

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF YOU ARE IN ANY DOUBT ABOUT HOW TO DEAL WITH THIS DOCUMENT, YOU SHOULD CONTACT YOUR BROKER, FINANCIAL ADVISER OR LEGAL ADVISER IMMEDIATELY.

**tab**limited

ABN 17 081 765 308

## TARGET'S STATEMENT

THE DIRECTORS OF TAB LIMITED RECOMMEND THAT YOU



**TAKE NO ACTION**  
AT THIS TIME IN RELATION TO THE  
TABCORP OFFER

This Target's Statement has been issued in response to the off-market takeover bid made by Tabcorp Investments No. 4 Pty Limited (ABN 74 108 197 084), a wholly owned subsidiary of Tabcorp Holdings Limited (ABN 66 063 780 709), for all the ordinary shares in Tab Limited (ABN 17 081 765 308).

Tab has established a shareholder information line which Tab shareholders may call if they have any queries. If calling from within Australia the number is 1300 137 984.

If calling from outside Australia the number is +61 3 9649 5408.

Calls to the shareholder information line will be recorded and those recordings will be indexed and stored in accordance with legal requirements.



## IMPORTANT NOTICES

2

TARGET'S STATEMENT

### NATURE OF THIS DOCUMENT

This document is a Target's Statement issued by Tab under Part 6.5 Division 3 of the Corporations Act in response to the Tabcorp Bidder's Statement and the Tabcorp Offer.

### DEFINED TERMS

A number of defined terms are used in this Target's Statement. These terms are explained in Section 5 of this Target's Statement.

### NO ACCOUNT OF PERSONAL CIRCUMSTANCES

This Target's Statement does not take into account your individual objectives, financial situation or particular needs. It does not contain personal advice. Your directors encourage you to seek independent financial and taxation advice before making a decision as to whether or not to accept the Tabcorp Offer.

### DISCLAIMER AS TO FORWARD LOOKING STATEMENTS

In addition to the historical information that is contained in this Target's Statement, some of the statements appearing in this Target's Statement may be in the nature of forward looking statements. You should be aware that such statements are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which Tab operates as well as general economic conditions. Actual events or results may differ materially. None of Tab, the Tab Directors or any other Officers of Tab, any persons named in this Target's Statement with their consent, or any person involved in the preparation of this Target's Statement, makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, except to the extent required by law.

### ASIC DISCLAIMER

A copy of this Target's Statement has been lodged with ASIC. Neither ASIC nor any of its officers takes any responsibility for the content of this Target's Statement.

### IMPORTANT DATES

Date of the Tabcorp Offer	21 April 2004
Date of this Target's Statement	3 May 2004
Likely last date for extension of the Tabcorp Offer Period (assuming the Tabcorp Offer is conditional at the time of extension) <sup>1</sup>	17 May 2004
Close of Tabcorp Offer Period (unless extended or withdrawn)	7.00pm (Sydney time) on Tuesday 25 May 2004

### TARGET SHAREHOLDER INFORMATION

Tab has established a shareholder information line which Tab shareholders may call if they have any queries in relation to the Tabcorp Offer. The telephone number for the shareholder information line is 1300 137 984 (for callers within Australia) and +61 3 9649 5408 (for callers outside Australia) and will be available during business hours (8.30am to 5.00pm Sydney time).

Tab notifies shareholders that, as required by the Corporations Act, calls to the shareholder information line will be recorded and those recordings will be indexed and stored.

<sup>1</sup> Bidder may extend the Tabcorp Offer Period after this date in certain limited circumstances provided for in the Corporations Act.

Tabcorp has made a takeover bid for all of the Tab Shares. The takeover bid has been made by Tabcorp through Bidder, a wholly owned subsidiary of Tabcorp.

The Tabcorp Offer is scheduled to close on 25 May 2004.

UNiTAB's takeover offer lapsed at 7.00pm on 23 April 2004.

**The Tab Directors recommend that Tab shareholders**

**TAKE NO ACTION AT THIS TIME**

**in relation to the Tabcorp Offer.**

**The Tab Directors will ensure that Tab shareholders are kept informed of material developments and any changes in their recommendation on a timely basis and, in particular, before the close of the Tabcorp Offer which is currently scheduled to occur on 25 May 2004.**

In summary, the Tab Directors have made their recommendation for the following reasons:

1. *There have been a number of recent developments in relation to Tab's existing businesses which could impact the underlying value of Tab. In light of these developments Tab has commissioned an independent expert to assess the fairness and reasonableness of the Tabcorp Offer.*
2. *Tab is awaiting receipt of a supplementary bidder's statement from Bidder to assist in its assessment of the Tabcorp Offer and the arrangements Tabcorp has reached with UNiTAB and the NSW racing industry.*

Each Tab Director who controls the disposal of Tab Shares intends to take no action at this time in relation to the Tabcorp Offer and therefore will not be accepting the Tabcorp Offer in relation to those Tab Shares at this time.

Tab will continue to keep you informed of all material developments in relation to its business and the Tabcorp Offer on a timely basis, through communications to you directly and through announcements posted on our website, [www.tablimited.com.au](http://www.tablimited.com.au) and the ASX website, [www.asx.com.au](http://www.asx.com.au)

In the event that you have specific questions, please call the Tab shareholder information line on 1300 137 984 (for callers within Australia) and +61 3 9649 5408 (for callers outside Australia). As required by the Corporations Act, calls to the Tab shareholder information line will be recorded and those recordings will be indexed and stored.



## TABLE OF CONTENTS

4

TARGET'S STATEMENT

Chairman's Letter .....	5
Frequently asked questions.....	6
The Tab Directors' recommendation and reasons for the recommendation.....	10
Recent developments .....	12
Comments on NSW Government and NSW racing industry conditions .....	14
Comments on the required divestment of the Tab Gaming Division .....	16
Your choices as a Tab shareholder.....	18

### Further Information

1. Tabcorp Offer .....	21
2. Information regarding Tab .....	32
3. Further matters for Tab shareholders to consider .....	36
4. Additional information .....	39
5. Glossary and interpretation .....	44
6. Authorisation.....	48

### Annexure A

2004 Profit Update .....	49
--------------------------	----

### Annexure B

Summary of significant Tabcorp licences .....	53
---	----

3 May 2004

Dear Shareholder

Since October last year Tab Limited (Tab) has been at the centre of complex corporate activity. During this time Tab's shareholders have received several documents setting out information relating to offers from Tabcorp Holdings Limited (**Tabcorp**) and UNiTAB Limited (**UNiTAB**) for your Tab Shares.

UNiTAB allowed its takeover offer for Tab to lapse at 7.00pm on 23 April 2004.

This document sets out Tab's formal response to the Tabcorp Bidder's Statement.

In addition to the information contained in the Tabcorp Bidder's Statement, Tabcorp announced on 23 April 2004 that it had executed an agreement with UNiTAB and an amending agreement with the NSW racing industry. Amongst other items, under these arrangements, Tabcorp has agreed to sell Tab's gaming business and Tabcorp's Queensland gaming business to UNiTAB<sup>2</sup>. Tabcorp has stated that further information relating to these arrangements will be disclosed in a supplementary bidder's statement.

The Tab Directors recommend that Tab shareholders TAKE NO ACTION at this time in relation to the Tabcorp Offer. The Tab Directors will ensure that Tab shareholders are kept informed of material developments and any changes in their recommendation on a timely basis and, in particular, before the close of the Tabcorp Offer which is currently scheduled to occur on 25 May 2004.

In summary, the Tab Directors have made their recommendation for the following reasons:

1. There have been a number of recent developments in relation to Tab's existing businesses which could impact the underlying value of Tab. In light of these developments Tab has commissioned an independent expert to assess the fairness and reasonableness of the Tabcorp Offer.
2. Tab is awaiting receipt of a supplementary bidder's statement from Bidder to assist in its assessment of the Tabcorp Offer and the arrangements Tabcorp has reached with UNiTAB and the NSW racing industry.

The Tab Directors reiterate their commitment to ensuring that the best interests of Tab's shareholders are met, and are continuing to explore ways to enhance the value of your company.

The closing price of Tab Shares on 30 April 2004 was \$4.63 which was slightly below the implied market value of the Tabcorp Offer of \$4.64<sup>3</sup>. Tab shareholders considering selling their Tab Shares on the ASX should refer to the section of this Target's Statement headed "Your choices as a Tab shareholder".

The Tab Directors will keep Tab shareholders informed through direct communications to shareholders and through announcements posted on our website, [www.tablimited.com.au](http://www.tablimited.com.au) and the ASX website, [www.asx.com.au](http://www.asx.com.au)

I encourage you to read all of this Target's Statement and seek independent financial and taxation advice. Please call the Tab shareholder information line on 1300 137 984 (for callers within Australia) and +61 3 9649 5408 (for callers outside Australia) if you require further information.

Yours sincerely



Graham Kelly  
Chairman

<sup>2</sup> According to UNiTAB's 23 April announcement, the agreement is subject to Tabcorp acquiring at least 50% of the Tab Shares as well as any necessary regulatory and shareholder approvals. Tabcorp's agreement to procure the sale of the Tab Gaming Division to UNiTAB is stated to be a "best endeavours" obligation in circumstances where Tabcorp does not acquire 100% of Tab.

<sup>3</sup> This assumes a Tabcorp VWAP of \$13.19, which was the closing price of Tabcorp's Shares on ASX on 30 April 2004.



## FREQUENTLY ASKED QUESTIONS

This section answers some commonly asked questions about the Tabcorp Offer. It is not intended to address all relevant issues for Tab shareholders and this section should be read together with all other parts of this Target's Statement.

### **Q** *What am I being offered under the Tabcorp Offer?*

**A** Bidder is offering to acquire all of your Tab Shares. The consideration offered for your Tab Shares under the Tabcorp Offer is:

- \$2.00 cash; plus
  - between 0.20 and 0.22 Tabcorp Shares,
- for every 1 Tab Share registered in your name.

This equates to \$200 cash plus between 20 and 22 Tabcorp Shares for every 100 Tab Shares registered in your name.

The number of Tabcorp Shares that you will receive if you accept the Tabcorp Offer will depend on the Tabcorp VWAP over a specified pricing period of 10 consecutive trading days.

You will receive the maximum number of 0.22 Tabcorp Shares per Tab Share if the Tabcorp VWAP is \$11.36 or less.

You will receive the minimum number of 0.20 Tabcorp Shares per Tab Share if the Tabcorp VWAP is \$12.50 or more.

If the Tabcorp VWAP is above \$11.36 and below \$12.50, the number of Tabcorp Shares which you will receive per Tab Share will be equal to \$2.50 divided by the Tabcorp VWAP (subject to rounding).

For example, assuming a Tabcorp VWAP of \$11.85<sup>4</sup>, if you hold 257 Tab Shares and you accept the Tabcorp Offer, you will receive 54 Tabcorp Shares and \$514.00 cash for your Tab Shares.

### **Q** *What are the Tab Directors recommending?*

**A** The Tab Directors recommend that you take no action at this time in relation to the Tabcorp Offer. The reasons for the recommendation are set out under the heading "The Tab Directors' recommendation and reasons for the recommendation".

### **Q** *What happened to the UNiTAB Offer?*

**A** The UNiTAB Offer lapsed at 7.00pm on 23 April 2004.

### **Q** *What if I previously accepted the UNiTAB Offer?*

**A** Given that the UNiTAB Offer has lapsed, you are free to deal with your Tab Shares as you consider appropriate.

<sup>4</sup> This is the Tabcorp VWAP used in a similar example in the Tabcorp Bidder's Statement.

**Q** *What choices do I have as a Tab shareholder?*

**A** As a Tab shareholder, you have the following choices in respect of your Tab Shares:

- (a) you can take no action at this time and wait for further communications and announcements from Tab and Tabcorp;
- (b) you can accept the Tabcorp Offer; or
- (c) you can sell your Tab Shares on the stock market (unless you have previously accepted the Tabcorp Offer and you have not validly withdrawn the acceptance).

There are several implications in relation to each of the above choices. A summary of these implications is set out under the heading "Your choices as a Tab shareholder".

If you accept the Tabcorp Offer you may be eligible to participate in the share sale facility Tabcorp has arranged. You should refer to Section 11 and Annexure H of the Tabcorp Bidder's Statement and Section 1.14 of this Target's Statement for further information regarding the share sale facility.

**Q** *If I wanted to accept the Tabcorp Offer, how would I do it?*

**A** See the inside front cover of the Tabcorp Bidder's Statement, as well as the instructions on the Acceptance Form, for instructions on how to accept the Tabcorp Offer.

**Q** *What are the consequences of accepting the Tabcorp Offer now?*

**A** If you accept the Tabcorp Offer, unless withdrawal rights remain available (see next question and answer), you will give up your right to sell your Tab Shares on the stock market or otherwise deal with your Tab Shares while the Tabcorp Offer remains open.

Also, if you accept the Tabcorp Offer and it becomes unconditional you will be issued with Tabcorp Shares as part of the takeover consideration. As a shareholder of Tabcorp you will be exposed to risk factors associated with Tabcorp Shares after the takeover has been completed. See Section 8 of the Tabcorp Bidder's Statement and Section 1.13 of this Target's Statement for further information in this regard.

