

TABCORP Holdings Limited Annual Report 1999



Five years of change and growth

Five years of change and growth



5

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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 Wednesday, 10 November 1999 at 10.00 am. A notice of meeting and proxy form is included with this Annual Report.

TABCORP Holdings Limited ACN 063 780 709.

Over the past five years,
TABCORP has grown and
developed to become
one of Australia's leading
leisure and entertainment
companies.

We are moving forward.

LO

- Profit after tax \$63.4 million (for 10.5 months of operation)
- Total dividend for the year of 14.5 cents
- Dividend payout ratio 60.2%
- Number of gaming machines at year end – 10,045
- TABCORP successfully floated

1

1995

- Profit after tax \$87.2 million
- Total dividend for the year 31 cents
- Dividend payout ratio 107.2%
- Number of gaming machines at year end – 11,734
- Development of new computer systems begins

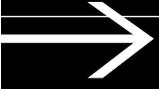
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1996

- Profit after tax \$100.8 million
- Total dividend for the year 35.0 cents
- Dividend payout ratio 105.1%
- Number of gaming machines at year end – 13,004
- 'New look' TAB outlets introduced

3

1997



LOOK

at us now!

- Profit after tax \$121.3 million
- Total dividend for the year 38.0 cents
- Dividend payout ratio 95.0%
- Number of gaming machines at year end – 13,345
- Tabaret Venue Performance System implemented across the gaming network

4

1998

5

1999

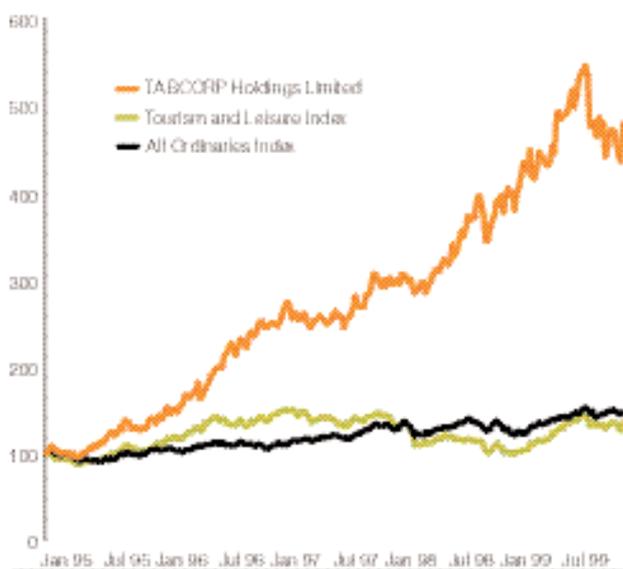
highlights

- Profit after tax \$143.3 million – up 18.2%
- Revenue \$1,066.2 million – up 13.7%
- Final normal dividend of 16 cents per share fully franked, taking the full year normal dividend to 31 cents – up from 27 cents last year
- Special dividend of 12 cents per share fully franked, taking the total for the year to 43 cents, up from 38 cents last year
- The company paid a return of capital of \$100.4 million, representing 33 cents per ordinary fully paid share, on 12 January 1999
- Earnings per share 47.1 cents – up 17.8%
- Wagering PBIT \$43.7 million – up 16.7%
- Gaming PBIT \$176.4 million – up 20.6%
- State gambling taxes contributed by TABCORP businesses \$499.6 million – up 14.3%
- Revenue generated for the Victorian racing industry \$211.1 million – up 12.1%
- Replacement of wagering and gaming systems
- Offer to merge with Star City announced on 16 April 1999

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 share performance

Constant Base: 100



Source: Australian Stock Exchange

Wagering and gaming are TABCORP's core activities. Through its wagering business, TABCORP offers pari-mutuel and fixed odds betting on a wide range of sporting events, including thoroughbred, harness and greyhound racing as well as Australian Rules football, golf, soccer and rugby.

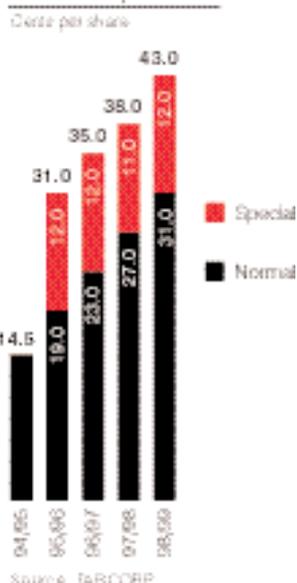
Through its gaming business, TABCORP provides entertainment in hotels and licensed clubs throughout Victoria, under the Tabaret brand. Tabaret venues offer a selection of leisure and entertainment products in attractive, comfortable and contemporary surroundings. The offering includes quality affordable meals and the latest exciting games on state-of-the-art gaming machines.

