholders. This, combined with the relative degree of insulation from the effects of the Asian economic crisis afforded by its Victorian customer base, has resulted in continuing strong support from investors. These factors are reflected in TABCORP's share price which closed at \$8.25 on 30 June 1998, up 14.6% from last year, taking the company's market capitalisation to \$2.5 billion, an increase of \$300 million.

#### ***TABCORP Contribution to the Community***

TABCORP's products are a popular choice in the array of leisure and entertainment options available in Victoria. A majority of Victorians participated in and gained enjoyment from wagering and gaming throughout the year and their support resulted in substantial benefits for the State.

During the year a total of \$437.0 million in gambling taxation was paid to the Victorian Government by the businesses managed by TABCORP. This included a payment of \$44.6 million to the Community Support Fund which supports art, sport and recreation projects.

The Victorian racing industry has continued to benefit from the growth in popularity of TABCORP's products. During the year, the businesses managed by TABCORP generated \$188.2 million for the Victorian racing industry. This funding is applied by the Victorian racing industry towards improved facilities for customers and initiatives such as Sunday and night racing designed to grow the wagering market. The racing industry and TABCORP's wagering and gaming venues provide employment for well in excess of 30,000 Victorians.

In December 1997, the company extended its community support to Surf Life Saving Victoria with the establishment of the TABCORP Surf Rescue Fund. This sponsorship will provide the 34 surf life saving clubs throughout Victoria with a variety of rescue equipment and support the professional life guard service at 16 of the State's most popular beaches.

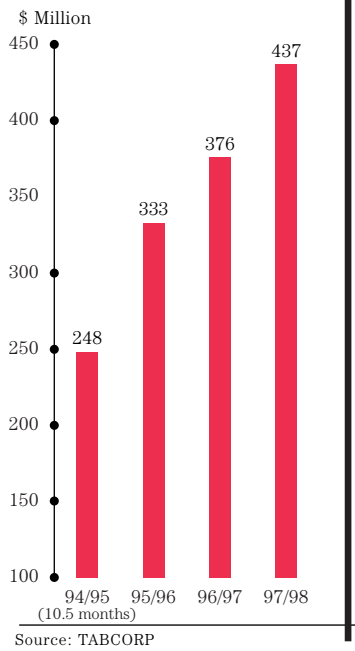
TABCORP is a predominantly Australian-owned company. As at 30 June 1998, TABCORP had more than 37,000 shareholders, of which approximately 27,000 are residents of Victoria. Australian institutions and individuals account for 75% of the company's issued capital.

#### ***Company Administration***

Mr Michael Gullquist resigned as Company Secretary on 30 June 1998. He held the position since the TABCORP float in 1994 and during this period made a significant contribution to the company. Mr David Simpson will be acting Company Secretary until a replacement is appointed.



**State Government  
Gambling Taxes Contributed  
by TABCORP Businesses**

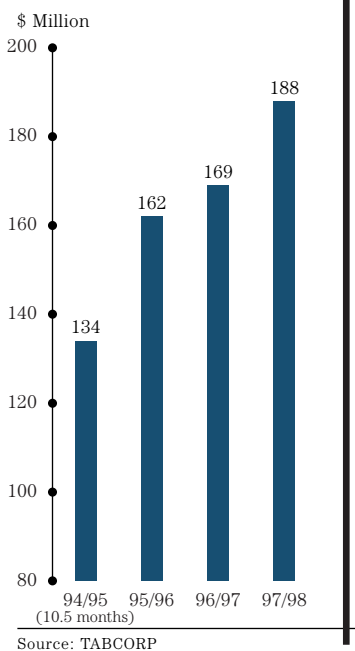


**Conclusion**

In the four years of operation since listing, TABCORP's network of wagering and gaming venues have been developed into major assets for Victorians. Outstanding returns have been provided to shareholders and the company remains positioned to capitalise on growth opportunities which meet our goals for enhancing shareholder wealth. On behalf of the Board, I would like to congratulate all TABCORP employees, and thank them for their contribution and continuing support.

Michael Robinson  
Chairman

**Payments to Racing Industry  
by TABCORP Businesses**



## Managing Director's

# Report



### ***Performance***

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TABCORP's profit after tax for the year increased by 20.4% to \$121.3 million. The result reflects the company's successful approach of driving revenue through improvements to facilities and customer service in both wagering and gaming while containing operating expenses. Revenue of \$938.0 million was achieved, a 15.0% increase over last year.

The Gaming Division recorded another strong result with a 20.8% increase in revenue to \$608.7 million and a 24.8% increase in profit before interest and tax to \$146.3 million. Given the flat performance of the Wagering Division over the last three years, it is pleasing to report Wagering Division revenue of \$329.3 million, up 5.6% on the previous year, and profit before interest and tax of \$37.5 million, up 13.1%. This performance demonstrates the effectiveness of our customer focused strategies.

The 1997/98 results again illustrate the strong operating cash flow position of TABCORP, with year end cash and deposits increasing by \$30.2 million to \$141.7 million. This balance was achieved after a total dividend distribution to shareholders of \$112.2 million during the year.

The strong balance sheet puts the company in a good position to grow further as and when investment opportunities arise. TABCORP's funding ability will be only marginally impacted by the payment to shareholders of \$133.6 million pertaining to the 1997/98 special dividend, and return of capital should it be approved by shareholders.

To date a number of investment opportunities have been evaluated, but have not been proceeded with as they have not met the goal of enhancing return to shareholders. This may well change as the adverse effects of the Asian economic crisis continue to impact our economy.

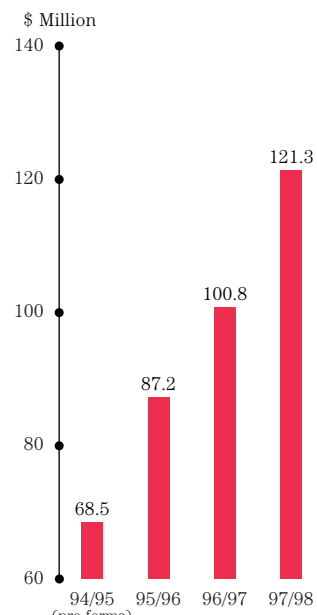
The company's performance in 1997/98 reflects the commitment of its employees, whose enthusiasm and skills will continue to be essential to TABCORP's future growth and development.