**Q** *If I accept the Tabcorp Offer, can I withdraw my acceptance at any time?*

**A** You may withdraw your acceptance at any time until the Legislation Commencement and Nomination Conditions of the Tabcorp Offer have been satisfied or waived. See Section 1.8 of this Target's Statement for information in this regard.

Otherwise, you may only withdraw your acceptance if Bidder varies the Tabcorp Offer in a way that postpones the time when Bidder is required to satisfy its obligations by more than one month.



## FREQUENTLY ASKED QUESTIONS

### **Q** *When does the Tabcorp Offer close?*

**A** The Tabcorp Offer will close at 7.00pm (Sydney time) on Tuesday 25 May 2004 unless it is withdrawn or extended.

The likely last date for Bidder to extend the Tabcorp Offer Period (assuming the Tabcorp Offer is conditional at the time of extension) is 17 May 2004<sup>5</sup>.

### **Q** *What are the conditions of the Tabcorp Offer?*

**A** A brief summary of the conditions of the Tabcorp Offer is set out in Section 1.3 of this Target's Statement. The full terms of the conditions of the Tabcorp Offer are set out in Sections 10.3(c) and 10.7 of the Tabcorp Bidder's Statement.

### **Q** *What happens if the conditions of the Tabcorp Offer are not satisfied or waived?*

**A** If the conditions of the Tabcorp Offer are not satisfied or waived before the Tabcorp Offer closes, the Tabcorp Offer will lapse.

You will then be free to deal with your Tab Shares even if you have accepted the Tabcorp Offer.

If the Tabcorp Offer lapses the Tab Directors anticipate that the price of Tab shares may fall.

### **Q** *When will I receive my consideration if I accept the Tabcorp Offer?*

**A** If you accept the Tabcorp Offer, you will have to wait for the Tabcorp Offer to become unconditional before you receive your consideration.

Full details of when you will receive your consideration are set out in Section 10.6 of the Tabcorp Bidder's Statement.

If you are a Foreign Shareholder the Tabcorp Shares forming part of the Tabcorp Offer to you will be sold on your behalf and the net proceeds of sale sent to you (see Section 10.6(g) of the Tabcorp Bidder's Statement).

### **Q** *What are the risks associated with the Tabcorp Offer?*

**A** Section 8 of the Tabcorp Bidder's Statement contains information about the risks that may have an adverse impact on the financial performance of the Combined Tabcorp/Tab and the value of

<sup>5</sup> Bidder may extend the Tabcorp Offer Period after this date in certain limited circumstances provided for in the Corporations Act.

Tabcorp Shares. Section 1.13 of this Target's Statement also contains information in this regard, including comments on the risks associated with:

- the tenure of certain licences held by the Tabcorp Group;
- taxes payable in relation to Tabcorp's Star City Casino;
- the trading price of Tabcorp Shares;
- the differing risk profiles of the Tab Group compared with the Tabcorp Group;
- integration of the Tab Group with the Tabcorp Group;
- the approvals required to achieve expected synergies;
- Bidder not acquiring 100% of Tab; and
- the gearing position of a Combined Tabcorp/Tab.

It is suggested that you read Section 8 of the Tabcorp Bidder's Statement and Section 1.13 of this Target's Statement carefully before deciding how to respond to the Tabcorp Offer.

## **Q What are the tax implications of accepting the Tabcorp Offer?**

**A** A general summary of the tax implications of accepting the Tabcorp Offer are set out in Section 7 of the Tabcorp Bidder's Statement and Section 3.2 of this Target's Statement.

Tab shareholders are advised to seek taxation advice in respect of the Tabcorp Offer from their accountants or financial advisers.

## **Q If Bidder acquires more than 50% but less than 90% of the Tab Shares, will I still be able to sell my Tab Shares on the stock market?**

**A** If Bidder acquires more than 50% but less than 90% of the Tab Shares, you will still be able to sell your Tab Shares on the stock market as long as Tab remains listed on the ASX. Bidder has stated in the Tabcorp Bidder's Statement that it is Bidder's intention to maintain Tab's listing on the ASX in these circumstances if the criteria for listing continue to be satisfied.

However, Tab shareholders should be aware that in these circumstances the liquidity of Tab Shares is likely to be lower than at present and the trading price of Tab Shares on the ASX may be lower than the current market price. See Section 3.1 of this Target's Statement for further information regarding minority ownership consequences.

If you have any further questions please consult your legal, financial or other professional adviser or contact the Tab shareholder information line on 1300 137 984 (for callers within Australia) and +61 3 9649 5408 (for callers outside Australia). The Tab shareholder information line will be available during business hours (8.30am to 5.00pm Sydney time). In accordance with legal requirements, all calls to the Tab shareholder information line will be recorded and those recordings will be indexed and stored.



## THE TAB DIRECTORS' RECOMMENDATION AND REASONS FOR THE RECOMMENDATION

10

TARGET'S STATEMENT

### TAB DIRECTORS' RECOMMENDATION

Bidder (a wholly owned subsidiary of Tabcorp) has made a takeover bid for all of the Tab Shares. The Tabcorp Offer is scheduled to close on 25 May 2004.

The UNiTAB Offer lapsed at 7.00pm on 23 April 2004.

On 23 April 2004, Tabcorp announced that it had executed an agreement with UNiTAB and an amending agreement with the NSW racing industry. In summary these announcements disclosed that:

- Tabcorp has conditionally agreed to divest the Tab Gaming Division to UNiTAB for \$175 million and Tabcorp's Queensland monitoring system business and Tabcorp's Queensland progressive jackpot services business to UNiTAB for \$40 million
- Tabcorp has agreed to procure the extension of certain agreements between UNiTAB and Sky Channel
- the Racing Heads of Agreement have been amended, the principal change being the reduction of the additional product fee payable to the NSW racing industry.

The Tab Directors now make the following recommendation in relation to the Tabcorp Offer:

**The Tab Directors recommend that Tab shareholders TAKE NO ACTION at this time in relation to the Tabcorp Offer.**

**The Tab Directors will ensure that Tab shareholders are kept informed of material developments and any changes in their recommendation on a timely basis and, in particular, before the close of the Tabcorp Offer which is currently scheduled to occur on 25 May 2004.**

### REASONS FOR THE TAB DIRECTORS' RECOMMENDATION

The Tab Directors have made their recommendation for the following reasons:

- 1. There have been a number of recent developments in relation to Tab's existing businesses which could impact the underlying value of Tab. In light of these developments Tab has commissioned an independent expert to assess the fairness and reasonableness of the Tabcorp Offer.***

Tab's Board and management are committed to pursuing the best interests of Tab shareholders, and have continued to explore ways to enhance the value of your company. This has included:

- assessing opportunities for consolidation in the industry; and
- identifying opportunities for improved efficiencies within existing businesses.

More than six months have passed since the first announcement of corporate activity involving Tab, and notwithstanding the considerable commitment of internal and external resources to pursuing industry consolidation opportunities in recent times, Tab's Board and management have continued to pursue initiatives in relation to existing businesses.

Recent examples include initiatives leading to Tab's profit update announced on 29 April 2004 (see Annexure A), various announcements in relation to Sky Channel content providers and customers, as well as the announcement of the NSW Government's decision on 30 April 2004 to increase the monitoring fee charged by Tab's Data Monitoring Services Business and the positive impact that this

will have on Tab's gaming business (see further details below under the heading "Comments on the required divestment of the Tab Gaming Division").

In light of these developments in Tab's businesses, Tab has commissioned an independent expert to assess the fairness and reasonableness of the Tabcorp Offer.

Tab expects to be in a position to provide the independent expert's report to Tab shareholders prior to the end of the current Tabcorp Offer Period.

The independent expert's report is expected to provide guidance to Tab shareholders on the value of the Tab Group and whether the Tabcorp Offer is fair and reasonable.

**2. *Tab is awaiting receipt of a supplementary bidder's statement from Bidder to assist in its assessment of the Tabcorp Offer and the arrangements Tabcorp has reached with UNiTAB and the NSW racing industry.***

The terms and conditions of these arrangements are important factors in the Tab Directors' assessment of the Tabcorp Offer. Tabcorp's announcement regarding the divestment of the Tab Gaming Division to UNiTAB indicated that further details regarding that agreement would be set out in a supplementary bidder's statement that would be sent to Tab shareholders. Tab is awaiting receipt of the supplementary bidder's statement.

Tab shareholders should note that since the announcement of the Tabcorp Offer, Tab's market price on the ASX has at times been above the implied market value of the Tabcorp Offer. If you are considering selling your Tab shares on the ASX you should refer to the section of this Target's Statement headed "Your choices as a Tab shareholder" for a brief description of the consequences of doing so.

**INTENTIONS OF TAB DIRECTORS**

Each Tab Director who controls the disposal of Tab Shares intends to take no action at this time in relation to the Tabcorp Offer and therefore will not be accepting the Tabcorp Offer in relation to those Tab Shares at this time.

Details of the interests of each Tab Director in Tab's securities are set out in Section 4.1 of this Target's Statement.

**OPTIONS FOR TAB SHAREHOLDERS TO CONSIDER**

The section of this Target's Statement entitled "Your choices as a Tab shareholder" sets out the various options that are currently open to Tab shareholders.



## RECENT DEVELOPMENTS

12

TARGET'S STATEMENT

Over the past several months Tab has been involved in or the subject of a number of merger and takeover proposals. A summary of the recent events in relation to these matters was set out in Tab's target's statement in respect of the UNiTAB Offer (which has now lapsed). That summary was up to date as at 5 March 2004. Set out below is a summary of further developments since that time, together with an updated graph showing Tab's share price at the time of these events.

12 March 2004

UNiTAB extended the UNiTAB Offer so as to close at 7.00pm (Sydney time) on 23 April 2004. The UNiTAB Offer was not extended further and lapsed on 23 April.

12 March 2004

The Treasurer of NSW issued a media release which stated that the NSW Government had appointed BurnVair Corporate Finance to review UNiTAB's proposal to the NSW racing industry and Sir Laurence Street to oversee the process.

7 April 2004

The NSW Government released the conclusion of the BurnVair Corporate Finance report which was that UNiTAB's proposal to the NSW racing industry put the industry in a superior financial and commercial position relative to the position conferred on the industry under the Racing Distribution Agreement. The terms of the UNiTAB proposal were not publicly disclosed.

The effect of the NSW Government's announcement was that both UNiTAB and Tabcorp could be considered for "nomination" for the purposes of the Privatisation Act<sup>6</sup>.

The NSW Government's statement indicated that "nomination" would be conditional upon a number of matters. These condition are summarised below under the heading "Comments on the NSW Government and the NSW racing industry conditions".

14 April 2004

UNiTAB announced the status of the conditions of the UNiTAB Offer (as required by Section 630(3) of the Corporations Act) and also waived a number of the bid conditions.

23 April 2004

The UNiTAB Offer lapsed.

Tabcorp and UNiTAB announced that Tabcorp had conditionally agreed to sell the Tab Gaming Division to UNiTAB for \$175 million (being \$31.4 million less than the Tab Gaming Division's book value as at 31 March 2004) and Tabcorp's Queensland gaming machine monitoring and progressive jackpot services businesses to UNiTAB for \$40 million, subject to Tabcorp acquiring at least 50% of the Tab Shares (and subject to the parties receiving any necessary regulatory and shareholder approvals).