Earnings per share



Source: TABCORP

Dividends per share



Source: TABCORP

Return on shareholders funds



Source: TABCORP

5 years in review

Financial Summary for year ending 30 June

	1999	1998	1997	1996	1995
	\$'000	\$'000	\$'000	\$'000	(10.5 months) \$'000
Wagering and Gaming revenue	1,066,165	937,953	815,610	733,663	556,977
EBITDA	254,748	216,313	178,832	154,005	107,087
EBIT	220,135	183,753	150,345	129,309	90,284
Operating profit after income tax	143,341	121,317	100,761	87,170	63,433
Dividend	130,884	115,378	106,160	93,553	43,578
Cash and deposits	84,816	141,660	111,454	110,629	86,841
Other current assets	9,958	7,185	4,853	4,340	8,497
Licences	597,472	597,490	597,240	597,240	597,240
Other non-current assets	199,396	147,911	152,202	155,200	144,452
Total assets	891,642	894,246	865,749	867,409	837,030
Current borrowings	38,000	-	-	-	-
Other current liabilities	211,412	171,848	156,076	157,428	123,421
Non-current liabilities	15,027	14,825	13,663	15,552	15,858
Total liabilities	264,439	186,673	169,739	172,980	139,279
Shareholders' funds	627,203	707,573	696,010	694,429	697,751
Capital expenditure	97,101	39,232	34,637	41,079	34,574
Earnings per share (cents)	47.1	40.0	33.3	28.9	24.1
Dividend per share (cents)	43.0	38.0	35.0	31.0	14.5
Return on shareholders' funds (% per annum)	21.5	17.3	14.5	12.5	10.5
Net assets per share (\$)	2.06	2.33	2.30	2.30	2.32



Chairman's Report

1998/99 was a milestone year for TABCORP, marking five years since the company was floated on the Australian Stock Exchange. Since the float, the company has been transformed into a modern, successful, top-50 Australian company which provides leisure and entertainment products which are in high demand throughout the community. During this time, the company has increased profit consistently and achieved its goals for increasing shareholder value.

TABCORP's profit after tax has grown from \$63.4 million in its first 10.5 months of operation to \$143.3 million in 1998/99, representing a compound per annum increase of 22.6%. The most recent strong performance represents an 18.2% increase on last year's profit of \$121.3 million and has enabled the directors to continue their policy of increasing dividend payments to shareholders. A fully franked final normal dividend of 16 cents per share has been declared, bringing the full year normal dividend to 31 cents per share, up from 27 cents per share last year.

A special dividend of 12 cents has also been declared, taking the total dividend for the year to 43 cents, compared to 38 cents last year. The company listed in August 1994 at a price of \$2.25 per share and subsequent distributions to shareholders have totalled \$1.945 per share, including a \$0.33 return of capital in January 1999.

Since listing, TABCORP has provided superior returns to shareholders both on an annual and a five year cumulative basis. TABCORP's share price increased 23.4% over the year to 30 June 1999 to \$10.18, with the company's market capitalisation totalling \$3.1 billion at that date. Assuming reinvestment of dividends, \$1,000 invested in TABCORP at the time of its float would have grown to \$6,166 as at 30 June 1999. This is a compound annual growth rate of 43.9%. Over the same period, the ASX All Ordinaries Accumulation Index grew 11.2% per annum.

TABCORP is a major corporation that is largely Australian-owned, with Australian institutions and individuals accounting for approximately 75% of its issued capital. As at 30 June 1999, TABCORP had over 40,000 shareholders. The company also provides significant benefits to the community in the form of its leisure products and economic and charitable contributions.

TABCORP's strategic approach of focussing on meeting customer preferences has resulted in a transformation of the leisure opportunities available for Victorians. A large number of hotels and clubs offering Tabaret gaming products have been either newly constructed or refurbished and now provide opportunities for leisure and social interaction that did not exist prior to the introduction of gaming. In addition, TABCORP is taking a progressive approach to the presentation of its wagering outlets with

State Government gambling taxes contributed by TABCORP businesses



Payments to racing industry by TABCORP businesses



the introduction of light, modern and comfortable outlets which appeal to a wider cross section of the community.

The result is that most adults in Victoria can, and do, enjoy one or more of our numerous products at some stage during the year. This participation, in turn, generates significant benefits in both employment and in state taxes which help provide essential services and facilities such as health services, roads and schools.

Community Contribution

During the year, businesses managed by TABCORP paid almost \$500 million in gambling taxes to the Victorian Government, an increase of 14.3%. This included a payment of \$52.5 million to the Community Support Fund, which supports the arts, sport and recreation projects. It also funds gambling research and problem gambling counselling services in Victoria.

The company also supported a number of charities and non-profit events throughout the year. At the prestigious Melbourne Festival in October 1998, TABCORP was the major sponsor of 'Chromolithe', a spectacular laser lighting display of Flinders Street station. During the second year of TABCORP's principal sponsorship, Surf Life Saving Victoria has reduced the coastal drowning toll and substantially reduced also the number of rescues required. TABCORP's sponsorship helps provide essential rescue equipment to surf clubs throughout Victoria, and supports professional lifeguard services on beaches.

The growing popularity of TABCORP products also has provided substantial benefit to the Victorian racing industry, which is one of Victoria's largest employers. During 1998/99, businesses managed by TABCORP generated \$211.1 million for the industry, which has, in turn, used these funds to provide support to breeders, trainers and owners, to enhance the racing program and to introduce marketing strategies and facilities designed to attract new customers.

Star City

In April 1999, TABCORP announced a proposal to merge with Star City Holdings Limited, the operator of Star City casino in Sydney pursuant to a takeover scheme. Among other conditions, this proposal is subject to the approval of the New South Wales Casino Control Authority and the acceptance of Star City's shareholders.