### **The Market**

The Australian and Victorian gambling markets are still demonstrating strong rates of growth. This growth is forecast to continue due to trends towards increased leisure time and more discretionary income being spent on out-of-home entertainment. It is pleasing to note that TABCORP's entertainment products are increasingly proving attractive to a wide cross section of Victorians in this market.

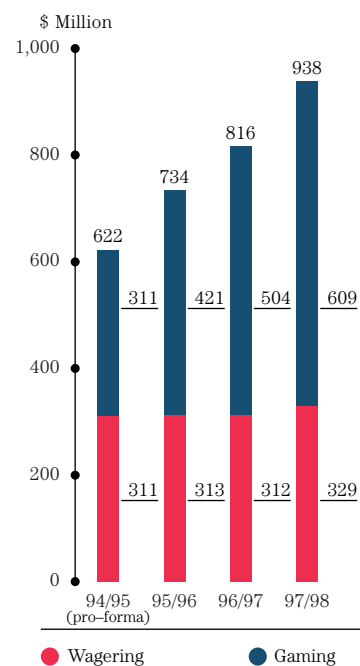
TABCORP research reveals that customers are attracted by the array of entertainment options available at our venues – the opportunity to socialise, enjoy a meal, and use gaming and wagering products in a comfortable and pleasant environment.

### **Profit After Tax**



Source: TABCORP

### **TABCORP Wagering and Gaming Revenue**



Source: TABCORP

Expenditure on gambling in Australia has grown by 13% to an estimated \$11.4 billion in 1997/98. Of this total, Victorian gambling represented \$3.3 billion, an increase of 19% over 1996/97. This growth has been primarily driven by the increasing popularity of gambling products among Victorians.

The Victorian spend on gaming machines grew by an estimated 20% to \$1.9 billion during the year, attributable to an increase in the supply of gaming machines, the popularity of hotel and club gaming venues, and the expanded capacity resulting from the opening of the permanent casino. The company is positive on the strong underlying fundamentals of the Victorian gaming machine market and estimates it will grow to approximately \$2.1 billion in 1998/99.

Growth in the gaming machine market has been created by working in partnership with venue operators to continuously improve the quality of venues, customer service and gaming products. However, if as expected demand continues to grow, the lack of availability of machines due to the temporary restriction on machine numbers in Victoria may inhibit the company's ability to service this increasing demand.

In April, the company was granted a licence to centrally monitor gaming machines in Queensland. The company intends to use its management experience and gaming market knowledge to achieve maximum returns both to Queensland venues to which it will be supplying gaming services, and to TABCORP shareholders.

### ***Wagering Division***

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In 1997/98, the Wagering Division achieved its strongest performance since the company was listed with a 13.1% growth in profit before interest and tax to \$37.5 million. The profit growth was achieved as a result of cost control and a 5.6% growth in revenue to \$329.3 million. This growth in revenue was particularly pleasing given the flat performance over the past three years as a result of substantially increased competition from gaming machines and casino products. The turnaround indicates that the Division's strategies of focusing on customer needs are having a positive effect.

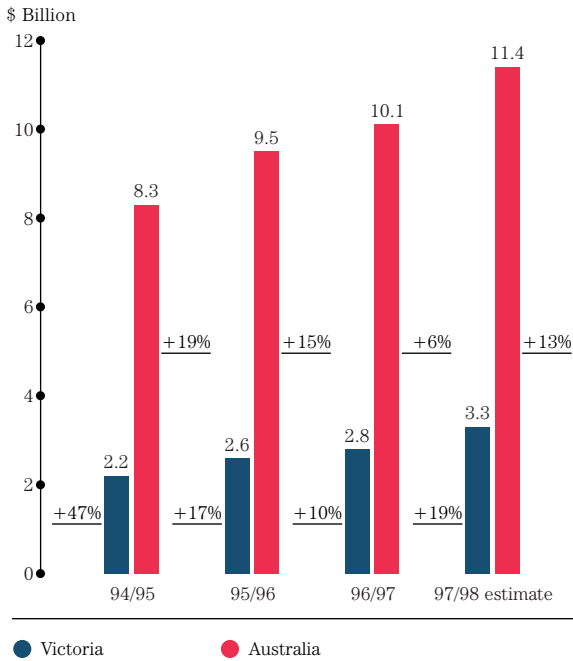
Since listing in August 1994, the Division has concentrated on enlarging the wagering customer base by working with the racing industry to improve the quality and scheduling of the racing product, optimising the mix of TAB agencies and PubTAB outlets and improving their customer appeal.

This approach was further supported by the introduction of night racing at Moonee Valley in January. With the objective of presenting racing at more convenient times to attract a wider audience and increasing the participation of occasional customers, Sunday racing was expanded during the year to include an extra seven metropolitan Sunday meetings.

The 1997 Spring Racing Carnival was very successful, with record crowds and turnover. On Melbourne Cup Day alone, turnover was 30% above last year, and 19% greater than the previous record. This result demonstrates the effectiveness of an attractively presented and well promoted racing package.

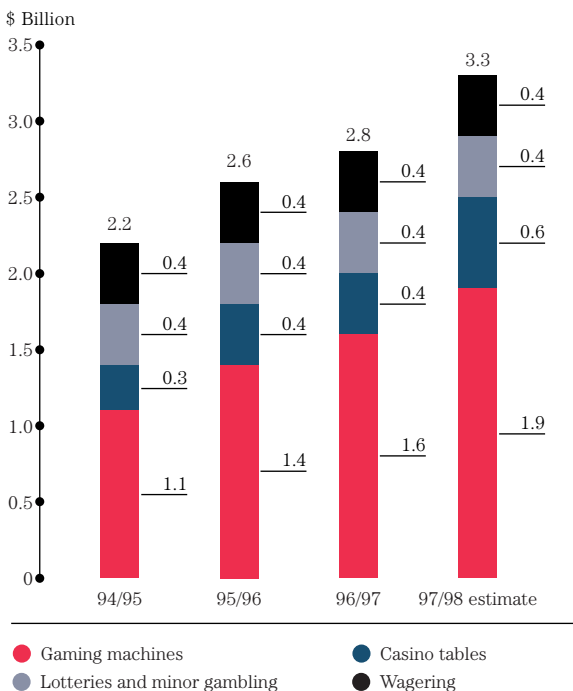
The Wagering Division further improved the efficiency and customer appeal of its retail outlets. During the year, a program of refurbishing existing outlets and opening Supersite agencies, which comply with our new presentation style and design, was introduced. These outlets appeal to a broader customer base and produce higher turnover levels.