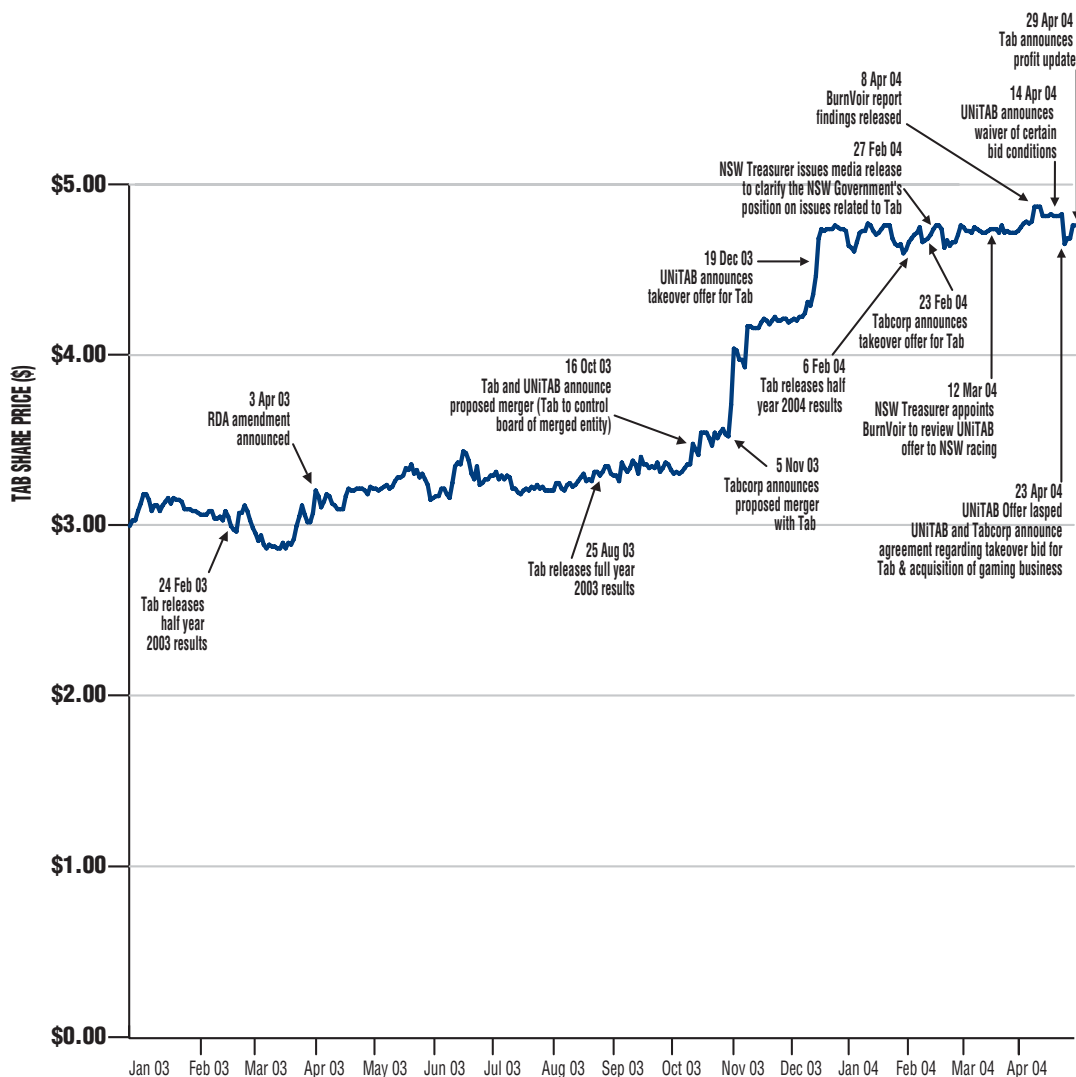
Tabcorp's agreement to procure the sale of the Tab Gaming Division to UNiTAB is stated to be a "best endeavours" obligation in circumstances where Tabcorp does not acquire 100% of Tab.

The announcements also stated that Tabcorp and UNiTAB had agreed that Tabcorp would procure the extension of certain agreements between UNiTAB and Sky Channel (being agreements under which Sky Channel supplies its broadcast to UNiTAB's TAB agencies) if Tabcorp acquired more than 50% of Tab.

<sup>6</sup> Once the Totalizator Amendment Act is proclaimed it will amend the Privatisation Act so that if a company is gazetted by the Racing Minister as the "nominated company" the company will be exempt from the prohibition against acquiring an entitlement in Tab Shares of more than 10%.

Tabcorp also announced that the Racing Heads of Agreement had been amended. The principal amendment was the reduction of the additional product fee payable to the NSW racing industry. See further comments on the Racing Heads of Agreement below under the heading "Comments on the NSW Government and the NSW racing industry conditions".

The graph below shows the performance of Tab's share price since January 2003.





The Tabcorp Offer is conditional on Bidder being gazetted by the Racing Minister as the "nominated company" for the purposes of the Privatisation Act. The Tabcorp Offer is also conditional on the NSW racing industry approving arrangements between the racing industry, Bidder and Tab that satisfy the requirements of the Totalizator Act (as proposed to be amended by the Totalizator Amendment Act).

### NOMINATION BY THE RACING MINISTER

The NSW Government has indicated that "nomination" by the Racing Minister for the purposes of the Privatisation Act will be conditional upon the bidder:

1. acquiring a relevant interest in more than 50% of the Tab Shares;
2. satisfying the Racing Minister that it would take all reasonable steps to acquire a relevant interest in all of the issued Tab Shares; and
3. having in place a prohibition on shareholding interests with substantially the same effect as the 10% prohibition on shareholding interests in Tab.

### TABCORP'S AGREEMENT WITH THE NSW RACING INDUSTRY

Tabcorp entered into the Racing Heads of Agreement on 23 February 2004. The Racing Heads of Agreement was signed as a step towards satisfying the requirements of Section 43A(1) of the Totalizator Act and the Racing Industry Condition. The Racing Heads of Agreement was amended on 23 April 2004.

As at the date of this Target's Statement, to the best of Tab's knowledge, Tabcorp has not yet signed a final agreement with the NSW racing industry reflecting the Racing Heads of Agreement. Further, the NSW racing industry is yet to acknowledge its approval in writing to the Racing Minister of unconditional arrangements with Tabcorp and Tab that satisfy the requirements of Section 43A of the Totalizator Act. Accordingly the Racing Industry Condition has not yet been satisfied and continues to be a condition of the Tabcorp Offer.

Section 9.7 of the Tabcorp Bidder's Statement contains a summary of the Racing Heads of Agreement as at the time it was executed. This summary should be read together with Tabcorp's announcement of 23 April 2004 which explains how the Racing Heads of Agreement was amended on that date.

Under the Racing Heads of Agreement Tabcorp has agreed to procure that Tab will increase the product fees payable by Tab to the NSW racing industry so that the net increases in fees payable will be as follows:

Financial year	Net increase in fees to the NSW racing industry
2004/05	\$2.25 million
2005/06	\$4.50 million
2006/07	\$6.75 million
2007/08	\$9.00 million
Subsequent financial years	\$9 million, indexed by CPI from 30 June 2008

If the Tabcorp Offer is successful, these payments will be required to be made by Tab in addition to the payments Tab makes to the NSW racing industry under the terms of the Racing Distribution Agreement. These payments would also be in addition to the increased fee payments that will be made (and would have been made anyway under the existing Racing Distribution Agreement) to the NSW racing industry if the financial performance of Tab's wagering business improves following Bidder's acquisition of Tab.

Tab considers that by agreeing to procure that Tab make these additional product fee payments to the NSW racing industry, Tabcorp has agreed to a transfer of value to the NSW racing industry at the expense of Tab shareholders. Tab calculates that the net present value of the additional payments referred to in the table above is in excess of \$90 million, which is the equivalent of approximately 20 cents per Tab Share.<sup>7</sup>

Section 8.6(c) of the Tabcorp Bidder's Statement discloses that if Bidder does not acquire 100% of Tab, Tabcorp may not be able to procure that the Tab Group perform certain obligations contemplated by the Racing Heads of Agreement.

The Tabcorp Bidder's Statement provides that if Tabcorp is unable to procure the performance by the Tab Group of particular obligations, Tabcorp will be required to bear the cost of performing, or making good, the relevant obligation. The Tabcorp Bidder's Statement states that the occurrence of such circumstances may have a material adverse impact on the financial performance of the Combined Tabcorp/Tab and the value of the Tabcorp Shares.

<sup>7</sup> This assumes CPI increases of 2.5% per annum from 30 June 2008, corporate tax rate of 30% and discount rate of 8%.



## COMMENTS ON THE REQUIRED DIVESTMENT OF THE TAB GAMING DIVISION

16

TARGET'S STATEMENT

The NSW Government has previously indicated that if Tabcorp acquires Tab, the Tab Gaming Division will have to be divested within 18 months. Legislative amendments will be required to enable the divestment, and the terms of those legislative amendments have not yet been finalised.

On 23 April 2004 Tabcorp and UNiTAB announced that Tabcorp had agreed to procure the sale of the Tab Gaming Division to UNiTAB in the event Tabcorp obtained control of Tab.

Tabcorp agreed to sell the Tab Gaming Division to UNiTAB for \$175 million, being \$31.4 million less than its book value as at 31 March 2004. Although not disclosed in either Tabcorp's or UNiTAB's announcements of 23 April 2004, Tab understands that the price for which Tabcorp has agreed to sell the Tab Gaming Division to UNiTAB may be affected by the monitoring fee increase determined by the NSW Government on 30 April 2004 (see further comments below).

According to UNiTAB's announcement, the agreement is subject to Tabcorp acquiring at least 50% of the Tab Shares as well as any necessary regulatory and shareholder approvals. Tabcorp's agreement to procure the sale of the Tab Gaming Division to UNiTAB is stated to be a "best endeavours" obligation in circumstances where Tabcorp does not acquire 100% of Tab. NSW Government approvals will be required in relation to the sale of the Tab Gaming Division to UNiTAB. To the best of Tab's knowledge, the necessary approvals have not been obtained as at the date of this Target's Statement.

Having regard to the fact that a public tender does not appear to have been conducted, Tabcorp may not have achieved the highest possible price for the Tab Gaming Division.

On 30 April 2004, Tab announced that the NSW Government has completed its review of the monitoring fee paid by clubs and hotels to have their gaming machines monitored by the centralised monitoring system operated by Tab's Data Monitoring Services Business. The review included an inquiry by the Independent Pricing and Regulatory Tribunal of NSW (IPART) as well as consultation between the Minister for Gaming and Racing and the Treasurer.

Following the review, the NSW Government determined that from 1 May 2004, the monitoring fee will increase from the current \$27.34 per machine per month to \$30.72 per machine per month. The monitoring fee will increase by 3% a year from 1 July 2005 until the expiry of the Centralised Monitoring System Licence or until a further fee review is instigated<sup>8</sup>.

In addition to obtaining a higher monitoring fee from clubs and hotels, Tab believes that the effect of the redetermination of the monitoring fee is that Tab is now entitled to claim an amount from the NSW Government under the Deed of Undertaking and Indemnity.

Under the Deed of Undertaking and Indemnity, the NSW Government has agreed to indemnify Tab against any loss it may suffer during the term of Tab's Centralised Monitoring System Licence as a direct consequence of any redetermination of the monitoring fee which is made other than in accordance with the methodology and the assumptions as to the rate of return which were originally employed by IPART in recommending the monitoring fee to the relevant NSW Government Minister.

The NSW Government has also agreed to indemnify Tab against any additional cost and expense it may incur as a result of any amendment to Tab's Centralised Monitoring System Licence which imposes additional requirements on Tab but only to the extent that Tab is not adequately compensated for the additional cost and expense by an increase in the monitoring fee.

Tab is entitled to claim under the indemnity every 6 months.

However, Tab is not likely to realise the benefits of the Deed of Undertaking and Indemnity if the Tab Gaming Division is divested. Unless the NSW Government agrees otherwise, a purchaser of the Tab

<sup>8</sup> The increase applies from a base of \$29.12. \$1.60 of the monitoring fee is not subject to escalation.

Gaming Division will not be entitled to claim under the Deed of Undertaking and Indemnity after the Tab Gaming Division is divested. Accordingly, once the Tab Gaming Division is sold to a third party, significant value will be lost to Tab, being value that would be retained by Tab on a stand alone basis.

Neither Tabcorp nor UNiTAB have announced details of the agreement relating to the divestment of Tab's Gaming Division. In particular, arrangements for:

- allocation of infrastructure, contracts and services such as telecommunications utilised by both Tab's Gaming Division and Tab's wagering business; and
- allocation of risks of government policy or requirements impacting the Data Monitoring Services Business (particularly given the potential loss of indemnity regarding additional costs as a result of any amendments to the Centralised Monitoring System Licence).

The manner in which these issues are addressed could significantly impact the relative value as between the Combined Tabcorp/Tab and UNiTAB.

Given that Tab's sale of the Tab Gaming Division to UNiTAB may involve benefits or assistance being received by Tabcorp, if Bidder acquires less than 100% of the Tab Shares, the sale by Tab of the Tab Gaming Division may require the approval of those Tab shareholders who have not accepted the Tabcorp Offer. The Tabcorp announcement in relation to the sale of the Tab Gaming Division states that the sale is subject to necessary regulatory and shareholder approvals. However, the announcement does not disclose whether Tabcorp is proposing to seek Tab minority shareholder approval if Bidder acquires less than 100% of the Tab Shares.



### 1. TAKE NO ACTION

Tab shareholders may decide to take no action at this time in relation to the Tabcorp Offer. This is the approach currently being recommended by the Tab Directors.

Tab shareholders should note that if they elect not to accept the Tabcorp Offer at all they will not receive any consideration from Bidder unless Bidder becomes entitled to compulsorily acquire remaining Tab Shares that it did not acquire under the Tabcorp Offer. (See Section 1.12 of this Target's Statement for further information regarding compulsory acquisition.)

Further, if Bidder's takeover offer is successful (that is, the Tabcorp Offer is declared or becomes unconditional) but Bidder does not become entitled to compulsorily acquire remaining Tab Shares that it did not acquire under the Tabcorp Offer, those Tab shareholders that have not accepted the Tabcorp Offer and continue to hold Tab Shares will be exposed to the risks associated with being minority shareholders of Tab. Some of these risks are explained in Section 3.1 of this Target's Statement.

### 2. ACCEPT THE TABCORP OFFER

Tab shareholders may choose to accept the Tabcorp Offer. Details of the consideration that will be received by Tab shareholders who accept the Tabcorp Offer are set out in Section 1.2 of this Target's Statement and in the Tabcorp Bidder's Statement.

The effect of accepting the Tabcorp Offer is referred to in Section 1.8 of this Target's Statement.