If successful, the merger will transform TABCORP into one of the world's major gaming and leisure companies, with an expected market capitalisation in excess of \$4 billion. It will be a significant geographic diversification and a strategic move into the casino, hotel and hospitality industry. The merged company will offer a wide range of leisure and gaming products encompassing over 15,000 gaming machines, over 600 wagering outlets, 491 hotel rooms and apartments, seven restaurants and employ in excess of 6,000 people. Furthermore, the merged company will have enhanced financial strength and scope for long-term growth.

Upon completion of the merger, if TABCORP acquires all of the shares in Star City, three Board seats will be offered to current members of Star City's Board of Directors.

Mr Philip Satre, who is Chairman and CEO of US-based casino company Harrah's, has agreed to be one of those new directors. This association with Harrah's – which is one of the largest casino operators in the world with over 18 major US properties – will be of ongoing benefit to all of TABCORP's operations.

Company Administration

Mr David Simpson was appointed as an executive director to the TABCORP board in February 1999. He continues in his current role for TABCORP, a position he has held since March 1995. During this time, Mr Simpson has made a significant contribution to TABCORP's development.

In September 1998, Mr Peter Caillard joined TABCORP as General Counsel and Company Secretary.

Conclusion

TABCORP's achievements in its first five years of operation have been significant. It has integrated and fully modernised the wagering and gaming businesses acquired from the government owned Victorian Totalizator Agency Board and grown to be a major Australian corporation. It has provided superior returns to its shareholders and, with the Star City merger proposal, is in the process of achieving significant business transformation and geographic diversification. The company is well positioned to maximise existing opportunities and to pursue further growth.

1998/99 was an exciting and challenging year. On behalf of the Board, I would like to thank all TABCORP employees for their enthusiasm and support, which has ultimately been the main contributor to our success.

Michael Robinson
Chairman



Managing Director's Report

Performance

1998/99 represented the fifth successive year of strong growth for TABCORP since its formation and float in 1994. Profit after tax for the year increased by 18.2% to \$143.3 million, while revenues increased 13.7% over the previous year to \$1,066.2 million. This latest result has been driven by a continuation of the company's strategic focus on providing our customers with modern, attractive venues and facilities and optimum customer service.

Earnings per share for 1998/99 increased 17.8% from 40.0 cents the previous year to 47.1 cents.

The Gaming Division recorded another excellent result, increasing revenue by 17.2% to \$713.2 million and profit before interest and tax by 20.6% to \$176.4 million. Gaming is relatively new to Victoria and the five years of strong growth achieved by the Division since the company's float are testimony to its efforts in developing this young industry.

The Wagering Division achieved its second successive year of growth, with revenue increasing 7.2% to \$353.0 million and profit before interest and tax increasing 16.7% to \$43.7 million. This is a strong performance after several years of low revenue growth and reflects the sustained efforts of Wagering Division employees and the extent of the ongoing co-operation of the company with the Victorian racing industry.

TABCORP's proposal to merge with Star City represents a major move forward for the company. Star City casino is the premier entertainment facility in Sydney, Australia's most populated city and its major tourist destination. This is an important development for TABCORP which will provide the company with an enhanced platform for future growth and the potential for enhanced shareholder returns. The merged company will have a complementary mix of wagering, hotel and club gaming, casino and hospitality activities.

Five Years of Achievement

Since the company's formation and float in 1994, TABCORP has achieved a compound annual growth in profit after tax of 22.6% and has achieved substantial returns for shareholders who invested in the company's float.

Since 1994, there have been a number of significant financial and business achievements, which are a reflection of the dedication and enthusiasm of our employees, many of whom were previously employed by the Victorian Totalizator Agency Board.

In particular, these include:

- a shifting of business focus from the provision of 'gambling' to providing customers with an overall leisure experience;
- the privatisation of the previously government owned businesses;
- the transformation from outdated technology to the latest in wagering, gaming and management information systems;
- developing the skills of employees and fostering a progressive culture;
- working with key participants in the Victorian gaming machine industry to develop and implement Australia's first Gaming Machine Industry Accord and Codes of Practice.

The Market

Trends in Australian society towards increased availability of leisure time and the tendency for Australians to allocate a higher proportion of their discretionary income to entertainment continues to underpin strong rates of growth in Australian and Victorian gambling markets.

Australia-wide, expenditure on gambling is estimated to have grown by 9.8% to \$12.5 billion in 1998/99 and the Victorian gambling market is estimated to have increased by 7.5% over the same period to \$3.5 billion.

Within the Victorian market, expenditure on gaming machines grew by 12.8% over last year, even though there was only a marginal increase in gaming machines due to the cap on machine numbers that has been imposed by the Victorian Government. This growth in expenditure on gaming has been primarily driven through the increasing number of hotels and clubs that provide a quality customer entertainment experience. TABCORP's research indicates that there is substantial scope for further growth in the Victorian gaming machine market through a continuation of the process of upgrading venues.

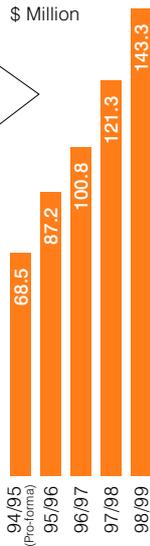
Wagering Division

In 1998/99, the Wagering Division achieved an increase in profit before interest and tax of 16.7% to \$43.7 million, an excellent performance which exceeded the 13.1% growth in profit achieved in the previous year. This profit result was achieved through a continuing focus on cost control and strong revenue growth of 7.2% for the year. This is the second successive year of strong revenue growth, and following several years of low growth is confirmation of the Division's strategy.