### Australian Gambling Market



Percentages indicate year on year growth and are based on rounded amounts  
Source: TABCORP internal estimates

### Victorian Gambling Market



Includes 100% of the businesses managed by TABCORP  
Source: TABCORP internal estimates

Many more Victorians participated in National Sportsbet, the company's fixed odds betting product, with turnover increasing by 67.7% to \$24.5 million. This growth can be attributed to an increase to 43 in the number of outlets offering the product, and coverage of a wider range of sporting events, including World Cup Soccer. Further growth is anticipated as Victorian sports lovers become more accustomed to this new form of wagering and as access improves with an additional 30 new outlets expected by early 1999.

BETLINE, the company's interactive voice response system which allows customers to place bets without operator assistance, was fully introduced during the year. This product is proving popular with customers with more than 5% of telephone betting transactions currently being placed via the system. On Melbourne Cup Day, BETLINE accounted for 15% of total telephone betting calls.

The program to replace the current 20-year-old wagering system with a new system developed by TABCORP is well under way. The transfer of on-course and telephone betting operations was completed prior to the 1997 Spring Carnival with no disruptions to customer service.

With ongoing enhancements to the racing program, focus on customer service and the upgrading of outlets, the Wagering Division is looking forward to further success.

### Gaming Division

In 1997/98, the Gaming Division continued to generate strong growth with a 24.8% increase in profit before interest and tax to \$146.3 million. This profit improvement was driven by a 20.8% growth in revenue to \$608.7 million and was assisted by an overall control of operating costs.

TABCORP achieved this revenue increase by working with its venue operators to grow the number of attractively themed, quality gaming venues where service is paramount and customers can enjoy the gaming experience in friendly and comfortable surroundings. Increased demand for the company's products required the introduction of 341 additional gaming machines to the Tabaret network, taking the total number of machines in the network to 13,345.

Additionally, as part of a program of continual machine upgrades and game enhancements, more than 900 older machines in the network were replaced with state-of-the-art gaming machines, the majority of which are fitted with the latest bill acceptor technology. To meet customer demand for varied games with new themes and visual features, 17 new games were introduced throughout the year.

Gaming customers enjoy spending time playing exciting games and socialising in an attractive and stimulating environment. Customer service is an essential part of overall venue and product appeal. During the year the company completed the introduction of its Venue Performance System to ensure that uniformly high standards of service and presentation are applied in all Tabaret venues.

As a part of the ongoing process of enhancing the attractiveness of venues in the network, 31 Tabaret venues were refurbished, with TABCORP employees assisting the venue operators in selecting themes and designs most suited to the demographics of the venue's particular customer base. Revenue performance in new and renovated venues continues to improve at a higher rate than the overall market.

The Gaming Division's program of replacing existing computer systems is on schedule. The new system will allow 24-hour trading across all Tabaret venues, cater for an expanded range of jackpots, and provide additional information flows for management purposes. The system, planned for full implementation in 1999, has been designed to be Year 2000 compliant.

Associated with the introduction of the new system will be the replacement by the end of 1999 of over 6,600 gaming machines.

Going forward, TABCORP will continue to achieve growth in the Gaming Division by working in partnership with its venue operators to maximise the potential of the Victorian gaming market.

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### ***Computer Systems Projects***

TABCORP's program to completely replace its wagering and gaming systems is well advanced. The utilisation of this latest technology will provide increased flexibility, additional functionality and improved operational efficiency. The new systems are designed to be Year 2000 compliant.

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### ***Benefits to Victoria***

TABCORP's venues, products, taxation contributions and strong shareholder base continue to benefit the Victorian economy.

Over the past four years, the demand for our gaming products has continued to grow. Tabaret venues, with their high level of customer service and pleasant ambience, are providing popular social gathering places in Victorian communities.

This support for our venues and products has resulted in the company's consistently strong performance, and created benefits for all Victorians. In 1997/98, TABCORP generated \$437.0 million in



gambling taxes for the Victorian Government and thereby the people of Victoria. Approximately \$1.4 billion in State gambling taxes has been paid since the company began operations in 1994.

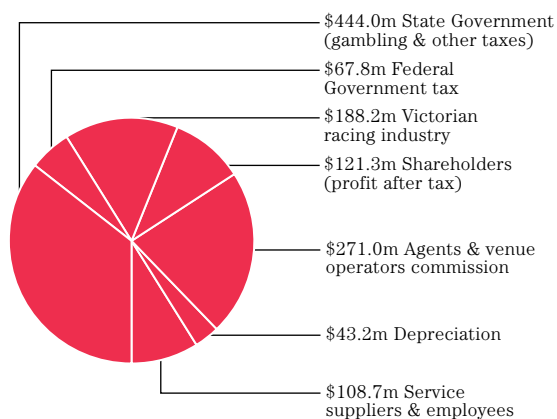
The Victorian racing industry, an important part of the State's economy and culture, has also been significantly enhanced by the funds it receives from the businesses managed by TABCORP. Since the company began operations in 1994, \$654.0 million has been generated for the Victorian racing industry.

The Victorian gambling industry employs many thousands of Victorians directly and indirectly. TABCORP employs approximately 2,300 people directly, and the revenue generated by the company's operations provides employment in wagering and gaming outlets throughout the State.



Ross Wilson  
Managing Director and  
Chief Executive Officer

**Allocation of Revenue for 1997/98**  
**Total Businesses Managed**



Source: TABCORP

TABCORP Management

**Corporate**

**I. R. Wilson**  
*Managing Director and Chief Executive Officer*

**D. J. Simpson**  
*Executive General Manager Finance  
Company Secretary (Acting)*

**P. R. Broberg**  
*Executive General Manager Information Technology*

**D. E. Elmslie**  
*Executive General Manager Development*

**R. E. Preston**  
*Executive General Manager Human Resources*

**P. K. Wunsch**  
*General Manager Corporate Affairs*

**Wagering**

**M. J. Piggott**  
*Executive General Manager Wagering*

**J. C. Powell**  
*General Manager Marketing and Sales*

**J. M. Ames**  
*General Manager Operations*

**N. R. Wheat**  
*Group Financial Manager*

**Gaming**

**A. H. Goodfellow**  
*Executive General Manager Gaming*

**P. W. FitzGerald**  
*General Manager Marketing and Sales*

**D. P. Dean**  
*General Manager Operations*

**P. V. Gulbenkian**  
*Group Financial Manager*



*'We have been with the TAB for almost 26 years. Our customers are thrilled with our new Supersite – and so are we.'*

**Brian and June Rice, Agents –**  
*TAB Supersite, Donvale*

# Super | sites



# Wagering Division

## **Review of Operations**

	<b>\$m</b>	<b>%</b>
<i>Revenue</i>	329.3	+5.6
<i>PBIT</i>	37.5	+13.1

## **Principal Activities**

TABCORP holds the exclusive licence under the Gaming and Betting Act 1994 to sell totalisator bets in Victoria on thoroughbred, harness and greyhound racing and totalisator and fixed odds bets on sporting events. These activities are conducted by the Wagering Division under the brands TAB, FootyTAB and National Sportsbet. TABCORP is also one of two operators of Club Keno under the Club Keno Act 1993.