You should be aware that one of the consequences of accepting the Tabcorp Offer is that you will not be able to sell your Tab Shares on market unless, at the time you decide you no longer wish to accept the Tabcorp Offer, you have the right to withdraw your acceptance. The circumstances in which you will have the right to withdraw your acceptance of the Tabcorp Offer are set out in Section 1.8 of this Target's Statement.

Risks associated with the Tabcorp Offer and Tabcorp's business are referred to in Section 8 of the Tabcorp's Bidder's Statement and Section 1.13 of this Target's Statement.

Tab shareholders should also be aware that if they accept the Tabcorp Offer, the Tabcorp Offer subsequently becomes unconditional and Bidder acquires less than 80% of the Tab Shares under the Tabcorp Offer (noting that the Tabcorp Offer has a minimum acceptance condition requiring Bidder to have a relevant interest in more than 50% of the Tab Shares at the end of the Tabcorp Offer Period), those Tab shareholders that have accepted the Tabcorp Offer may be liable to pay CGT on all of the offer consideration as CGT rollover relief would not be available in respect of any of the offer consideration (See Section 7 of the Tabcorp Bidder's Statement and Section 3.2 of this Target's Statement for further information).

See the inside front cover of the Tabcorp Bidder's Statement, as well as the instructions on the Acceptance Form, for instructions on how to accept the Tabcorp Offer.

Assuming that the Tabcorp Offer becomes or is declared to be unconditional, Tab shareholders that accept the Tabcorp Offer and who are Eligible Tab Shareholders can elect to participate in the share sale facility which has been arranged by Tabcorp to sell the Tabcorp Shares they are entitled to under the Tabcorp Offer (up to a maximum of 200 Tabcorp Shares). See Section 1.14 of this Target's Statement for further information.

### 3. SELL YOUR TAB SHARES ON MARKET

During a takeover, shareholders in a target company can still sell their shares on market for cash.

On 30 April 2004 Tab's share price on the ASX closed at \$4.63, slightly below the implied market value of the Tabcorp Offer of \$4.64<sup>9</sup>.

Shareholders who sell their Tab Shares on market for cash:

- will receive the consideration for sale of their shares sooner than if they accept a takeover offer that is subject to outstanding conditions;
- may incur a brokerage charge; and
- will not receive the benefit of any subsequent increase in the consideration offered under the Tabcorp Offer, should this eventuate.

If you sell your Tab Shares on market for cash you may be liable for CGT or income tax on the sale. See Section 7 of the Tabcorp Bidder's Statement and Section 3.2 of this Target's Statement for further information on the tax consequences of accepting the Tabcorp Offer.

Tab shareholders should contact their broker to obtain the latest price for Tab Shares and Tabcorp Shares and contact their accountant or financial adviser to determine tax implications from the sale of Tab Shares on market.

The price for Tab Shares and Tabcorp Shares may also be obtained from the ASX website [www.asx.com.au](http://www.asx.com.au) (subject to a 20 minute delay).

Tab encourages you to consider your personal risk profile, portfolio strategy, tax position and financial circumstances and seek professional advice before making any decision in relation to your Tab Shares.

<sup>9</sup> This assumes a Tabcorp VWAP of \$13.19, which was the closing price of Tabcorp's Shares on ASX on 30 April 2004.



## FURTHER INFORMATION

## 1.1 TABCORP OFFER

On 23 February 2004 Tabcorp announced its intention to make an offer to Tab's shareholders to acquire all of the Tab Shares.

The Tabcorp Offer has been made through a Tabcorp wholly owned subsidiary Tabcorp Investments No. 4 Pty Limited (referred to in this Target's Statement as the "Bidder").

On 2 April 2004 Bidder served Tab with a copy of the Tabcorp Bidder's Statement, which contains the Tabcorp Offer. Bidder notified ASX on 22 April 2004 that it had completed sending the Tabcorp Bidder's Statement to Tab shareholders.

A summary of the Tabcorp Offer is set out in this Section 1 of this Target's Statement. For further information regarding the terms of the Tabcorp Offer please refer to Section 10 of the Tabcorp Bidder's Statement.

## 1.2 CONSIDERATION PAYABLE TO TAB SHAREHOLDERS WHO ACCEPT THE TABCORP OFFER

Bidder is offering to acquire all of your Tab Shares. You may only accept the Tabcorp Offer in respect of all of the Tab Shares registered in your name at the time you accept.

The consideration offered for your Tab Shares under the Tabcorp Offer is:

- \$2.00 cash; plus
- between 0.20 and 0.22 Tabcorp Shares,

for every 1 Tab Share registered in your name.

This equates to \$200 cash plus between 20 and 22 Tabcorp Shares for every 100 Tab Shares registered in your name.

The number of Tabcorp Shares that you will receive if you accept the Tabcorp Offer will depend on the Tabcorp VWAP.

You will receive the maximum number of 0.22 Tabcorp Shares per Tab Share if the Tabcorp VWAP is \$11.36 or less. You will receive the minimum number of 0.20 Tabcorp Shares per Tab Share if the Tabcorp VWAP is \$12.50 or more. If the Tabcorp VWAP is more than \$11.36 and less than \$12.50, the number of Tabcorp Shares which you will receive per Tab Share will be equal to \$2.50 divided by the Tabcorp VWAP (subject to rounding)<sup>10</sup>.

The implied market value of the Tabcorp Offer for a Tab Share under a range of Tabcorp VWAPs is shown in the table below<sup>11</sup>.

Tabcorp VWAP	Scrip component (number of Tabcorp Shares)	Cash component	Implied market value of the Tabcorp Offer
\$11.00	0.220 +	\$2.00 =	\$4.42
\$11.36	0.220 +	\$2.00 =	\$4.50
\$11.85	0.211 +	\$2.00 =	\$4.50
\$12.50	0.200 +	\$2.00 =	\$4.50
\$13.00	0.200 +	\$2.00 =	\$4.60

10 If you would otherwise become entitled to a fraction of a Tabcorp Share as a result of your acceptance of the Tabcorp Offer, any such fractional entitlement of less than 0.5 will be rounded down to zero and any fractional entitlement of 0.5 or more will be rounded up to one Tabcorp Share. Bidder has a discretion to round down any fractional entitlements where Bidder reasonably believes that any parcel(s) of Tab Shares has been created or manipulated to take advantage of the rounding provisions in the Tabcorp Bidder's Statement.

11 This table is based on the table in Figure 1 in the Tabcorp Bidder's Statement.

From the above table it can be seen that the implied market value of the Tabcorp Offer will remain at \$4.50 per Tab Share while the Tabcorp VWAP is between \$11.36 and \$12.50 (subject to the effects of rounding). If the Tabcorp VWAP is outside of this range, the implied market value of the Tabcorp Offer will vary.

The above table is not exhaustive and the actual Tabcorp VWAP may be outside the examples shown in the first column of the above table. Further, the price of Tabcorp Shares after Tabcorp's acquisition of Tab may be different from the price at which those shares currently trade.

Since announcing the Tabcorp Offer on 23 February 2004, the closing price of Tabcorp's shares on the ASX has ranged from \$11.32 to \$13.20 per Tabcorp Share.

### 1.3 CONDITIONS OF THE TABCORP OFFER

The full terms of the conditions of the Tabcorp Offer are set out in Sections 10.3(c) and 10.7 of the Tabcorp Bidder's Statement. Set out below is a brief summary of those conditions:

- (i) at the end of the Tabcorp Offer Period, Bidder has a relevant interest in more than 50.0% of the Tab Shares;
- (ii) commencement of all amendments to relevant New South Wales legislation and the nomination of Bidder under the New South Wales legislation by notice published in the New South Wales Government Gazette;
- (iii) approval by the New South Wales racing industry of arrangements with Tabcorp and Tab to satisfy New South Wales legislative requirements;
- (iv) ACCC not withdrawing, revoking or amending its notice stating the ACCC does not propose to intervene with or impose conditions on Bidder's acquisition of Tab Shares;
- (v) all necessary regulatory approvals to permit the Tabcorp Offer to be lawfully made to and accepted by Tab shareholders are granted on an unconditional basis and remain in full force and effect at the end of the Tabcorp Offer Period;
- (vi) no regulatory actions being taken in consequence of or in connection with the Tabcorp Offer which restrain, prohibit or impede the making of the Tabcorp Offer or the acquisition of Tab Shares under the Tabcorp Offer or the completion of any transaction contemplated by the Tabcorp Bidder's Statement;
- (vii) no event, change or condition occurring, being announced or becoming known to Bidder which has had, or could reasonably be expected to have, a material adverse effect on Tab;
- (viii) no material acquisitions or disposals of assets by Tab and no new material commitments by Tab;
- (ix) no Prescribed Occurrence (as defined in the Tabcorp Bidder's Statement) occurring;
- (x) no declaration or payment of any distribution of capital by Tab other than the fully franked 2004 interim dividend of 9.0 cents per Tab Share; and
- (xi) no event occurs which gives Bidder's financiers the right to terminate the Commitment Letter and all conditions precedent to the availability of funds under Bidder's loan facility to fund the cash component of the Tabcorp Offer have been satisfied or waived.

The Tabcorp Offer and any contract that results from your acceptance of it are also subject to the statutory condition in Section 625(3) of the Corporations Act, namely that an application is made to the ASX within 7 days of the start of the Tabcorp Offer Period for admission to official quotation by the ASX of the Tabcorp Shares to be issued pursuant to the Tabcorp Offer and that the permission for admission is granted no later than 7 days after the end of the Tabcorp Offer Period.

Given that most of the conditions of the Tabcorp Offer are outside Tab's control, the Tab Directors are unable to give any indication as to if and when the conditions will be satisfied. Set out below is a brief commentary in relation to two of the conditions of the Tabcorp Offer. Tab shareholders should also refer to the section of this Target's Statement headed "Comments on the NSW Government and the NSW racing industry conditions" which relates to the Racing Industry Condition and the Legislation Commencement and Nomination Conditions.

As at the date of this Target's Statement, Bidder has not announced that any of the conditions of the Tabcorp Offer have been satisfied or waived. Tab shareholders who accept the Tabcorp Offer will only receive the consideration for their Tab Shares after the Tabcorp Offer becomes unconditional. See Section 1.9 of this Target's Statement for details on timing of receipt of consideration.

#### **Comment on particular conditions**

##### ***(a) Acquisitions and disposals of assets condition***

The Tabcorp Offer is subject to a condition (Section 10.7(g) of the Tabcorp Bidder's Statement) that in summary provides that, except for matters publicly announced prior to the Tabcorp Announcement Date, none of the following events occurs during the period from the Tabcorp Announcement Date to the end of the Tabcorp Offer Period:

- (1) Tab or any of its subsidiaries acquires any companies, businesses or assets for an amount in aggregate greater than \$3 million;
- (2) Tab or any of its subsidiaries disposes of any companies, businesses or assets for an amount in aggregate greater than \$3 million;
- (3) Tab or any of its subsidiaries enters into any agreement which would require expenditure or the foregoing of revenue by the Tab Group of an amount which is in aggregate more than \$3 million, other than in the ordinary course of business; or
- (4) Tab or any of its subsidiaries enters into any agreement involving the provision of an equity, profit sharing or other interest in Sky Channel where that agreement involves a commitment of the Tab Group of greater than 12 months or would require expenditure or the foregoing of revenue by the Tab Group of an amount which is in aggregate more than \$3 million,

and during that period the business of the Tab Group is otherwise carried on in the ordinary and usual course of business.

Given the low threshold specified in this condition (particularly in relation to items 1-3), it may not be possible for Tab to carry on its business in the ordinary course without breaching this condition.

The Tab Directors therefore propose during the Tabcorp Offer Period to:

- (A) continue to act in the ordinary course of business (consistent with the second part of the condition), even though that may cause it to exceed the \$3 million aggregate limit set in the Tabcorp Offer;

- (B) comply with the spirit of the condition by not undertaking any acquisition or disposal or entering into any agreements that the Tab Directors consider would frustrate the purpose of Bidder in making the Tabcorp Offer without prior discussion with Bidder and Tabcorp; and
- (C) if the Tab Directors considered that it was necessary, in order to satisfy their fiduciary and statutory duties, to undertake any significant transaction which falls outside paragraphs (A) and (B) above, not to do so without first obtaining the approval of Tab shareholders in a general meeting.

**(b) Financing**

Section 6 of the Tabcorp Bidder's Statement discloses how Bidder proposes to fund the Tabcorp Offer.

The Tabcorp Bidder's Statement discloses that:

- Bidder will obtain the cash it requires to settle acceptances under the Tabcorp Offer by making drawings under a loan facility (**Loan Facility**) which Bidder and other Tabcorp Group companies will enter into with Barclays Bank PLC and Westpac Banking Corporation (**Banks**); and
- a binding Commitment Letter has been signed by Tabcorp and the Banks pursuant to which the Banks have agreed to enter into a formal agreement to provide the Loan Facility.

The Tabcorp Offer is subject to a condition that no event occurs which gives the Banks the right to terminate the Commitment Letter and all conditions precedent to the availability of funds under the Loan Facility have been satisfied or waived.