Despite strong competition in recent years from alternative gambling and leisure products, the Wagering Division has demonstrated that revenue and profit growth is achievable. The Division has recorded an 11.1% compound increase in profit before interest and tax over the five year period to 30 June 1999. Over this period, the Division has carried out a comprehensive program of working with the Victorian racing industry to improve the racing program and has also progressively upgraded its outlets, refined its betting products and improved betting technology.

Profit after tax

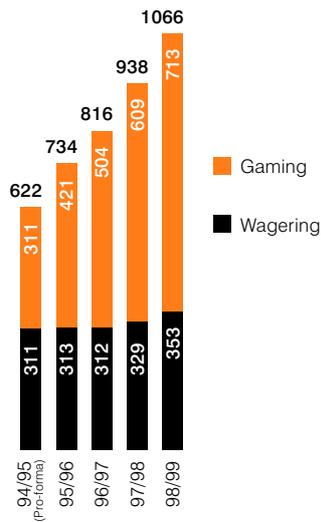
\$ Million



Source: TABCORP

TABCORP Wagering and Gaming revenue

\$ Million



Source: TABCORP

In recent years, TABCORP and the racing industry have focussed on presenting the racing product to customers at times which are most convenient to them through the introduction of night and Sunday racing. In 1998/99, this approach was extended to twilight racing, with a number of Victorian and interstate greyhound meetings being repositioned to the twilight time period and covered by Sky Channel. This resulted in a 42.5% increase in betting on greyhound racing, which has been a significant contributor to this year's revenue growth.

Telephone betting as a medium of distribution continues to be of increasing importance to the company. Revenue from betting via telephone increased by 22.2% over the previous year. The introduction of racing to Pay TV during the year has brought racing to a wider 'at home' audience and contributed to growth in telephone betting. A higher proportion of telephone betting transactions were placed through BETLINE, the company's interactive voice response betting service, reflecting increasing customer demand for the speed and convenience offered by this service. BETLINE's capacity will be further expanded before the 1999 Spring Racing Carnival.

Our retail network of agencies and PubTABs performed well, with a 4.9% increase in revenue over 1997/98. Contributing to the popularity and overall performance of these outlets was the Division's outlet refurbishment program, with 31 agencies and PubTABs being refurbished during the year.

The Spring Racing Carnival was again extremely successful, with feature races achieving record turnover. Carnival turnover increased 6.8% on the previous year, and on Melbourne Cup day a record \$48.8 million in turnover was achieved.

The Division is taking a national approach to the conduct of sportsbetting and in August 1999 reached agreement to conduct a joint fixed odds sportsbetting service with TABs in Queensland and Tasmania. To reflect this co-operative approach, the product has been rebranded TAB Sportsbet.

The critical task of developing a new wagering system to replace the technically obsolete system inherited in 1994 has been under way for the past three years. The final and most complex stage of this program, being the transfer of retail outlets to the system, was completed in September 1999. With the new system in place, the wagering business is now well positioned to expand its customer base, further refine its product range and seek new markets.

Gaming Division

In 1998/99, the Gaming Division achieved an increase in profit before interest and tax of 20.6% to \$176.4 million. This growth was driven by a 17.2% increase in revenue to \$713.2 million.

The Gaming Division has now recorded five successive years of strong revenue and profit growth.

When TABCORP acquired the gaming business in 1994, our research on customers and the nature of the gaming product indicated that gaming is a total leisure experience incorporating the venue facilities, social interaction, customer service and exciting products.

These findings formed the basis for the strategies which we have employed over the past five year period to successfully develop this market.

In 1998/99, the Gaming Division continued its programs of product and venue enhancement, ensuring that TABCORP venues offer the most up-to-date gaming machines in attractive high-quality venues.

The Venue Performance System (VPS), the program for marketing and benchmarking overall venue quality, is now in its second year of operation. During 1998/99, staff continued to work together with venue operators to drive improvements in venue presentation and customer service.

Development of new, and refurbishment of existing, venues continues to be the strategy for obtaining greater utilisation of gaming machines. During the year, 42 venues were refurbished with the assistance of TABCORP's expert staff and computerised venue design program. For the year, the Division achieved a 17.2% increase in revenue, while at the same time machines in the network increased by only 2.6%.

The Division continued its program for upgrading its machine network to provide customers with the latest in machine and game technology. During the year, over 4,000 ageing machines were replaced and several new and exciting games were introduced to the marketplace. Since 1994, the Division has operated two gaming machine monitoring systems with ageing and difficult to support software and hardware. For the last two years, the company has been undertaking the implementation of a single, modern and efficient system. As at 30 June 1999, over 70% of the machines in the network were connected to the new system. All remaining machines will be transferred by December 1999.

The Gaming Division, with this new system and a network of predominantly new gaming machines, is well positioned to improve operating efficiencies and continue its record of growth. The program of upgrading of venues has considerable further scope and will continue to drive performance.