TABCORP's wagering products are available to customers throughout Victoria in a network of retail and on-course outlets. Victorian, interstate and overseas customers also have access to the company's wagering products through telephone betting facilities.

**Results**

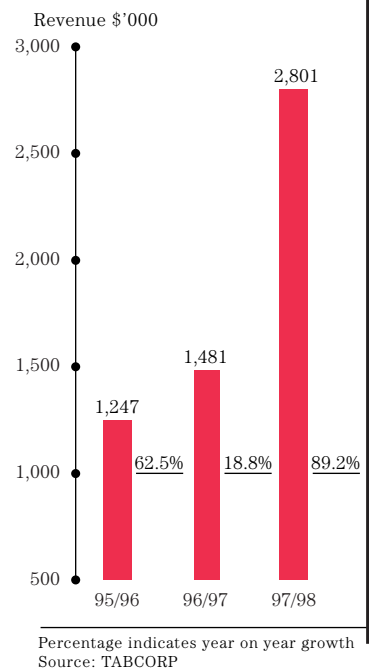
The Wagering Division generated revenue of \$329.3 million, 5.6% above last year, reflecting increases in betting on all racing codes and other sporting events. This growth comes after several years of subdued demand as wagering has been impacted by competition from other forms of entertainment and gambling. The revenue result is pleasing as it demonstrates that the Division's customer focused distribution and marketing strategies are taking effect. With the growth in revenue, and net operating expenses continuing to be well controlled, profit before interest and tax increased 13.1% to \$37.5 million. This represents the strongest financial performance of the Wagering Division since the company was listed in 1994.

**The Market**

For several years, the wagering market in Victoria has faced strong competition from other forms of entertainment. The improved revenue performance in 1997/98 indicates that marketing strategies implemented by the Victorian racing industry and TABCORP are gradually improving Wagering's competitive position in the gambling market.

Racing industry and TABCORP initiatives have focused on growing the market for racing and betting products. The expansion of Sunday racing and the introduction of night thoroughbred racing at Moonee Valley has made the product more accessible to potential customers. This has been complemented by TABCORP's construction of Supersites and refurbishment of older retail outlets. Combined with improvements to telephone betting, these actions have made placing bets more convenient.

**Sportsbet Revenue**



**Operations**

In 1997/98 the Wagering Division offered customers the opportunity to bet on 4,233 race meetings – an increase of 50 over the previous year – and a wide range of sporting events in Australia and overseas.

Thoroughbred meetings generated revenue of \$241.9 million, an increase of 5.0% on last year. This strong performance was underpinned by the 6.9% growth in wagering on Victorian thoroughbred meetings which now represents 55.9% of all thoroughbred wagering. The quality of the Victorian thoroughbred product together with additional Sunday racing, the introduction of night racing and stable weather conditions contributed to this healthy result.





*Night racing at Moonee Valley Racing Club.*

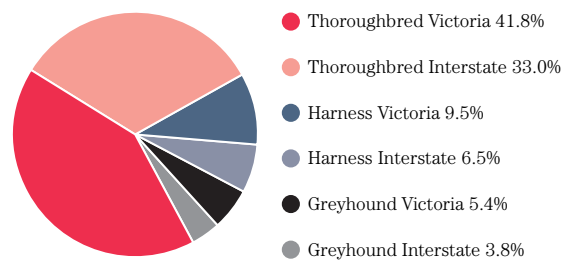
The Spring Racing Carnival produced record results, with \$48.1 million wagered on Melbourne Cup Day meetings – 30% above the previous year. A major factor in this growth was increased promotion of the Carnival, including the ‘Bet Early’ advertising campaign which helped generate wagers of \$7.5 million by Melbourne Cup Eve.

In January, the Moonee Valley Racing Club staged the first of seven night meetings. Total attendance at these meetings reached over 80,000 patrons, and customer analysis indicated the objective of attracting a ‘new’ and younger market was achieved. Sunday racing was also expanded during the year with the addition of seven metropolitan meetings.

These programs have proved successful both in terms of on-course patronage and additional wagering revenue. During 1998/99, an additional five night meetings have been planned, which will bring the total to 12 meetings.

Harness meetings generated revenue of \$51.7 million, an increase of 5.7% on last year. This result reflects increases in betting due to Harness Racing Victoria’s strategy of transferring a number of country meetings to Moonee Valley. Expanded television coverage of interstate meetings also contributed to the growth.