On the basis of disclosures made to date, Bidder has not yet signed a final facility agreement with its financiers. The Commitment Letter can be terminated by the Banks if the formal agreement to provide the Loan Facility is not signed by 17 May 2004 (or such later date as the Banks may agree in writing). The Tabcorp Bidder's Statement does not state when Bidder expects to sign the formal agreement.

#### 1.4 NOTICE OF STATUS OF CONDITIONS

The Tabcorp Bidder's Statement indicates that Bidder will give a Notice of Status of Conditions on 17 May 2004. If the Tabcorp Offer Period is extended before the time by which the Notice of Status of Conditions is to be given, the date for giving the Notice of Status of Conditions will be taken to be postponed for the same period.

In the event of such an extension, Bidder is required, as soon as practicable after the extension, to give a notice to the ASX and Tab that states the new date for the giving of the Notice of Status of Conditions. Bidder is required to set out in its Notice of Status of Conditions:

- whether the Tabcorp Offer is free of any or all of the conditions;
- whether, so far as Bidder knows, any of the conditions have been fulfilled; and
- Bidder's voting power in Tab.

If a condition is fulfilled (so that the Tabcorp Offer becomes free of that condition) during the Tabcorp Offer Period but before the date on which the Notice of Status of Conditions is required to be given, Bidder must, as soon as practicable, give the ASX and Tab a notice that states that the particular condition has been fulfilled.

## 1.5 OFFER PERIOD

Unless the Tabcorp Offer is extended or withdrawn, it is open for acceptance from 21 April 2004 until 7.00pm (Sydney time) on Tuesday 25 May 2004.

The circumstances in which Bidder may extend or withdraw the Tabcorp Offer are set out in Section 1.6 and Section 1.7 respectively of this Target's Statement.

## 1.6 EXTENSION OF THE TABCORP OFFER PERIOD

Bidder may extend the Tabcorp Offer Period at any time before giving the Notice of Status of Conditions while the Tabcorp Offer is subject to conditions.

However, if the Tabcorp Offer is unconditional (that is, all the conditions are fulfilled or freed), Bidder may extend the Tabcorp Offer Period at any time before the end of the Tabcorp Offer Period.

In addition, there will be an automatic extension of the Tabcorp Offer Period if, within the last 7 days of the Tabcorp Offer Period:

- Bidder improves the consideration under the Tabcorp Offer; or
- Bidder's voting power in Tab increases to more than 50%.

If either of these two events occurs, the Tabcorp Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

## 1.7 WITHDRAWAL OF OFFER

In accordance with Section 652B of the Corporations Act, the Tabcorp Offer may only be withdrawn with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

If Bidder withdraws the Tabcorp Offer, any contract resulting from its acceptance will automatically be void.

## 1.8 EFFECT OF ACCEPTANCE AND YOUR ABILITY TO WITHDRAW YOUR ACCEPTANCE

The effect of accepting the Tabcorp Offer is set out in Section 10.5 of the Tabcorp Bidder's Statement. Section 10.8 of the Tabcorp Bidder's Statement explains the nature of the offer conditions, including the circumstances in which Tab shareholders that have accepted the Tabcorp Offer will be able to withdraw their acceptances.

Tab shareholders should read these provisions in full to understand the effect that acceptance will have on the Rights attaching to their Tab Shares and the representations and warranties which they give by accepting the Tabcorp Offer.

Notwithstanding your acceptance of the Tabcorp Offer, unless and until each of the conditions in Sections 10.7(b)(i) and 10.7(b)(ii) of the Tabcorp Bidder's Statement (**Legislation Commencement and Nomination Conditions**) have been satisfied or waived:

- no contract for the sale of Tab Shares will come into force or be binding on you or on Bidder;
- Bidder will have no rights (conditional or otherwise) in relation to your Tab Shares;
- if any of your Tab Shares are held in a CHESS Holding, you will be entitled to withdraw your acceptance in respect of such Tab Shares by having your Controlling Participant (e.g your stock broker) transmit a valid originating message to the ASTC specifying the Tab Shares to be released from the sub-position, in accordance with Rule 14.16 of the ASTC Settlement Rules, at any time prior to the satisfaction of those conditions; and



- if your Tab Shares are not held in a CHESS Holding, you will be entitled to withdraw your acceptance in respect of such Tab Shares by sending a notice to that effect signed by you (or on your behalf, in which case documentation proving that the person or persons signing the notice are authorised to do so must accompany the notice) to any of the addresses specified on the Acceptance Form so that it is received at the relevant address at any time prior to the satisfaction or waiver of those conditions.

Apart from the Legislation Commencement and Nomination Conditions, the other conditions in Section 10.7 of the Tabcorp Bidder's Statement are conditions subsequent.

Accordingly, Tab shareholders who accept the Tabcorp Offer after the Legislation Commencement and Nomination Conditions have been satisfied, but while the Tabcorp Offer is still subject to other conditions, will give up their right to sell their Tab Shares on the stock market or otherwise deal with their Tab Shares (and the Rights attaching to those Tab Shares) while the Tabcorp Offer remains open.

However, even in these circumstances, you could still withdraw your acceptance of the Tabcorp Offer (and thereby become free to deal with your Tab Shares) if Bidder were to vary the Tabcorp Offer in a way that postpones, for more than one month, the time when Bidder needs to meet its obligations under the Tabcorp Offer.

### **1.9 WHEN WILL I RECEIVE MY CONSIDERATION IF I ACCEPT THE TABCORP OFFER?**

If you accept the Tabcorp Offer and the contract resulting from your acceptance becomes unconditional, Bidder will provide the consideration on or before the earlier of:

- (a) 1 month after:
  - (1) the date you accept the Tabcorp Offer; or
  - (2) the date the Tabcorp Offer becomes or is declared unconditional (if it was conditional at the time of your acceptance),whichever is the later; and
- (b) 21 days after the end of the Tabcorp Offer Period.

However, there are certain exceptions to the above timetable for the issuing and payment of consideration. Full details of when you will receive your consideration are set out in Section 10.6 of the Tabcorp Bidder's Statement.

### **1.10 EFFECT OF AN IMPROVEMENT IN CONSIDERATION ON TAB SHAREHOLDERS**

If Bidder improves the consideration under the Tabcorp Offer, all Tab shareholders who sell their Tab Shares to Bidder under the Tabcorp Offer, whether or not they have accepted the Tabcorp Offer prior to that improvement in consideration, will be entitled to the benefit of that improved consideration.

### **1.11 LAPSE OF THE TABCORP OFFER**

The Tabcorp Offer will lapse if the conditions of the Tabcorp Offer are not waived or fulfilled by the end of the Tabcorp Offer Period, in which case, all contracts resulting from acceptance of the Tabcorp Offer and all acceptances that have not resulted in binding contracts are void. In that situation, if you have previously accepted the Tabcorp Offer, you will be free to deal with your Tab Shares as you see fit.

### 1.12 COMPULSORY ACQUISITION

Bidder has indicated in the Tabcorp Bidder's Statement that if it becomes entitled to proceed to compulsory acquisition of the Tab Shares under the Corporations Act it intends to exercise these rights and acquire the balance of the Tab Shares (including Tab Shares that are issued upon the exercise of Options in the 6 weeks after Bidder gives its compulsory acquisition notices).

Bidder will be entitled to compulsorily acquire any Tab Shares in respect of which it has not received an acceptance of the Tabcorp Offer on the same terms as the Tabcorp Offer if, during or at the end of the Tabcorp Offer Period, Bidder (together with its associates) has a relevant interest in at least 90% (by number) of the Tab Shares.

If this threshold is met, Bidder will have one month after the end of the Tabcorp Offer Period within which to give compulsory acquisition notices to Tab shareholders who have not accepted the Tabcorp Offer. Tab shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant shareholder to establish to the satisfaction of a court that the consideration offered does not represent "fair value" for their Tab Shares.

If compulsory acquisition occurs, Tab shareholders who have their Tab Shares compulsorily acquired will be paid their consideration later than Tab shareholders who accept the Tabcorp Offer.

### 1.13 RISKS FOR A COMBINED TABCORP/TAB

Section 8 of the Tabcorp Bidder's Statement contains information about the risks that may have an adverse impact on the financial performance of the Combined Tabcorp/Tab and the value of Tabcorp Shares.

The Tab Directors wish to make specific comment on the risks set out below. These fall into two broad categories, being (a) risks relating to Tabcorp's business and (b) risks relating to the Tabcorp Offer.

#### (a) Risks relating to Tabcorp's business

##### (1) Licences held by the Tabcorp Group

The Tabcorp Group hold wagering and gaming licences in Victoria as well as licences to operate a casino in NSW and three casinos in Queensland. The Tabcorp Group also holds licences to operate Keno games in NSW and Queensland and a licence to monitor gaming machines in Queensland. These licences have differing periods of exclusivity (although some are non-exclusive) and differing expiry dates (although some continue in perpetuity). Tab shareholders should refer to the Tabcorp Bidder's Statement for information regarding each of these licences and the risks associated with each licence (including the risk of non-renewal and the risk of additional licences being granted to third parties following the expiry of relevant exclusivity periods).

Set out in Annexure B is a brief summary of information contained in the Tabcorp Bidder's Statement on the various licences held by companies in the Tabcorp Group.

Tab shareholders should note in particular that Tabcorp's Victorian wagering and gaming licences (pursuant to which Tabcorp conducts its Victorian gaming and wagering operations) are due to expire in 2012. It is possible that these licences may not be renewed at that time or a person other than Tabcorp could successfully acquire new licences under the Gaming and Betting Act 1994 (Vic). It is also possible that new licences may be issued on terms that are different to the existing licences. Sections 8.5(a) and 1.5(b)(i) of the Tabcorp Bidder's Statement provide further information regarding Tabcorp's existing Victorian wagering and gaming licences.



(2) Star City Casino taxes and operating hours

The Tabcorp Bidder's Statement indicates that the NSW Government can review Star City's casino duty and community benefit levy arrangements on 13 September 2007. It is possible that the review could result in an increase in the duty and levy payable by Star City. While the Tab Directors are unable to provide any additional guidance in relation to the outcome of any such review by the NSW Government, the Tab Directors refer Tab shareholders to the fact that, starting from 1 September 2004, new tax scales for NSW registered clubs and hotels will begin to be phased in over 7 years which will, in the main, involve NSW registered clubs and hotels paying an increased rate of gaming machine tax.

The Tabcorp Bidder's Statement also indicates that the Star City Casino must open for gaming at the hours and times specified by the NSW Casino Control Authority and at no other times and that currently Star City Casino is required to be open at all times. While the Tab Directors are not aware of any proposals by the NSW Casino Control Authority to change the hours of operation of the Star City Casino, the Tab Directors refer Tab shareholders to the fact that in NSW, registered clubs and hotels are generally required to shut down gaming machines at their premises for 6 hours a day as a result of regulatory requirements introduced by the NSW Government in 2003.

**(b) Risks relating to the Tabcorp Offer**

(1) Trading price of Tabcorp Shares

If the Tabcorp Offer becomes or is declared unconditional, Tab shareholders that accept the Tabcorp Offer will receive Tabcorp Shares as part of the consideration for accepting the Tabcorp Offer in respect of their Tab Shares.

The Tab Directors cannot predict Tabcorp's share price performance either before or after any transaction.

The table in Section 1.2 of this Target's Statement contains some examples of the implied market value of the Tabcorp Offer based on differing Tabcorp share prices. The table is not exhaustive and the actual price of Tabcorp Shares may be outside the examples shown in the table.

(2) Differing investment risk profile

Tab shareholders who are considering accepting the Tabcorp Offer should consider the different risk profile that an investment in Tab Shares has compared with an investment in Tabcorp Shares.

Through their investment in Tab Shares, Tab shareholders currently have exposure to a company that is principally focused on off-course wagering and sports betting with interests in media (through Sky Channel and 2KY Racing Radio) and gaming operations in NSW (including state wide linked jackpot operations and monitoring of gaming machines).

This compares with an investment in Tabcorp Shares which would provide an exposure to a more diversified range of gambling operations. In addition to the activities currently conducted by Tab, a Combined Tabcorp/Tab would also include off-course wagering and sports betting operations in Victoria, ownership of 4 casinos (3 in Queensland and 1 in NSW), Keno operations in Victoria, NSW and Queensland, ownership of hotel and entertainment complexes in NSW and Queensland, gaming machine operations including gaming machine monitoring in Victoria<sup>12</sup> and ownership of approximately 18,000 gaming machines, an international monitoring and totalizator sales and support business and a technical support services business.

These various segments of the Tabcorp Group's business are described in more detail in the Tabcorp

12 Tabcorp has conditionally agreed to sell its Queensland gaming machine monitoring and progressive jackpot services businesses to UNiTAB (see Tabcorp's and UNiTAB's announcements of 23 April 2004).

Bidder's Statement. However, a Combined Tabcorp/Tab will not include the Tab Gaming Division (the NSW Government requires this business to be divested within 18 months of Bidder acquiring Tab and, as explained earlier in this Target's Statement, Tabcorp has conditionally agreed to procure the divestment of the Tab Gaming Division to UNITAB).