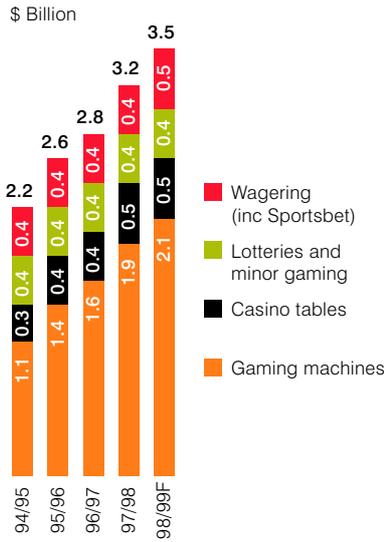
Computer Systems Projects

TABCORP's transition to new operating systems in wagering, gaming and financial management has been in progress over the last three years and will shortly be completed. When fully installed by December 1999, TABCORP will have completely new and more efficient systems with improved security, full business recovery capabilities and the capacity to provide enhanced service to our customers. The new systems are designed to be Year 2000 compliant.

Allocation of revenue for 1998/99
total businesses managed

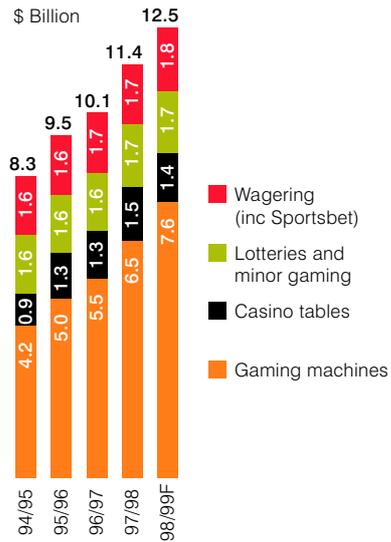


Victorian gambling market



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

Australian gambling market



Source: TABCORP internal estimates

Benefits to Victoria

TABCORP's gaming venues and wagering outlets offer modern leisure facilities in communities throughout regional and metropolitan Victoria and provide significant enjoyment to our customers, who represent a majority of Victorians. Apart from the intangible benefit derived from our products, all Victorians benefit substantially from TABCORP's businesses as a result of taxes paid, employment created and business generated for suppliers. Nearly \$2 billion in Victorian gambling taxes have been paid over the last five years.

The Victorian racing industry, which is an important component of the Victorian economy, has also received a total of \$865 million from TABCORP's businesses since 1994.

Conclusion

1998/99 has been an excellent year for TABCORP, representing the culmination of five exciting years of growth. During this time, TABCORP has met its financial goals while also achieving a complete transformation of the enterprise. With its existing strong businesses and prospects arising from the proposed merger with Star City, the company looks forward to further success.

Ross Wilson
Managing Director and
Chief Executive Officer

TABCORP

Management

Corporate

I.R. Wilson
Managing Director and Chief Executive Officer

D.J. Simpson
Finance Director

P.R. Broberg
Executive General Manager Information Technology

D.E. Elmslie
Executive General Manager Development

R.E. Preston
Executive General Manager Human Resources

P.H. Caillard
General Counsel and Company Secretary

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

P.C. Hassall
General Manager Operations

P.V. Gulbenkian
Group Financial Manager

Wagering

Division →

TABCORP's Wagering Division offers pari-mutuel and fixed odds betting on a wide range of sporting events, including thoroughbred, harness and greyhound racing as well as Australian Rules football, golf, soccer and rugby.



highlights

- Revenue \$353.0 million – up 7.2%
- Profit before interest and tax \$43.7 million – up 16.7%



Principal Activities

TABCORP holds the exclusive licence under the *Gaming and Betting Act 1994* to sell totalizator bets in Victoria on thoroughbred, harness and greyhound racing in Australia and New Zealand. It also sells totalizator and fixed odds bets on sporting events. The Wagering Division conducts these activities under the brands TAB, FootyTAB and TAB Sportsbet (formerly National Sportsbet). TABCORP is 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 can also access the company's wagering products through its telephone betting facilities.

Results

During 1998/99, the Wagering Division generated revenue of \$353.0 million, an increase of 7.2% on the previous year. This is the Division's highest annual revenue growth since the company listed in 1994 and is a continuation of the Division's strong performance in 1997/98. The result demonstrates that TABCORP's customer-focussed strategies are producing the desired outcomes.

The Division's increased revenue is a direct result of initiatives taken with respect to product distribution and marketing, and in particular the introduction of twilight racing and presentation of racing on Pay TV, which commenced in September 1998.

Revenue growth, combined with effective cost control, resulted in a profit before interest and tax of \$43.7 million, a 16.7% increase on last year, making 1998/99 a milestone year for the Wagering Division.

The Market

The Division's 1998/99 revenue performance confirms the gradual resurgence of wagering products, despite continued strong competition in the gambling sector of Victoria's entertainment market.