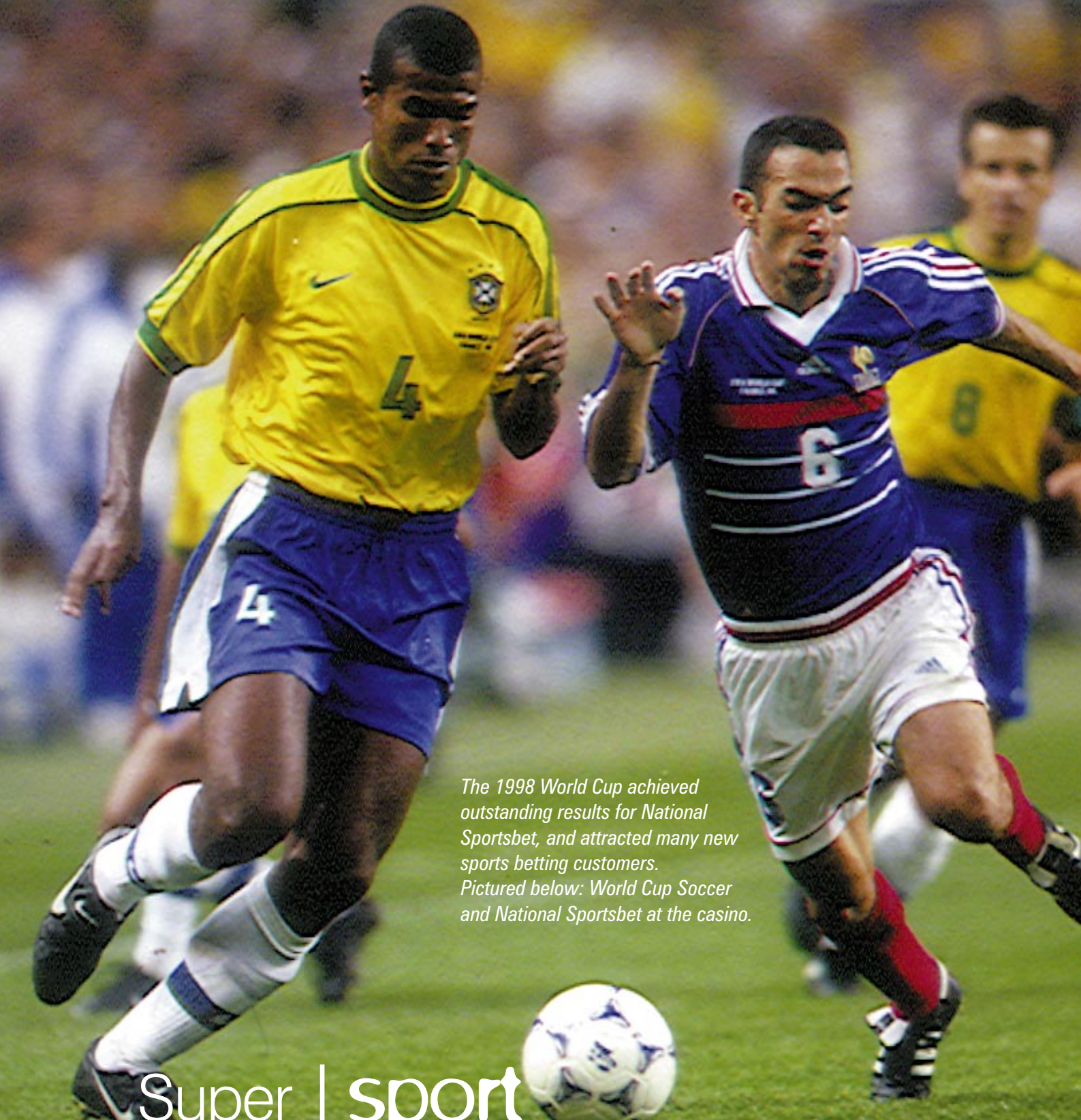
#### ***Racing Revenue by Code/Origin 1997/98***



Source: TABCORP

Greyhound meetings generated revenue of \$29.6 million, an increase of 5.9% on last year, driven primarily by the full year impact of last year’s introduction of Wednesday afternoon meetings at Sandown Park. It is anticipated that the opening of the new Broadmeadows track in early 1999 will provide a boost to wagering on greyhounds and provide an excellent venue for patrons in Melbourne’s northern and western suburbs.





*The 1998 World Cup achieved outstanding results for National Sportsbet, and attracted many new sports betting customers. Pictured below: World Cup Soccer and National Sportsbet at the casino.*

Super | sport





Turnover on National Sportsbet's fixed odds betting increased by 67.7% to \$24.5 million with revenue increasing by 89.2% to \$2.8 million. This increase has been driven by TABCORP's strategy of making fixed odds sports betting more available to sports lovers by improving distribution channels and expanding the number of betting options on a wider range of sporting events. TABCORP has also increased the advertising of events and odds in the daily press.

FootyTAB generated revenue of \$1.3 million, an increase of 10.3% over last year. The Club Keno product is showing signs of greater consumer acceptance, generating revenue of \$2.1 million.

The Wagering Division has partially completed the implementation of the new computer system BRAVO, which will improve product flexibility and operational efficiency. A transfer of on-course and telephone betting was completed prior to last year's Spring Carnival with no disruptions to customer service.

A full transfer of the retail network to BRAVO will be completed during 1999.

BETLINE, the account betting facility which enables customers to place bets using interactive voice response technology, has become increasingly popular. Customers appreciate the convenience of directly accessing their telephone betting accounts, especially when telephone betting operators are at full capacity. Trialled last year, BETLINE now represents more than 5% of account betting transactions.

### ***Distribution and Marketing***

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The retail network generated revenue of \$239.7 million, an increase of 5.2% on last year. This growth is a reflection of the changing mix and improved ambience of retail outlets.

The Wagering Division continued to implement initiatives designed to increase customer participation and attract new customers. Enhancements to the retail network were highlighted by the opening of several new pub and club TABs, refurbishment of agencies, and the introduction of Supersites.

During the year, the new innovative agency design used in our Supersites received the grand prize in the service retailer category of the USA 1998 Retail Design Awards.

Telephone betting revenue increased 10.1% to \$61.4 million, reflecting the benefits of an enhanced account management system which has improved customer service, and the increasing use of BETLINE.

On-course betting revenue decreased 0.5% to \$28.2 million. While this small decline in revenue is disappointing, the rate of decline has been significantly curtailed compared to the 5.0% and 5.1% decline in the two prior financial years. This improved performance reflects the Victorian racing industry's efforts to provide a conveniently scheduled and entertaining product at racetracks, highlighted by night racing at Moonee Valley and Sunday racing.

### ***Future Outlook***

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The financial performance of the Wagering Division in 1997/98 reflects the success of strategies undertaken in partnership between TABCORP and the Victorian racing industry since the commencement of the joint venture operations.

The strategy of providing betting on high-quality, conveniently scheduled racing and sporting events, combined with attractive and functional outlets and efficient account-based betting systems, has appealed to existing and new customers.

A continuation of this approach, together with planned wagering technology upgrades, and the introduction of racing on PAY television, will ensure wagering continues to maintain a significant presence in the Victorian gambling market.



*'Our aim is to attract customers with the best entertainment venue in the western suburbs.'*

**Proko Athanasakos, Director –**  
*The Plaza Tavern, Werribee Plaza.*

## Great | venues



# Gaming Division

## **Review of Operations**

	<b>\$m</b>	<b>%</b>
<i>Revenue</i>	608.7	+20.8
<i>PBIT</i>	146.3	+24.8

## **Principal Activities**

TABCORP's Gaming Division owns and operates gaming machines in licensed hotels and clubs in the State of Victoria. At 30 June 1998, TABCORP operated 13,345 gaming machines in 282 venues in its network under the Tabaret brand name. Tabaret venues are designed to provide a stimulating and attractive environment with a complementary mix of entertainment options and in many cases offer both gaming and wagering.