A Combined Tabcorp/Tab will have interests in a more diverse range of businesses than Tab currently has and, as a consequence, shareholders in the Combined Tabcorp/Tab will be exposed to a greater range of risks in relation to those businesses than Tab shareholders are currently exposed to. For example, the Tabcorp casinos in Queensland operate a commission premium player business which the Tabcorp Bidder's Statement points out can achieve significant wins and also sustain significant losses. The Tabcorp Bidder's Statement also states that volatility in this business in the future may result in periodic declines in the Combined Tabcorp/Tab's financial performance and may adversely affect the value of Tabcorp Shares. This is not the type of risk that Tab shareholders are currently exposed to through their shareholding in Tab.

A Combined Tabcorp/Tab will also be exposed to a broader range of regulatory risks as the Combined Tabcorp/Tab will have operations in NSW, Queensland and Victoria. These operations will be subject to regulation and supervision by government departments in each of these 3 States. As a consequence, Tab shareholders that accept the Tabcorp Offer and become shareholders of Tabcorp will become exposed to the potential impact of changes in State government policy and regulation that they are not currently subject to as shareholders in Tab. In addition, Tab cannot predict the attitude of relevant regulators in NSW to the Combined Tabcorp/Tab.

### (3) Integration

Section 8.6(g) of the Tabcorp Bidder's Statement refers to some of the risks associated with the integration of the Tab Group and the Tabcorp Group. For example, it notes that there is a risk that any integration may take longer than expected or that the extraction of efficiencies may be less than estimated.

The Tabcorp Bidder's Statement states that Tabcorp's management team is highly experienced in the integration of large acquisitions with the full integration of Star City Casino and the partial integration of Jupiters.

If Tab shareholders decide to accept the Tabcorp Offer, they should consider the risk of Bidder's and Tabcorp's board and management being unable to successfully integrate the Tab and Tabcorp businesses having regard to the fact that Tabcorp has not previously integrated a company whose business involves wagering and media.

If the integration of the Tab and Tabcorp businesses is not successful, the cost and revenue synergies that Tabcorp anticipates will flow from the merger of the businesses may not be fully achieved or may not be achieved in a timely manner.

### (4) Approvals required to achieve synergies

The Tabcorp Bidder's Statement discloses that a number of approvals will be required to enable the Combined Tabcorp/Tab to realise certain of the synergies and efficiencies described in Section 5.5(b)(i) of the Tabcorp Bidder's Statement.

There is a risk that the necessary approvals may not be provided (or may be delayed or provided on a conditional basis) and accordingly the expected synergy benefits of Tabcorp's takeover may not be fully achieved or may be delayed. There is also a risk that the terms on which approvals are provided could impact on the value of the Combined Tabcorp/Tab.

The Tabcorp Bidder's Statement does not disclose Tabcorp's or Bidder's view of the likelihood or timing of the necessary approvals being obtained but does state that a failure to achieve some or all of the synergies or efficiencies may have an adverse effect on the financial performance of the Combined Tabcorp/Tab and the value of Tabcorp Shares.

(5) Consequences of Bidder not acquiring 100% of Tab

*General*

Given that the Tabcorp Offer does not contain a 90% minimum acceptance condition, the Tabcorp Offer may proceed if Bidder acquires more than 50.0% and less than 90% of the Tab Shares. Please refer to Section 3.1 of this Target's Statement for a discussion of minority ownership consequences for Tab shareholders that do not accept the Tabcorp Offer.

*Racing Heads of Agreement*

Section 8.6(c) of the Tabcorp Bidder's Statement discloses that if Bidder does not acquire 100% of Tab, Tabcorp may not be able to procure that the Tab Group perform certain obligations contemplated by the Racing Heads of Agreement.

It discloses that if Tabcorp is unable to procure the performance by the Tab Group of particular obligations, Tabcorp will be required to bear the cost of performing, or making good, the relevant obligation. The Tabcorp Bidder's Statement states that the occurrence of such circumstances may have a material adverse impact on the financial performance of the Combined Tabcorp/Tab and the value of the Tabcorp Shares. The Tabcorp Bidder's Statement does not include details of the quantum of any such costs or the basis on which they may have a material adverse impact.

It is important that Tab shareholders take this statement into consideration when deciding whether or not to accept the Tabcorp Offer as there is a prospect that Bidder may not acquire 100% of Tab under the takeover given the Tabcorp Offer is not conditional upon Bidder receiving acceptances which would entitle it to proceed to compulsory acquisition.

See further comments on the Racing Heads of Agreement above under the heading "Comments on the NSW Government and the NSW racing industry conditions".

(6) Gearing position of Combined Tabcorp/Tab

Tab shareholders should carefully read Section 6 of the Tabcorp Bidder's Statement which explains how Tabcorp and Bidder propose to fund the cash component of the Tabcorp Offer, the conditions on which the funds will be made available to Tabcorp and Bidder and the ongoing conditions that will be placed on Tabcorp and Bidder for the provision of those funds. It is important for Tab shareholders to consider these matters (and more generally, the information in the Tabcorp Bidder's Statement regarding the Tabcorp Group's existing financing arrangements) because if the Tabcorp Offer becomes or is declared unconditional, Tab shareholders that accept the Tabcorp Offer will receive shares in Tabcorp and accordingly will be exposed to risks associated with Tabcorp's financing arrangements.

According to the Tabcorp Bidder's Statement, if Bidder acquires all of the Tab Shares, the Combined Tabcorp/Tab is anticipated to have net borrowings of approximately \$2,794 million and gross borrowings of \$3,042 million (on a pro forma basis as at 31 December 2003).

As the Tabcorp Bidder's Statement points out, higher levels of leverage may potentially restrict the ability of the Combined Tabcorp/Tab to borrow in the future and may potentially increase the sensitivity of the Combined Tabcorp/Tab's earnings to movements in interest rates. It could also restrict the ability of the Combined Tabcorp/Tab to undertake major corporate actions.

#### 1.14 TABCORP'S SHARE SALE FACILITY

Tabcorp has arranged a share sale facility through which Eligible Tab Shareholders who choose to sell the Tabcorp Shares to which they are entitled under the Tabcorp Offer (up to a maximum of 200 Tabcorp Shares) can sell those shares without incurring any brokerage costs.

Eligible Tab Shareholders that are entitled to more than 200 Tabcorp Shares under the Tabcorp Offer can still elect to participate in the share sale facility however they will retain the excess Tabcorp Shares to which they are entitled.

Full details of the share sale facility, how to participate in the facility and the warranties, acknowledgements, agreements and appointments you make if you elect to participate in the facility are described in Section 11 and Annexure H of the Tabcorp Bidder's Statement. Tab shareholders should read these provisions carefully before deciding whether or not to participate in the share sale facility.

It is important for Eligible Tab Shareholders to note the following matters in relation to the operation of the share sale facility:

- shareholders that participate in the share sale facility will not have any control over the time of the sale of the Tabcorp Shares being sold under the facility, and therefore the sale price is uncertain;
- different shareholders participating in the share sale facility may receive different sale prices because Tabcorp Shares sold under the facility may be sold at different times;
- the price for which Tabcorp Shares will be sold under the share sale facility is not fixed and is not underwritten, and may be less than the market price of Tabcorp Shares at the time that you elect to participate or that any sale takes place (in particular in the case of Tab Shares that are sold in the Book Build);
- no Tabcorp Shares will be sold under the share sale facility until after the Tabcorp Offer has become, or has been declared, unconditional (if that occurs);
- it is possible that it will take longer for you to receive the sale proceeds for your Tabcorp Shares if you participate in the share sale facility than if you sold your Tabcorp Shares on the ASX (although if you sold on the ASX you would normally have to pay brokerage on the sale);
- the Tabcorp Shares sold under the share sale facility may be sold either in the Book Build or on the ASX; and
- if there are a large number of Tabcorp Shares to be sold under the share sale facility at the same time as your Tabcorp Shares are to be sold under the facility, this may have an adverse effect on the price that you receive for your Tabcorp Shares.

Eligible Tab Shareholders considering participating in the share sale facility that Tabcorp is offering should consider obtaining appropriate professional advice (including tax advice) in relation to their participation in the facility. A brief discussion of the tax consequences of disposing of Tabcorp Shares under the share sale facility is included in Section 7 of the Tabcorp Bidder's Statement.



## SECTION TWO: INFORMATION REGARDING TAB

32

TARGET'S STATEMENT

### 2.1 2004 PROFIT UPDATE

Tab recently provided the market with a profit update in relation to the 12 months to 30 June 2004. A copy of the announcement is attached to this Target's Statement as Annexure A.

### 2.2 ISSUED CAPITAL

As at the date of this Target's Statement, Tab's issued capital consisted of:

- 451,097,362 fully paid ordinary shares; and
- 1,680,000 Options on issue - each Option gives the holder the right to be issued 1 Tab share upon exercise.

### 2.3 TAB DIVIDEND POLICY

Tab has historically paid out a significant proportion of after tax earnings as dividends. A summary of Tab's dividend payments for the 2003 financial year and the 2004 interim dividend is set out below:

#### Summary of Tab's 2003 financial year dividend (full year)

Earnings per share (cents)	16.5
Dividend per share (cents)	15.0
Payout ratio <sup>13</sup>	90.9%

#### Summary of Tab's 2004 financial year interim dividend (half year)

Earnings per share - recurring (cents)	9.5
Dividend per share (cents)	9.0
Payout ratio	94.7%

Section 2.3 of the Tabcorp Bidder's Statement sets out Tabcorp's intention in relation to future dividend payments.

### 2.4 DIRECTORS OF TAB

As at the date of this Target's Statement, the directors of Tab are:

<u>Name</u>	<u>Position</u>
Graham J Kelly	Non-executive Director/Chairman
Warren R Wilson	Managing Director
Belinda J Hutchinson	Non-executive Director
Brian F Keane	Non-executive Director
F Allan McDonald	Non-executive Director
The Hon Barrie J Unsworth	Non-executive Director
Geoffrey C E Wild, AM	Non-executive Director

<sup>13</sup> The percentage of net profit after tax declared to be paid to shareholders in the form of dividends for the financial year.

The Tab Directors' recommendation in this Target's Statement is the recommendation of all of the Directors set out above.

## 2.5 UPDATE ON SKY CHANNEL

### (a) Sydney Turf Club and Australian Jockey Club

Sky Channel's right to broadcast races conducted by the Sydney Turf Club (**STC**) and Australian Jockey Club (**AJC**) expired on 4 March 2004. Sky Channel continued to broadcast race meetings held by those clubs on an interim basis until 18 March 2004.

Prior to that time Sky Channel, STC and AJC had been in negotiation, for a period of approximately 10 months, on the terms on which those rights might be renewed. The STC and AJC were not prepared to enter into commercially acceptable arrangements with Sky Channel for renewal of the rights. In particular, the AJC and STC sought to extend the rights contracts for a period of approximately 14 months, which if accepted by Sky Channel, would have meant that the extended contract would have expired at approximately the same time as Sky Channel's contract to broadcast Victorian thoroughbred races. Sky Channel and Tab were of the view that a short term extension of the kind offered by the STC and AJC was not in the best interests of Sky Channel or Tab shareholders.

The expiry of the STC and AJC rights has meant that since 4 March 2004 Sky Channel has not been required to pay rights fees to the STC and AJC. In the 12 month period to 4 March 2004, the rights fees paid to the STC and AJC were approximately \$9.5 million. Accordingly Sky Channel's operating expenses have been significantly reduced.

### (b) Fee discount for commercial subscribers

As announced to the ASX on 28 April 2004, Sky Channel has entered into new arrangements with its registered club customers in NSW, the effect of which is to give a 9.75% discount on subscription fees for so long as Sky Channel does not televise STC and AJC races into registered clubs (back dated to 20 March 2004). While it is in place, this discount is expected to reduce the subscription revenue to be received by Sky Channel by approximately \$1.125 million on an annual basis.

Sky Channel has also offered to pass on a fee discount nationally to all of its commercial subscribers (hotels and clubs) while it does not have the rights to broadcast STC and AJC race meetings. If a discount of 9.75% is passed on nationally, it would reduce the subscription revenue to be received by Sky Channel by approximately \$4.875 million on an annual basis (this amount includes the \$1.125 million discount to NSW registered clubs referred to above).

Tab's wagering business has also agreed to make promotional payments to NSW registered clubs operating ClubTAB outlets, depending on the level of each registered club's wagering turnover. This payment will exist for the next 3 years and is expected to increase operating costs by approximately \$2.25 million per annum from 1 July 2004, in return for promotional benefits.

### (c) Wagering business

Since expiry of the AJC and STC contracts, Tab has taken appropriate steps to ensure that its totalizator wagering turnover is not reduced as a result of STC and AJC races not being televised on Sky Channel. This has included Sky Channel displaying all race information and results in relation to STC and AJC races, together with broadcasting an audio call of the relevant races as part of the Sky Channel television services. AJC and STC races also continue to be broadcast by 2KY Racing Radio.

The AJC/STC autumn carnival (completed on 17 April 2004) contained significant programming changes as compared to the prior year, together with a general reduction in field sizes, and an increase in the number of races with fewer than 8 starters. All of these factors are likely to have had an impact on turnover.



