

ASX ANNOUNCEMENT

27 June 2014



NEW FRAMEWORK FOR RACE AND SPORTS WAGERING IN QUEENSLAND

Tatts Group today reached in-principle agreement with the Queensland Government and Racing Queensland (RQ) to establish a new framework for the conduct of race and sports wagering in Queensland. This new model has been established following the call for Expressions of Interest issued by RQ on 17 January 2014. The new arrangements are subject to legislative amendments.

In announcing the new framework Tatts Group's Managing Director and CEO, Robbie Cooke said:

"We believe the new model builds a true partnership approach between Racing Queensland, the Government and Tatts to drive a prosperous future for racing in Queensland through a sustainable model that recognises the needs of all participants."

The new arrangements will see the term of Tatts' sports wagering licence extend 61 years and brought into line with the Group's race wagering licence, with both licences to expire on 30 June 2098. Importantly retail exclusivity has been secured for a further 30 years under each licence (until 30 June 2044).

The new framework seeks to level the playing field, which to date has enabled out-of-state betting operators to exploit more beneficial tax regimes to target Queensland customers, siphoning significant revenues away from the Queensland industry. Specifically the new Queensland regime will see the tax rate on pari-mutuel betting reduce from 20% to 14% of commissions, whilst the rate applicable to fixed-price betting will decrease from 20% to 10% of gross revenue. In commenting on this Robbie Cooke said:

"Our wagering franchise is now well positioned to fight back against the predatory operators who have for too long exploited the fiscal imbalance that has existed in the Australian wagering landscape"

Existing product fee arrangements with the racing industry will be maintained with the continuation of the current variable product fee at 39% of gross wagering revenue. Tatts' right to directly offset race field fees from the product fee payable will continue as has occurred in the past - except in the event that the offset exceeds RQ's race field fee receipts from other operators (or if the offset exceeds the portion of product fee generated from non-Queensland racing), in which case the shortfall will be shared 60% by Tatts and 40% by RQ. In this scenario the parties may seek to renegotiate the appropriate approach in apportioning any future shortfall.

A new \$15 million (indexed to 80% of CPI) annual fixed product fee will be paid to the racing industry, together with a 2.5% share of fixed-price sports betting revenue generated from 'bricks and mortar' retail outlets (capped at a maximum of \$5 million p.a. indexed).

Tatts will pay the State \$150 million as a license fee, to be paid in four equal instalments on 1 July 2014, 1 July 2016, 1 July 2020 and 1 July 2023.

In addition RQ and Tatts have agreed to form joint ventures in the future on a number of initiatives that will generate potential additional revenue for the racing industry.

In announcing this new deal, RQ and Tatts have also agreed to end the current litigation with respect to the treatment of race field fees on the basis that each party release each other from all claims and meet their own costs.

More details with respect to the new arrangements can be found in the Annexure attached.

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ANNEXURE

KEY TERMS – NEW FRAMEWORK FOR RACE AND SPORTS WAGERING QUEENSLAND

Item	Existing Framework	New Framework
1. Licencing Framework	<p>A. <u>Race Wagering Licence</u> (a) Expiry date 30 June 2098 (b) Sole retail licence</p> <p>B. <u>Sports Wagering Licence</u> (a) Expiry date 30 June 2037 (b) Sole retail income until 30 June 2014</p>	<p>A. <u>Race Wagering Licence</u> (a) No change (b) Sole retail licence</p> <p>B. <u>Sports Wagering Licence</u> (a) Expiry date 30 June 2098 (b) Sole retail licence until 30 June 2044 (30 years)</p>
2. Tax Framework (inc. GST)	<p>A. <u>Pari-mutuel Racing & Sport</u> (a) 20% of commission (gross deduction)</p> <p>B. <u>Fixed-price Racing & Sport</u> (b) 20% of gross revenue (player loss)</p>	<p>A. <u>Pari-mutuel Racing & Sport</u> (a) 14% of commission (gross deduction)</p> <p>B. <u>Fixed-price Racing & Sport</u> (b) 10% of gross revenue (player loss)</p>
3. Product Fee	<p>A. <u>Variable Product Fee</u> (a) 39% of gross wagering revenue (b) Direct offset against variable product fee for Australian race field fees and international racing costs (Offset)</p>	<p>A. <u>Variable Product Fee</u> (a) No change (b) No change – except in circumstances where Offset amount exceeds Racing Queensland race field receipts (or exceeds portion of product fee generated from non-Queensland racing product) – in which case resultant shortfall shared 60/40 Tatts/Racing Queensland. In this situation any party may seek to renegotiate the appropriate approach to apportioning any future shortfall. (c) A 2.5% share of fixed-price sports betting revenue generated from Queensland ‘bricks and mortar’ retail outlets capped at \$5 million p.a. (indexed).</p> <p>B. <u>Fixed Product Fee</u> (a) \$15 million per annum (Indexed to 80% of CPI percentage increase).</p>
4. Licence Payment	-	\$150 million paid to the State via staged payments: <ul style="list-style-type: none"> - 25% 1 July 2014 - 25% 1 July 2016 - 25% 1 July 2020 - 25% 1 July 2023
5. Regional Marketing Fund	-	Commitment to expend \$5 million over 5 years on incremental marketing and promotional activities to promote regional and country racing in Queensland.

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ASX ANNOUNCEMENT

6. Joint Ventures	-	RQ and Tatts have agreed to create 50/50 joint ventures in the future on a number of initiatives that will generate potential additional revenue for the racing industry. The conduct of virtual racing in 'bricks and mortar' retail outlets is expected to be the first opportunity investigated
7. On-course betting signage	-	Exclusive betting partner for on-course advertising.
8. Business Commitment Undertaking	-	Tatts has committed to agreed levels of marketing activities and network expansion (including Self Service Terminals).

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