## **Results**

TABCORP's Gaming Division grew strongly in 1997/98 with profit before interest and tax up 24.8% to \$146.3 million. This result reflects revenue growth of 20.8% to \$608.7 million and continuing control of costs. The strong revenue performance was achieved through the Division's emphasis on working with venue operators to upgrade the quality and attractiveness of venues and maximise customer service.

**The Market**

The Victorian gaming machine market again grew strongly during 1997/98 with expenditure estimated to have increased from \$1.6 billion to \$1.9 billion. TABCORP's 20.8% growth in gaming machine revenue represents a significant component of the \$300 million increase.

The popularity of gaming products has seen the adult per-capita spend on electronic gaming machines in Victoria increase from \$466 in 1997 to \$554 in 1998. This is approximately 85% of the spend in the New South Wales market which is also experiencing strong growth.

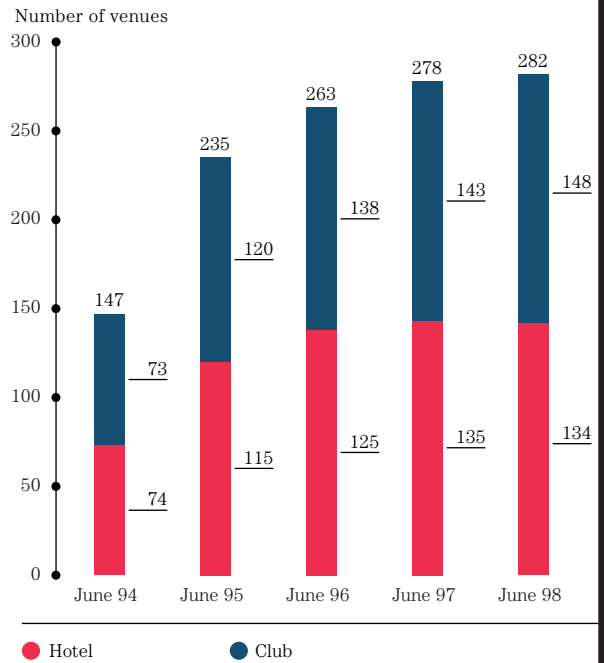
The appeal of gaming as a form of entertainment has increased rapidly and as TABCORP continues to work with venue operators to enhance its venues, products and customer service, further growth is expected.

**Business Performance**

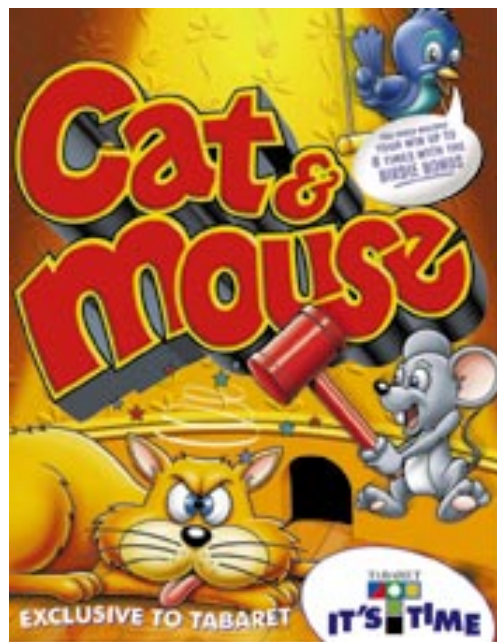
During the year, the Gaming Division added 341 machines to the network, bringing the total to 13,345 at year end.

Revenue growth of 20.8% was achieved with a growth in average machines deployed during the year of 8.1%, and was primarily driven by an increase in the number of attractively themed and well serviced venues that offer an appealing environment for our customers. The efficient utilisation of the Division's gaming machine network resulted in the average daily revenue per machine increasing by 12.7%.

**Gaming Venues – Hotels and Clubs**



Source: TABCORP



TABCORP maintains an ongoing program of game development.





*Century City Walk Tabaret, Glen Waverley – just before opening.*

In partnership with its venue operators, the Gaming Division constantly reviews the entertainment facilities offered by venues. During the year, TABCORP acquired a state-of-the-art computer-aided design facility that allows the company to assist venue operators in selecting the interior design and layout best suited to their customers. TABCORP gaming employees provided expert advice on the refurbishment of 31 Tabaret venues during 1997/98.

Customer focus is a key success factor and during the year, with the co-operation of venue operators, the Tabaret Venue Performance System (VPS) was fully implemented across all venues. The VPS – designed to apply proven retail principles to ensure consistent, high-quality customer service and venue presentation – has measurably improved customer participation and venue performance across the network.

The quality and mix of gaming product was upgraded during the year with more than 900 older gaming machines in the network being replaced with the

latest technology gaming machines. Bill acceptors maximise customer convenience and have proven extremely popular. An additional 1,017 bill acceptors were installed such that at 30 June 1998 coverage had reached 13.8% of machines in the network.

Gaming patrons enjoy playing TABCORP's games which have a variety of playing characteristics, themes, visual effects and denominations. The Division has an ongoing program of upgrading its machines with the latest exciting games and during the year new games were installed on nearly half of the network's gaming machines.

TABCORP's regular gaming customers have demonstrated that they prefer to have the opportunity of winning and sharing the excitement of a win in their favourite venue on a regular basis. Tabaret's in-venue Wild Cash Jackpots system, with small but frequently paying jackpot prizes and flexibility for tailoring to suit individual venue market requirements, has been extremely successful in appealing to this market segment.



*'We've recently refurbished our gaming room and improved our bistro facilities, with outstanding results. Five years ago we employed five people, now we have 28.'*

**Ken Hewat**, General Manager –  
*Morwell Bowling Club*

Great | clubs





During the year, the Gaming Division began implementing a single central control and monitoring system designed to replace the two existing systems. The new system is capable of catering for 24-hour trade in all venues, provides additional jackpot capability and will also reduce costs associated with the operation of two systems. Testing of the system commenced during the year and full implementation is scheduled in 1999.

In 1998/99, the Division plans to commence a major upgrade of its gaming machine base which will involve the purchase of at least 6,600 additional machines with the latest machine and game technology.