## SECTION TWO: INFORMATION REGARDING TAB

34

TARGET'S STATEMENT

Tab has experienced no adverse earnings impact in either of its wagering or media operations from the loss of rights to telecast Sydney metropolitan thoroughbred racing on Sky Channel since mid-March 2004. In particular:

- aggregate wagering turnover of Tab on the days on which the AJC or STC held race meetings in the period from 20 March 2004 to 24 April 2004 is higher than the aggregate turnover for the comparable period last year;
- during the relevant period, wagering turnover was consistent with the expected turnover for the relevant race days, based on Tab's forecasts for those days; and
- while wagering turnover for AJC and STC race meetings has varied, with some increases and some decreases compared with last year, on days when AJC and STC race meetings have been held there has typically been increases in turnover on other race meetings which are televised by Sky Channel.

### **(d) Potential claims arising out of Sky Channel rights renegotiations**

Throughout the period from 19 March 2004 to 1 April 2004, as part of or relating to the renegotiation of Sky Channel's right to broadcast STC and AJC races, Tab or Sky Channel received correspondence from several third parties alleging that either Tab or Sky Channel's conduct was in breach of legal obligations owed to those parties or otherwise entitled those parties to compensation. Neither Tab nor Sky Channel has received any formal legal claim or notice of claim in relation to any of these matters.

Tab does not believe, based on correspondence received to date, that any of its or Sky Channel's conduct in relation to the STC and AJC rights renegotiation has breached the rights of any third party or otherwise entitles a third party to compensation from Tab or Sky Channel.

However, Tab cannot rule out the possibility that claims will be made by third parties in relation to these matters. Tab is not in a position to assess the merits of any of these claims unless and until such claims may be formally made.

## **2.6 EFFECT OF THE TAKEOVER ON TAB'S MATERIAL CONTRACTS**

The following material contracts have change of control clauses which will be triggered if Bidder is successful in acquiring control of Tab, giving rise to the ability for the counter-party to terminate the contract.

As at the date of this Target's Statement, Tab had not received any written notice from any party to such contracts that such party intends to exercise its rights under those contracts.

### **(a) Racing Distribution Agreement**

The Racing Distribution Agreement between Tab, NSW Racing Pty Limited, and three NSW racing representative bodies (Greyhound Racing New South Wales, Harness Racing New South Wales and NSW Thoroughbred Racing Board) is the primary document which governs the relationship between Tab and the NSW racing industry. The material terms of this agreement have previously been disclosed at the time of the public offer of Tab shares in 1998, and in subsequent announcements to the ASX.

The agreement can be terminated by the NSW racing industry if Tab ceases to be listed on the ASX. Tab may cease to be listed on the ASX if the Tabcorp Offer is successful. Bidder has indicated in the Tabcorp Bidder's Statement that if:

- it becomes entitled to compulsorily acquire Tab Shares under the Corporations Act it intends to exercise these rights and arrange for Tab to be removed from the official list of the ASX; or

- it becomes entitled to a shareholding of more than 50.0% and less than 90% of Tab, it intends to maintain Tab's listing on the ASX, subject to the requirements for listing continuing to be satisfied.

According to the Tabcorp Bidder's Statement the Racing Heads of Agreement provides that the NSW racing industry will waive its rights to terminate the RDA in connection with the delisting of Tab for so long as Tabcorp controls Tab.

#### **(b) Tab's current financing arrangements**

Tab has debt facilities in place with several banks. Each of these facilities contains a change of control provision which allows the lenders to review the facilities over a 60 day period following a change in control of Tab. The lender may cancel the facility within the 60 day period and require Tab to repay the whole of the facility within 90 days of the date of that cancellation.

These change of control provisions would be triggered if Bidder acquired more than 50% of the Tab Shares.

The Tabcorp Bidder's Statement provides that Tabcorp has signed a binding commitment letter with Barclays Bank PLC and Westpac Banking Corporation pursuant to which these banks have agreed to enter into a formal agreement to provide a loan facility under which Bidder will be able to borrow an amount which (if necessary) can be used to refinance the current indebtedness of Tab (in addition to also being able to borrow an amount in excess of the amount necessary to fully fund the cash required by Bidder to settle acceptances under the Tabcorp Offer). Tabcorp's Bidder's Statement states that this amount will be used for that purpose if necessary.

### **2.7 MATERIAL LITIGATION**

Legal proceedings arise from time to time in the course of Tab and its subsidiaries' business. Tab does not believe that the outcome of any current proceeding (as at the date of this Target's Statement) involving Tab or its subsidiaries is likely to have a material adverse effect on the business or financial position of Tab.

### **2.8 FURTHER INFORMATION REGARDING TAB**

Tab shareholders should refer to Tab's target's statement dated 5 March 2004 in relation to the UNITAB Offer for further information regarding Tab.



## SECTION THREE: FURTHER MATTERS FOR TAB SHAREHOLDERS TO CONSIDER

36

TARGET'S STATEMENT

### 3.1 MINORITY OWNERSHIP CONSEQUENCES

The Tabcorp Offer is not conditional upon Bidder reaching the compulsory acquisition thresholds in the Corporations Act but rather contains a condition requiring that at the end of the Tabcorp Offer Period Bidder and its associates have a relevant interest in more than 50.0% of the Tab Shares. If Bidder obtains more than 50.0% and less than 90% of the Tab Shares then, assuming all other conditions of the Tabcorp Offer are satisfied or waived, Bidder will acquire a majority shareholding in Tab.

Accordingly, shareholders who do not accept the Tabcorp Offer will become minority shareholders in Tab. This has a number of possible implications including:

- Tab's share price may not sustain the level of takeover premium currently incorporated into it;
- liquidity of Tab Shares is likely to be lower than at present, and there is a risk that Tab could be fully or partially removed from certain S&P/ASX market indices due to lack of free float or liquidity;
- provided that Tab remains on the official list of the ASX, Tab shareholders will continue to have the right to offer their Tab Shares for sale on the ASX although their ability to sell the shares and the price they can obtain for the shares may be reduced by the stock's lower level of liquidity;
- a change to the Tab board - the Tabcorp Bidder's Statement states that subject to the Corporations Act and Tab's constitution, Bidder will seek to add to, or replace, a proportion of the members of the Tab board with nominees of Tabcorp (to reflect Tabcorp's proportionate ownership interest in Tab), with minority shareholders represented by at least one independent director;
- future Tab dividend policy under the management of Tabcorp may vary from current Tab dividend policy - the Tabcorp Bidder's Statement states that Tabcorp, through its nominees on the Tab board, would propose a review of Tab's dividend policy, to ensure that it reflects a balance between providing shareholders with an appropriate yield on their investment and ensuring that sufficient resources are maintained within Tab to fund its on going activities and capital requirements; and
- a proportion of the synergies referred to in the Tabcorp Bidder's Statement may not be achieved (see Section 4.4 of the Tabcorp Bidder's Statement in this regard).

Section 4.4 of the Tabcorp Bidder's Statement sets out Tabcorp's current intentions upon Bidder acquiring more than 50.0% but less than 90% of the Tab Shares.

### 3.2 TAXATION CONSEQUENCES

Section 7 of the Tabcorp Bidder's Statement sets out a general overview of the principal Australian tax consequences of accepting the Tabcorp Offer.

Shareholders should note that the summary is of a general nature only and all shareholders should seek professional advice in relation to their own particular circumstances.

Tab makes the following additional comments in relation to Australian tax resident shareholders which should be read in conjunction with Section 7 of the Tabcorp Bidder's Statement:

#### Dividends

Dividends received by individual shareholders would generally be required to be included in their assessable income, together with the amount of any franking credit in relation to the dividend.

If the dividend is franked then shareholders would usually be entitled to a tax offset in respect of such dividends, subject to compliance with certain anti-avoidance rules. One such rule anticipated to apply will require the shareholder to have held its shares "at risk" for a period of 45 days (not including the date of

acquisition or disposal) as a prerequisite to becoming entitled to the franking credits attached to a dividend, subject to an exemption for small shareholdings which is discussed later. Other investments held by the shareholder may affect whether the shares are held "at risk" as required, and so shareholders should obtain their own advice regarding the application of the rule. The exemption from the rule is available to individual shareholders whose total tax offset entitlements from Tab Shares and all other sources in the 2004 financial year is \$5,000 or less.

### **Partial scrip for scrip rollover**

Tab makes the following additional comments in relation to scrip for scrip rollover by way of clarification.

Tab shareholders may make a capital gain on the cash component of the consideration received, but are entitled to defer any capital gain on the share component of the consideration received provided that Bidder acquires at least 80% of the Tab Shares. Where Bidder acquires the necessary number of Tab Shares and the Tab shareholder chooses scrip-for-scrip rollover, it is necessary to apportion the cost base of the Tab Shares between the cash component and the share component of the consideration received. The cost base apportioned to the cash component is used to determine the amount of any capital gain on the cash component received. The cost base apportioned to the share component becomes the cost base of the Tabcorp Shares received and is relevant to a subsequent disposal of those Tabcorp Shares. This is demonstrated in the following example.

#### **Example:**

Assume a disposal of 100 Tab Shares under the Tabcorp Offer which have a cost base of \$4.00 per share and that on the date of disposal (being the later of (a) accepting the Tabcorp Offer and (b) the satisfaction or waiver of the conditions in Section 10.7(b)(i) and (ii) of the Tabcorp Bidder's Statement) Tabcorp Shares have a market value of \$12.50 per share. The total value of the consideration received under the Offer is \$450.00 (\$200 in cash and \$250.00 (20 shares at \$12.50 per share)).

It is necessary to apportion the cost base of the Tab Shares between the cash component and the scrip component. The cost base of the Tab Shares on the cash component is:

$$100 \times \$4 \times \frac{\$200.00}{\$450.00} = \$177.78$$

The capital gain for the 100 shares on the cash component is \$22.22 (\$200 less \$177.78). However, this capital gain may be reduced by up to 50% if the Tab shareholder is entitled to a CGT discount: see Section 7.2(a)(i) of the Tabcorp Bidder's Statement.

The balance of the cost base becomes the cost base of the Tabcorp Shares received, ie. \$222.22 (\$400 less \$177.78), assuming that roll over relief is available.

### **Tab Employee Performance Share Plan ("EPSP")**

If Bidder proceeds to compulsorily acquire the remaining Tab Shares it does not acquire under the Tabcorp Offer, each of the Tab Shares issued under the EPSP and which are subject to restriction on disposal will be compulsorily acquired by Bidder regardless of the restriction on transfer under the EPSP rules. Under the provisions of the taxation law which govern employee share acquisition schemes like the EPSP, employees are only subject to tax on so much of the discount on acquisition of their shares as exceeds \$1,000, provided a number of conditions are met. One condition is that the share plan must be operated so that participating employees are not permitted to dispose of their shares until three years after their acquisition, or until the participating employee ceases to be employed by Tab - whichever occurs earlier. Tab has sought a Class Ruling from the Commissioner of Taxation to the effect that the



## SECTION THREE: FURTHER MATTERS FOR TAB SHAREHOLDERS TO CONSIDER

compulsory acquisition by Bidder will not deny participants the benefit of the \$1,000 tax-free discount at the time of acquisition.

Tab notes that a favourable class ruling was issued in similar circumstances in relation to the takeover of MIM Holdings Limited by Xstrata Holdings Pty Limited.

If a favourable ruling is obtained, participants under the EPSP will be taxed in the same manner as other individuals outlined in Section 7 of the Tabcorp Bidder's Statement.

If an unfavourable ruling is obtained, then participants would lose the benefit of the \$1,000 tax-free discount and may be required to amend earlier years' assessments if the acquisition occurred in an earlier year of income.

See Section 4.7 of this Target's Statement for further information regarding the EPSP.

### **Tab Employee Savings Share Plan**

Tab employees who have their Tab Shares released from the plan and who did not elect to be taxed on the value of the shares upfront will be subject to tax on the value of their Tab Shares at the time of acquisition or the value of the Tabcorp Offer if the shares are sold to Bidder within 30 days of the release. Where the shares are sold to Bidder within 30 days of the release there will be no CGT rollover available because for CGT purposes the CGT cost base of the Tab Shares will be equal to the proceeds of disposal.

If the release occurs more than 30 days prior to acceptance of the Tabcorp Offer, the cost base of the Tab Shares will be equal to the amount upon which the employee is taxed under the employee share acquisition provisions.

See Section 4.7 of this Target's Statement for further information regarding the Tab Employee Savings Share Plan.

### **3.3 TREATMENT OF FOREIGN SHAREHOLDERS**

Tab shareholders who are considered to be "Foreign Shareholders" for the purposes of the Tabcorp Offer will not be entitled to receive Tabcorp Shares as part of the consideration for their Tab Shares pursuant to the Tabcorp Offer.

At this stage the Tabcorp Bidder's Statement provides that a Tab shareholder is a "Foreign Shareholder" for the purposes of the Tabcorp Offer if your address as shown in the register of members of Tab is a place outside Australia or its external territories, the United States of America or New Zealand. Bidder may narrow the category of jurisdictions that are considered "foreign" if Bidder determines after being satisfied that it is not unlawful, not unduly onerous and not unduly impracticable to make the Tabcorp Offer to a Tab shareholder in the relevant jurisdiction and to issue Tabcorp Shares to such a Tab shareholder on acceptance of the Tabcorp Offer, and that it is lawful for such a Tab shareholder to accept the Tabcorp Offer in such circumstances.