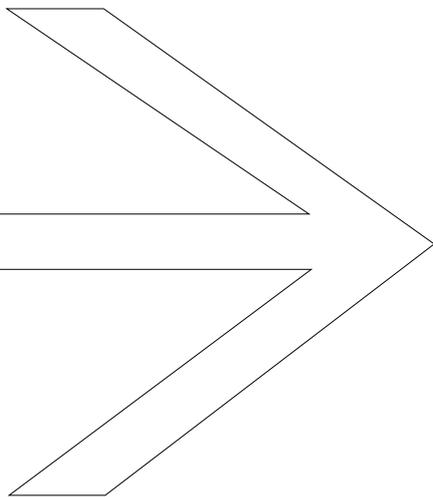
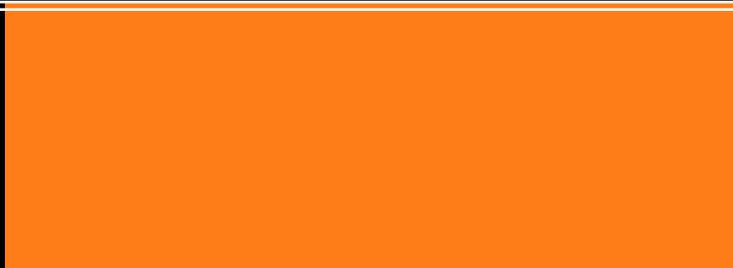
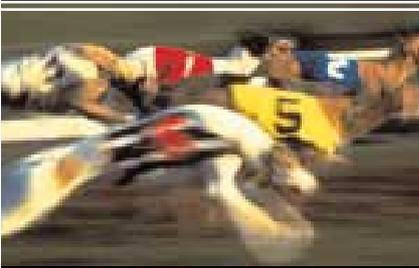
Growth has been assisted by introducing a twilight racing program, primarily for Victorian and interstate greyhound meetings. The greyhound betting product and twilight time combination has had particular appeal to customers and was evident in the expanding PubTAB network, which helped total betting on greyhounds increase by 42.4% over the previous year. Presenting racing on Pay TV has also driven significant growth in home telephone betting on all racing products. The ongoing program of upgrading retail outlets continues to broaden our customer base.

Racing revenue by code/origin 1998/99



Source: TABCORP





TABCORP is confident its wagering business will grow further as:

- Pay TV penetration increases throughout Victoria, exposing more people to racing products;
- the Wagering Division continues enhancing and expanding its distribution channels to provide more convenient and easier access;
- the Victorian racing industry continues its programs for overall improvement of racetracks, racing events and promotion of the sport.

Operations

During 1998/99, Wagering Division customers were able to bet on 4,764 race meetings as well as Australian and international sporting events. Some 266 million bets were placed on race meetings during 1998/99, a 3.5% increase on last year.

Thoroughbred meetings generated \$250.1 million in revenue, a 3.4% increase on the previous year. This growth was mainly due to a successful Spring Racing Carnival, which generated revenue of \$73.1 million, an 8.3% increase on the previous year.

The Moonee Valley Racing Club's night meetings continued to attract large crowds, especially when a feature race was presented. The plan to add a night meeting from Canterbury, New South Wales, next year is indicative of the night racing program's continued success.

Greater quantity and improved quality of interstate racing product, despite a large number of abandonments in New South Wales early in the year, contributed to the growth in revenue from betting on thoroughbred racing.

Harness meetings generated revenue of \$54.0 million, a 4.5% increase on last year, mostly related to betting on New South Wales and Queensland meetings with Pay TV coverage on Friday and Saturday nights. This growth was achieved despite the closure of Moonee Valley harness track for five weeks in April and May 1999 for major track upgrade works.

Greyhound meetings generated revenue of \$42.1 million, a 42.5% increase on the previous year. This impressive growth was primarily a result of the rescheduling of Victorian provincial meetings from evening to twilight, with Sky Channel coverage providing increased exposure.

Distribution and Marketing

The retail network generated \$251.4 million in revenue, a 4.9% increase on the previous year. This growth is a reflection of the enhancements made to a number of our agencies and PubTABs, and is particularly encouraging given the increasing level of home betting during the year driven by the introduction of racing to Pay TV.

During the year, total outlets reached 618, of which 415 were PubTABs. Significant restructuring and refurbishments of agencies and PubTABs over the past few years has created outlets which meet customer needs for information and convenience within a comfortable environment. TABCORP intends further pursuing this strategy, with over 20 TAB outlets identified for major upgrades during the coming year.

Demand for account and home betting continued to increase. Telephone betting revenue grew 22.2% to \$75.0 million, reflecting the impact of the presentation of racing on Pay TV. Use of BETLINE, the interactive voice response system, grew by more than 100%, and access to more lines will be added prior to the 1999 Spring Racing Carnival.

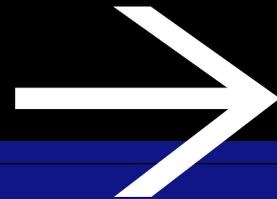
Outlook

The Wagering Division moves forward in its strongest position for many years. The Victorian racing industry has the financial strength to provide a premium product. The wagering systems and distribution infrastructure TABCORP inherited at the time of privatisation have been significantly improved.

Over the past two years, the Wagering Division has revitalised its product, distribution channels and outlets, laying the foundation for ongoing success.

Gaming

Division



Under the Tabaret brand, the gaming business provides entertainment in hotels and licensed clubs throughout Victoria. Tabaret venues offer a selection of leisure and entertainment products in attractive, comfortable and contemporary surroundings. The offering includes quality affordable meals and the latest exciting games on state-of-the-art machines.



highlights

- Revenue \$713.2 million – up 17.2%
- Profit before interest and tax \$176.4 million – up 20.6%



Principal Activities

TABCORP's Gaming Division owns and operates gaming machines in licensed hotels and clubs, primarily in Victoria. At 30 June 1999, TABCORP operated 13,690 gaming machines in 278 venues in its Victorian network under the Tabaret brand, and owns or monitors 622 gaming machines in Queensland. Tabaret venues provide an appealing and comfortable environment offering an assortment of entertainment options, including in many cases wagering as well as gaming facilities.