In April, TABCORP was granted one of eight licences to centrally monitor gaming machines in Queensland. The current Queensland spend-per-head on gaming is substantially below Victoria and New South Wales and with the recent deregulation of that market the company sees potential for long-term growth.

### ***Future Outlook***

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The Division will continue with its successful approach of working in partnership with its venue operators to maximise customer service and venue quality. This, in conjunction with the substantial capital program for system and machine replacements, will provide the platform for further growth.



# Community | support



Contributing to the

# Community

TABCORP believes in playing an active role in supporting the community.

In December, TABCORP became principal sponsor of Surf Life Saving Victoria with the establishment of the TABCORP Surf Rescue Fund.

The partnership will see \$820,000 injected into surf life saving in Victoria over three years. Through the Fund, 34 life saving clubs throughout Victoria are receiving essential surf life saving equipment including rescue boats, patrol shelters, rescue boards and first aid kits. The professional life guard service at 16 of the State's most popular beaches is also supported by the TABCORP Surf Rescue Fund.

The sponsorship was timely, with an estimated 2.6 million visits to Victorian beaches that were protected by surf life savers last summer, and over 1,200 rescues performed.

A number of industry-related events which encourage excellence in customer service were also sponsored throughout the year. These include the Victorian Country Racing Association Awards, the Australian Hotels Association Awards for Excellence and the Licensed Clubs Association Awards.

TABCORP is a principal sponsor of the prestigious 1998 Melbourne Festival.

TABCORP's employees gave generously of their time to several events which the company was proud to support. Fundraising activities were undertaken for The Portsea Camp, Australian Red Cross, Juvenile Diabetes, Children's Medical Research Institute and other worthwhile charities.

# Board of Directors



**M.B. Robinson LL.B.**

*(Chairman)*

Mr Robinson is the Senior Partner of the law firm Arthur Robinson & Hedderwicks and was its Managing Partner from 1980 to 1988. He is a member of the Merrill Lynch Australasia Advisory Board and also a Director of Gandel Management Limited, the Asia Society AustralAsia Centre, the Australia-Malaysia Society, The Bionic Ear Institute and the Committee for Economic Development of Australia. He is a member of the Board of Management of Epworth Hospital and of the Regional Consultative Committee of the Australian Securities and Investments Commission, Chairman of the Melbourne University Law School Foundation and President of the Institute of Public Affairs Limited. He is a member of the TABCORP Audit, Remuneration and Compliance Committees.



**I.R. Wilson B.Ec. (Hons) M. Admin**

*(Managing Director and Chief Executive Officer)*

Mr Wilson was Managing Director and Chief Executive Officer of Southcorp Holdings Limited (formerly SA Brewing Holdings Limited) from August 1987 until taking up the position as Managing Director and Chief Executive Officer of the company. He is a member of the Business Council of Australia. He is a member of the TABCORP Audit, Remuneration and Compliance Committees.



**A.G. Hodgson FCPA**

*(Deputy Chairman)*

Mr Hodgson is Senior Partner, Melbourne of the chartered accounting firm Ferrier Hodgson. He is Chairman of the TABCORP Audit Committee and Chairman of Melbourne Port Corporation. Mr Hodgson is a member of the Committee of the Moonee Valley Racing Club and the Regional Consultative Committee of the Australian Securities and Investments Commission.



**P.H. Wade FCPA**

Mr Wade was Managing Director of North Broken Hill Peko Limited until his retirement in 1993. He is Chairman of Acacia Resources Limited and a Director of CSL Limited. Mr Wade is Chairman of the TABCORP Remuneration Committee and the TABCORP Staff Superannuation Fund. He is also a member of the TABCORP Audit Committee.



**W.V. Wilson**

Mr Wilson joined the Royal Hong Kong Jockey Club in 1978 and in 1980 became its Director responsible for all betting and lottery activity. He retired from the Club in January 1994 at which time he also had responsibility for Information Technology. He is Chairman of the South Australian Lotteries Commission. Mr Wilson is also Chairman of the TABCORP Compliance Committee.

# Corporate | Governance

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TABCORP's Board of Directors strongly supports the principles of corporate governance and is committed to maintaining the highest standards and best practice within the company.

The company's policies have been further reviewed during the current year and shall continue to be developed and refined to meet the future needs of the company.

## ***Responsibilities and Functions of the Board***

The Board has overall responsibility for the corporate governance of the company. It sets the strategic direction of the company, the goals for management, reviews the plans of management and monitors the performance of management against those plans in achieving the established goals.

To assist the Board in achieving the highest standards of corporate governance, the directors closely involve themselves with the critical areas of the company's activities through the establishment of Board committees with specific responsibilities for audit, remuneration and compliance.

### **Audit Committee**

The Audit Committee has been established to provide additional assurance regarding the quality and reliability of financial information used by the Board and financial statements issued by the company to its shareholders. The committee reviews the activities of the Internal Audit Group and liaises with the company's external auditors, both of whom have direct access to the committee Chairman, and oversees compliance with statutory responsibilities relating to financial disclosure including related party transactions. The committee also reviews the performance of the auditors on an annual basis.

The Audit Committee reviews the risk management policies and processes of the company including the appropriate documentation. Working closely with the Compliance Committee, it also reviews the risk exposures and controls with respect to existing information technology systems and those under development.

Currently, in conjunction with the Compliance Committee, the Audit Committee also monitors and reviews the status of the company's Year 2000 compliance project.

The Audit Committee consists of Messrs. A.G. Hodgson (Chairman), M.B. Robinson, I.R. Wilson and P.H. Wade.

### **Compliance Committee**

The Compliance Committee is responsible for monitoring legal and procedural requirements to ensure that the company complies with its licence conditions. The committee places particular emphasis on monitoring procedures which are designed to support the reliability and integrity of the company's gaming and wagering systems and the review of information technology development projects.

The Compliance Committee consists of Messrs. W.V. Wilson (Chairman), M.B. Robinson and I.R. Wilson.

### **Remuneration Committee**

The Remuneration Committee has responsibility to review and make recommendations to the Board on remuneration packages and policies applicable to the Chief Executive Officer, senior executives and directors. This role also includes responsibility for employee share ownership and option schemes, incentive performance packages, superannuation, retirement and termination entitlements.



TABCORP's remuneration philosophy comprises a market-competitive base salary and fringe benefits as designated, a performance-based incentive plan which provides a payment based on achievement of budgeted targets, and a long-term incentive plan based on an allocation of shares subject to performance criteria and Board approval.

The base salary component of remuneration is reviewed annually taking into account market movements, based on an assessment of individual and company performance. Payments made under the short-term incentive plan are dependent upon individual and company performance. In addition, senior executives are encouraged to participate in the long-term incentive plan which provides an annual allocation of shares at prevailing market prices. Annual allocation of shares under the long-term incentive plan is subject to Board approval, and also dependent upon individual and company performance.

The Remuneration Committee consists of Messrs. P.H. Wade (Chairman), M.B. Robinson and I.R. Wilson.

### ***Composition of the Board***

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The Board currently consists of five members of whom four including the Chairman are non-executive directors.

From time to time as the company grows and its field of activities expands, it may be appropriate to expand the number of directors and take on expertise in additional relevant disciplines whilst maintaining the present appropriate mix of non-executive and executive directors to ensure the independence of the Board from management. Maintenance of the appropriate mix of skills and experience upon the Board is the subject of ongoing review by the directors.

In light of the company having commenced operations in August 1994, and the size of the current Board, nominations to the Board are considered by the Board as a whole rather than delegating this task to a nomination committee. Details of the current directors and their qualifications and experience are contained within the Directors' Report.

The company's articles of association require that one-third of the directors of the company, other than a director who is a Managing Director, retire by rotation and may stand for re-election at each Annual General Meeting of the company.

The company's shareholders have approved retirement benefits being made available to all non-executive directors of the company, such approval also being effective in respect of future non-executive director appointments to the Board.

### **Independent Professional Advice**

An individual director who has concern with respect to a particular matter before the Board may, after discussion with the Chairman, advised to the Managing Director and Chief Executive Officer, obtain independent professional advice at the company's expense.

### ***Internal Control Framework***

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The Board is responsible for the establishment and maintenance of the internal control structure of the company but acknowledges that within cost-effective parameters, errors and irregularities cannot be eliminated in their entirety.

Financial reporting is primarily in the form of the development of a detailed annual budget which is subject to the approval of the directors. Actual monthly and year to date results for the company as a whole and for each of its business divisions are reported to the Board to enable it to monitor performance against the pre-approved budget.



Forecasts for the company and each of the operating divisions are regularly updated and reported to the Board.

The company reports to shareholders both half-yearly and annually.

Procedures are in place to ensure that information is reported to the Australian Stock Exchange in accordance with the continuous disclosure requirements of its Listing Rules. The Board reviews the company's compliance with its continuous disclosure obligations at each of its meetings.

Significant additional financial controls and procedures, including information system controls, have been developed since the commencement of the operations of the company in August 1994 and are continuing to be developed as the company's operations expand. The company's new finance computer system was implemented on 1 May 1998 and is designed to be Year 2000 compliant.

Compliance with key regulatory requirements particular to the company's licences and the businesses conducted pursuant to those licences are the subject of specific reporting to the Board's Compliance Committee.

The company has detailed procedural guidelines for the approval of capital expenditure including annual budgeting, review and approval of individual proposals and specific levels of authority between the Managing Director and the Board.

The company maintains a field audit program of its retail wagering outlets. This risk analysis-based program is carried out by audit staff reporting directly to the Group Financial Manager – Wagering.

A detailed set of guidelines relating to the investment of surplus cash has been established by management and approved by the Board.

### **Internal Audit**

The company's internal audit function is conducted under contract by chartered accountants KPMG. The annual internal audit program and the scope of work to be performed is set in consultation with the Audit Committee of the Board. The internal auditors submit regular reports to the Audit Committee, Compliance Committee and, where appropriate, to the Board itself.

### **Management of Risk**

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The company's current operations are conducted within Victoria pursuant to the wagering and gaming licences issued to it by the Victorian Government under the Gaming and Betting Act 1994.

The company has in place a range of policies and procedures designed in part to manage the risk associated with those operations. Those policies and procedures are and will be further developed as the company's existing operations develop and its range of activities expands. As part of this process, the company has introduced a program of risk management workshops throughout its business and corporate groups.

The implementation of these policies and procedures is monitored by the Audit and Compliance Committees of the Board.

In particular, the company has put in place procedures to ensure close cooperation with the Victorian Casino and Gaming Authority and compliance with its requirements in its role as the regulatory authority with respect to each of the company's businesses.

The company has in place a detailed policy for the management of liability risk in respect of its expanding fixed odds sports betting operation.

### ***Ethical Standards***

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The company's policies as to the conduct and integrity of its personnel including the maintenance of ethical standards are set out in a Human Resources Policy Manual.

Certain of the company's key personnel and each of its directors have undergone extensive probity investigation by the Victorian Casino and Gaming Authority.

The company has established a comprehensive policy and guidelines for its staff, agents and venue operators with respect to their use of the company's gambling products.

The company has adopted a policy which regulates the sale or purchase of shares in the company by directors and executive officers. Under the policy, each director is required to obtain the approval of the Chairman prior to the sale or purchase by that director of shares in the company. In the case of a proposed transaction by the Chairman, approval is required from the Deputy Chairman. Executive officers are required to obtain the prior approval of the Chief Executive Officer to a proposed transaction. Where any such approval is given, it is forthwith disclosed to the full Board. It is intended that a broad interpretation be given to this policy and accordingly transactions by a director or an executive officer include transactions by any person or entity which might in the circumstances be reasonably associated with the director or executive officer eg. spouse, infant children, family trust or family company.

### ***Role of Shareholders***

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It is the Board's intention that shareholders are informed of major developments affecting the company. This information is communicated to shareholders typically twice yearly in the form of the Half-Yearly Report and Annual Report, each of which is distributed to all shareholders unless the shareholder has specifically requested not to receive the document.

The Half-Yearly Report contains a summary of the key financial information and a review of the operations of the company during the half-year in respect of which the report is made. Half-year financial statements prepared in accordance with the requirements of accounting standards and the Corporations Law are subjected to an audit review and are lodged with the Australian Securities and Investments Commission and the Australian Stock Exchange.

The Annual Report includes relevant information about the operations of the company during the year, changes in the state of affairs of the company and details of future developments in addition to a number of other disclosures required under the Corporations Law. The Annual Report contains a complete set of the audited financial statements required under the Corporations Law.

The company encourages the full participation of shareholders at its Annual General Meeting. Important issues are presented to shareholders as single resolutions and full discussion of each item is encouraged. Explanatory memorandums, where considered appropriate, are included with the Notice of Annual General Meeting in respect of items to be voted on at the meeting.