Results

In 1998/99, the Gaming Division's profit before interest and tax increased by 20.6% to \$176.4 million. This result reflects strong revenue growth of 17.2% to \$713.2 million and was achieved by TABCORP and venue staff working co-operatively to maximise the quality of venue presentation, product and customer service.

The Market

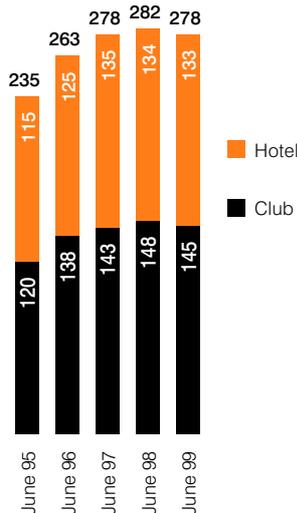
The Victorian gaming machine market continues to develop. Customer expenditure is estimated to have grown from \$1.9 billion in 1997/98 to \$2.1 billion in 1998/99. TABCORP's 17.2% revenue growth in that period accounts for more than half of the total estimated Victorian gaming machine market growth.

With gaming's popularity as an entertainment choice growing, the adult Victorian per capita spend on gaming machines increased from \$537 in 1997/98 to \$600 in 1998/99.

Further growth is expected as TABCORP works with its venue operators to continue the process of upgrading of venues, products, and customer service.

Gaming venues – hotels and clubs

Number of venues



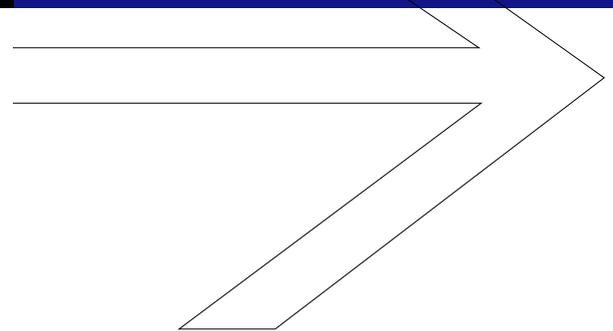
Source: TABCORP

Business Performance

During 1998/99, the Gaming Division added 345 machines to its network, bringing the total to 13,690 at 30 June 1999. Despite this marginal growth in machine numbers, revenue growth of 17.2% was achieved, primarily by introducing more appealing gaming machines and games, improving venues and extending trading hours.

Efforts to maximise the efficient utilisation of our network increased average daily revenue per machine by 13.6% to \$192.





TABCORP works with its venue partners on improving venue presentation to ensure customer needs for contemporary surroundings are met. TABCORP's computerised design program displays a visual representation of the venue to be refurbished and provides varied design options. This allows a venue operator to select the most suitable style for their local market. During 1998/99, 42 venues were refurbished.

TABCORP's commitment to consistent, high-quality venue appearance and customer service through the Venue Performance System continued, with excellent results. Regular monitoring of performance against key performance criteria has demonstrated an overall improvement across the network. Because of the program's success, further training modules in areas such as security and community relations have been added and well received.

The Gaming Division continued its machine replacement program, with 4,227 new gaming machines replacing older machines in the network during the year.

TABCORP customers seek variety in games with themes and visual and audio effects. To satisfy this need, 31 new games were introduced during 1998/99.

The company's in-venue Wildcash Jackpot system continues to be popular. It offers flexibility and can be scaled to meet local market requirements. Customers in this market segment prefer the opportunity to win smaller prizes more frequently while playing in their favourite local venue.

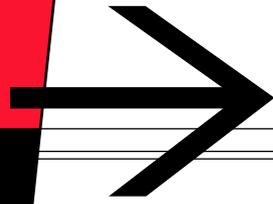
Introduction of the single central monitoring and control system to replace the existing two systems is nearing completion. At 30 June 1999, over 70% of the network, 9,768 gaming machines, was installed on the new system.

Having been granted one of eight licences to centrally monitor gaming machines in Queensland in April 1998, TABCORP entered into agreements with Surf Lifesaving and other Queensland clubs. In March 1999, the Queensland Government passed legislation which retrospectively rendered invalid some of these agreements, although not having an impact on venues where machines were already in place. TABCORP currently owns or monitors more than 600 machines in Queensland clubs, and will maintain its contractual commitment to these clubs while reviewing its future plans in that market.

Outlook

The Gaming Division is committed to enhancing its partnership with venues to ensure that together they provide the best possible integrated entertainment offer to customers.

The substantial capital investment in new gaming machines and systems, combined with ongoing venue refurbishments, provides a strong basis for future growth.



Contributing to the Community

TABCORP is an active participant in the community.

During 1998/99, TABCORP and its employees supported a range of community organisations and activities.

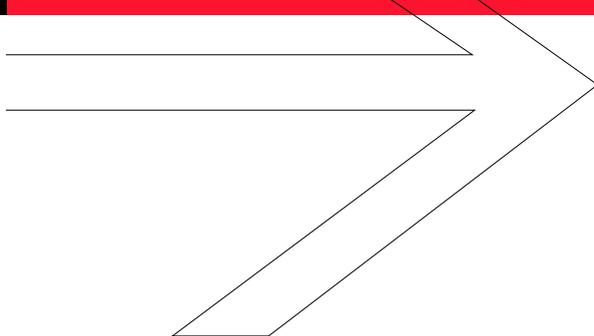
The company was principal sponsor of the prestigious 1998 Melbourne Festival's most spectacular event, Patrice Warrener's Chromolithe, which 'painted' Flinders Street station with coloured laser light (pictured at right). An estimated 50,000 spectators viewed Chromolithe on the festival's opening night alone.

TABCORP's principal sponsorship of Surf Life Saving Victoria entered its second year. Through the TABCORP Surf Rescue Fund, the company provides essential life-saving equipment to clubs throughout Victoria, and also supports the professional lifeguard service. A number of Tabaret venues, in co-operation with Surf Life Saving Victoria, hosted free cardio-pulmonary resuscitation workshops in their communities.

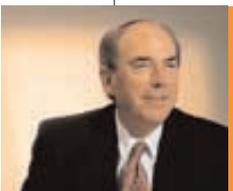
TABCORP employees enthusiastically and generously participated in an increasing number of TABCORP supported activities through the year. Entering a team in Walk for the Cure, a fundraiser for juvenile diabetes that has become an annual event.

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

One of the world's premier harness racing events, the Interdominion championship, will be sponsored by the company. The TABCORP Interdominion Melbourne 2000 will be hosted by Harness Racing Victoria during January and February 2000.



Board of Directors



M.B. Robinson



I.R. Wilson



A.G. Hodgson



P.H. Wade



W.V. Wilson



D.J. Simpson

M.B. Robinson LL.B. (Chairman)

Michael 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 and the Committee for the Economic Development of Australia. He is a member of the Board of Management of Epworth Hospital and of the Chairman's Consultative Group of the Australian Securities and Investments Commission, President of the Bionic Ear Institute, Chairman of the Melbourne University Law School Foundation and the President of the Institute of Public Affairs. 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)

Ross 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 TABCORP in 1994. He is a member of the Business Council of Australia and a member of the Council of Swinburne University of Technology. Mr Wilson is a member of the TABCORP Audit, Remuneration and Compliance Committees.

A.G. Hodgson FCPA (Deputy Chairman)

Tony 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 a Committee Member of the Chairman's Consultative Group of the Australian Securities and Investments Commission.

P.H. Wade FCPA

Peter Wade was Managing Director of North Broken Hill Peko Limited until his retirement in 1993. He is Chairman of Acacia Resources Limited and Deputy Chairman 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.

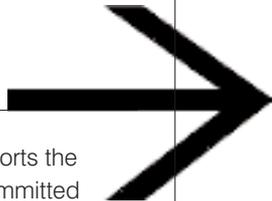
W.V. Wilson

Warren 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.

D.J. Simpson FCPA (Finance Director)

David Simpson was Executive General Manager – Finance of Southcorp Holdings Limited from 1988 until taking up the position of Executive General Manager – Finance of TABCORP in March 1995. He has over 33 years experience in accounting and finance. He was appointed an executive director of TABCORP on 24 February 1999.

Corporate Governance



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 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 auditors 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 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 entitlements, 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

The Board currently consists of six 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.

On 16 April 1999, the company announced a proposal to merge with Star City Holdings Limited under a takeover scheme. At that time, it announced its intention to offer three Board seats to current members of Star City Holdings Limited's Board of Directors if it is successful in acquiring all of Star City's shares. Mr Philip Satre, Chairman and Chief Executive Officer of Harrah's Entertainment Inc, has agreed to be one of those new directors, and his vast experience in casino management will add to the strength of the merged entity. No decision has been made in relation to the other appointments, and all appointments will be subject to receiving necessary regulatory approvals.

The company's constitution requires 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 board has the power to appoint any person as a director, either to fill a casual vacancy or as an addition to the Board, but that person only holds office until the next Annual General Meeting.

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.

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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

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 established a Year 2000 project team in 1996 and is well advanced in its preparation for the Year 2000. Its critical finance, gaming and wagering systems will be replaced by 31 December 1999 and have all been 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 staff from the Corporate Finance Group.

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.

Management of Risk

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*. It is also the holder of a Monitoring Operator's Licence issued under the Queensland *Gaming Machine Act*, and recently offered to merge with Star City Holdings Limited under a takeover scheme which may result in the TABCORP group becoming the holder of a casino licence issued under the New South Wales *Casino Control Act*.

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 Victorian businesses.

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

Ethical Standards

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 its directors have undergone extensive probity investigation by the Victorian Casino and Gaming Authority and the Queensland Office of Gaming Regulation.

The company has established comprehensive policies 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, e.g. spouse, infant children, family trust or family company.

Role of Shareholders

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 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 employs a Shareholder Liaison Officer to assist in responding promptly to all shareholder inquiries and maintains a website to keep them informed of any significant developments in a timely manner. The company also has a policy of informing shareholders of significant issues as they arise, in addition to sending out the Half-Yearly Report and Annual Report.

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 memoranda, where considered appropriate, are included with the Notice of Annual General Meeting in respect of items to be voted on at the meeting.