The Tabcorp Shares that would otherwise be issued to "Foreign Shareholders" will instead be issued to a nominee approved by ASIC, who will sell the Tabcorp Shares. The net proceeds of the sale (i.e. after deducting brokerage from the proceeds of sale) will then be distributed to each "Foreign Shareholder" as explained in Section 10.6(g) of the Tabcorp Bidder's Statement.

#### 4.1 TAB DIRECTORS' INTERESTS IN TAB SECURITIES

As at the date of this Target's Statement, the Tab Directors had the following relevant interests in Tab Shares and interests in Options:

Holder of Tab Shares	Tab Shares Directly and Beneficially held	Tab Shares Director related entities - Non beneficially held
Graham J Kelly (Chairman)	5,257	nil
Warren R Wilson (Managing Director)	3,578	3,000
Belinda J Hutchinson	5,000	nil
Brian F Keane	nil	nil
F Allan McDonald	5,257	5,000
The Hon Barrie J Unsworth	nil	20,000
Geoffrey C E Wild, AM	7,500	34,000

Holder of Options	Number of Options held <sup>14</sup>	Exercise Price	Expiry Date
Warren Wilson	1,000,000 (500,000 of which have vested)	\$2.90	30 November 2009

Each Tab Director intends to take no action at this time in relation to the Tabcorp Offer and therefore will not be accepting the Tabcorp Offer at this time in respect of the Tab Shares the disposal of which the Director can control (including any Tab Shares issued to a director pursuant to the exercise of Options).

#### 4.2 TAB DIRECTORS' DEALINGS IN TAB SHARES AND OPTIONS

No Tab Director has acquired or disposed of a relevant interest in any Tab Shares or Options in the four month period immediately preceding the date of this Target's Statement.

#### 4.3 TAB DIRECTORS' INTERESTS IN SECURITIES OF TABCORP OR BIDDER

As at the date of this Target's Statement, none of the Tab Directors had a relevant interest in any Tabcorp securities or any Bidder securities, except for The Hon Barrie J Unsworth who had a relevant interest in 2,000 Tabcorp Shares. Mr Unsworth considers that his interest in Tabcorp Shares does not prevent him from making a recommendation in relation to the Tabcorp Offer.

#### 4.4 DEALINGS IN TABCORP OR BIDDER SECURITIES

Neither Tab nor any Tab Director has acquired or disposed of a relevant interest in any Tabcorp securities or any Bidder securities in the four month period immediately preceding the date of this Target's Statement.

<sup>14</sup> These Options were issued under the terms of Tab's "Employee Share Option Plan" which was approved by Tab's shareholders at Tab's 1998 annual general meeting.

#### 4.5 OFFICERS' INDEMNITIES

Tab's constitution provides amongst other things that, to the full extent permitted by law, Tab indemnifies every person who is or has been an Officer of Tab:

- for all losses and liabilities incurred by that person as an Officer of Tab or a related body corporate of Tab (including but not limited to a liability for negligence); and
- for reasonable costs and expenses incurred:
  - in defending proceedings, whether civil or criminal, in which judgement is given in favour of the person or in which the person is acquitted; or
  - in connection with an application, in relation to such proceedings, in which the court grants relief to the person under the Corporations Act.

The indemnity operates only to the extent that the person's loss or liability is not compensated by the proceeds of insurance.

Tab has entered into separate deeds of indemnity with its directors indemnifying them on terms permitted by the constitution.

#### 4.6 BENEFITS AND AGREEMENTS

##### (a) Benefits in connection with retirement from office

The Tabcorp Offer will not result in any Tab Director or any other person being given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that Tab Director or other person from a board or managerial office of Tab or a related body corporate of Tab.

Warren Wilson entered into an executive services agreement with Tab on 2 March 2001. The agreement expires on 2 March 2007. The agreement does not provide for any termination benefit upon a successful takeover by Bidder or any other party. If the agreement is terminated early without cause, Mr Wilson is entitled to a payment of two years' remuneration, unless the termination occurs within the last two years of the term, in which case he is entitled to be paid for the remaining portion of the term (with a minimum of three months).

##### (b) Agreements connected with or conditional on the Tabcorp Offer

There are no agreements made between any Tab Director and any other person in connection with, or conditional upon, the outcome of the Tabcorp Offer other than in their capacity as a holder of Tab Shares or Options.

##### (c) Benefits from Tabcorp or Bidder

No Tab Director has agreed to receive, or is entitled to receive, any benefit from Tabcorp or Bidder which is conditional on, or is related to, the Tabcorp Offer, other than in their capacity as a holder of Tab Shares or Options.

##### (d) Interests of Tab Directors in contracts with Tabcorp or Bidder

No Tab Director has any interest in any contract entered into by Tabcorp or Bidder.

#### **4.7 EFFECT OF THE TABCORP OFFER ON TAB'S EMPLOYEE INCENTIVE SCHEMES AND TAB SHARES ISSUED UNDER THOSE SCHEMES**

##### **Tab Employee Performance Share Plan**

As at 30 April 2004, approximately 1,051 Tab employees held approximately 361,372 Tab Shares under the Tab Employee Performance Share Plan (**EPSP**).

In general, Tab Shares issued under the EPSP cannot be transferred until the earlier of the date 3 years after the shares were issued and the day after the date the holder ceases to be employed by a member of the Tab Group.

If this restriction continues to apply to your Tab Shares then you cannot accept the Tabcorp Offer in respect of those Tab Shares.

However, if Bidder proceeds to compulsory acquisition, each of the Tab Shares issued under the EPSP will be compulsorily acquired by Bidder under the Corporations Act regardless of the restriction. Upon these Tab Shares being compulsorily acquired, the same consideration will be paid to holders of Tab Shares under the EPSP as was paid to Tab shareholders that accepted the Tabcorp Offer during the Tabcorp Offer Period.

The tax implications of such compulsory acquisition for employees that hold Tab Shares under the EPSP are briefly explained in Section 3.2 of this Target's Statement.

##### **Tab Employee Savings Share Plan**

As at 30 April 2004, approximately 301 employees held approximately 246,386 Tab Shares under the Tab Employee Savings Share Plan (**ESSP**).

Where Tab Group employees have acquired Tab Shares under the ESSP and where those shares remain subject to the ESSP, the shares may not be transferred or disposed of.

Those Tab Group employees that wish to withdraw their Tab Shares from the ESSP in order to accept the Tabcorp Offer, or otherwise dispose of their Tab Shares, may apply to Tab to have the Tab Shares released from the ESSP.

Tab Group employees should note that there will be tax consequences arising upon the removal of their Tab Shares from the ESSP. These tax consequences are briefly summarised in Section 3.2 of this Target's Statement. Shareholders that hold Tab Shares under the ESSP should carefully read Section 3.2 of this Target's Statement and consider seeking independent advice before seeking to withdraw those Tab Shares from the ESSP.

#### **4.8 OPTIONS**

As at the date of this Target's Statement there are a total of 1,680,000 Options on issue (each Option convertible into a single Tab Share). The Options are held by Tab's Managing Director and four other executives of the Tab Group. The Options were issued pursuant to Tab's Employee Share Option Plan. 680,000 of the Options have vested and are exercisable at any time, while 1,000,000 are yet to vest.

The exercise price of these Options is in the range of \$2.43 to \$2.90 per Tab Share.

The Tabcorp Offer extends to Tab Shares that come into existence during the Tabcorp Offer Period as a result of the exercise of any of the Options.

The Tabcorp Bidder's Statement provides that Bidder will seek to enter into arrangements with the holders of the Options to effect either the transfer or cancellation of the Options based on their "in the money" value using a Tab Share price of \$4.50. Any such arrangements would be conditional on all of the conditions of the Tabcorp Offer being satisfied or waived. At this stage Tab is not aware of any such arrangements having been entered into.

The Tabcorp Bidder's Statement goes on to provide that if the Options are not acquired by Bidder or cancelled pursuant to arrangements with the holders of the Options, Bidder intends to seek to compulsorily acquire the outstanding Options under the Corporations Act after the close of the Tabcorp Offer, assuming it becomes entitled to do so.

In light of the Tabcorp Offer, Tab has sought from the ASX any waiver necessary to permit the exercise of Options which are yet to vest. Tab believes it is likely that any waiver granted by the ASX will be conditional on Tabcorp proceeding to compulsory acquisition of Tab Shares.

#### 4.9 NO OTHER MATERIAL INFORMATION

This Target's Statement is required to include all the information that Tab shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Tabcorp Offer, but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information is known to any director of Tab.

The Tab Directors are of the opinion that the information that Tab shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Tabcorp Offer is:

- the information contained in the Tabcorp Bidder's Statement (to the extent that the information is not inconsistent with or superseded by information in this Target's Statement);
- the information contained in this Target's Statement;
- the information contained in Tab's target's statement dated 5 March 2004 in relation to the UNiTAB Offer; and
- all other information contained in Tab's releases to the ASX before the date of this Target's Statement and Tabcorp's releases to the ASX since 30 June 2003.

The Tab Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Tabcorp Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Tab Directors do not take any responsibility for the contents of the Tabcorp Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Target's Statement, the Tab Directors have had regard to:

- the nature of the Tab Shares;
- the matters that shareholders may reasonably be expected to know;

- the fact that certain matters may reasonably be expected to be known to shareholders' professional advisers; and
- the time available to Tab to prepare this Target's Statement.

#### **4.10 COPIES OF DOCUMENTS**

As contemplated by ASIC Class Order 01/1543, this Target's Statement contains statements which are made, or based on statements made, in documents lodged with ASIC or given to the ASX, or announced on the Company Announcements Platform of the ASX. Pursuant to the Class Order, the consent of the relevant person is not required for the inclusion of such statements in this Target's Statement.

Any Tab shareholder who would like to receive a copy of any of those documents may obtain a copy (free of charge) during the Tabcorp Offer Period by contacting the Tab shareholder information line on 1300 137 984 (for callers within Australia) and +61 3 9649 5408 (for callers outside Australia). All phone calls to this number will, as required by the Corporations Act, be recorded and those recordings will be indexed and stored.

## 5.1 GLOSSARY

In this Target's Statement, the following terms have the following meanings unless the contrary intention appears:

**2KY Racing Radio** means the radio operations conducted by 2KY Broadcasters Pty Ltd ABN 54 000 820 057.

**\$, A\$ or AUD** means Australian dollar.

**ACCC** means the Australian Competition and Consumer Commission.

**Acceptance Form** means the acceptance form accompanying the Tabcorp Bidder's Statement.

**AEST** means Australian Eastern Standard Time.

**ASIC** means Australian Securities and Investments Commission.

**ASTC** means ASX Settlement and Transfer Corporation Pty Ltd (ABN 49 008 504 532).

**ASTC Settlement Rules** means the operating rules of the settlement facility provided by ASTC.

**ASX** means Australian Stock Exchange Limited.

**Bidder** means Tabcorp Investments No. 4 Pty Limited (ABN 74 108 197 084), a wholly owned subsidiary of Tabcorp.

**Board** means the board of directors of Tab.

**Book Build** has the meaning given in the Tabcorp Bidder's Statement.

**Centralised Monitoring System Licence** means the exclusive licence granted to Tab under the Gaming Machines Act 2001 (NSW) to conduct a centralised monitoring system to monitor the performance of gaming machines in hotels and registered clubs in NSW.

**CGT** means capital gains tax.

**CHESS** stands for Clearing House Electronic Subregister System operated by ASTC and the Australian Clearing House Pty Limited (ABN 48 001 314 503).

**CHESS Holding** means a holding of Tab Shares on the CHESS subregister of Tab.

**Combined Tabcorp/Tab** means Tabcorp and each of its subsidiaries after Bidder has acquired all or a majority of the Tab Shares.

**Commitment Letter** has the meaning given to that term in the Section 6.5(b) of the Tabcorp Bidder's Statement.

**Controlling Participant** has the meaning given in the ASTC Settlement Rules.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Data Monitoring Services Business** means Tab's centralised monitoring system business that trades under the name "Data Monitoring Services" and operates under the Centralised Monitoring System Licence.

**Deed of Undertaking and Indemnity** means the Deed of Undertaking and Indemnity dated 4 May 1998 between Tab and the State of NSW.

**Directors** or **Tab Directors** means the persons listed in Section 2.4 of this Target's Statement.

**EBITDA** means earnings before interest, tax, depreciation and amortisation.

**Eligible Tab Shareholders** means a Tab shareholder (or former Tab shareholder):

- (a) whose address, as shown (or as formerly shown prior to the sale of their Tab Shares to Bidder) in Tab's register of members, is a place within Australia or its external territories; and
- (b) who are not (or were not prior to the sale of their Tab Shares to Bidder) holding Tab Shares on behalf of any person resident, or located, in the United States of America).

**Foreign Shareholder** has the meaning given to that term in the Tabcorp Bidder's Statement.

**Legislation Commencement and Nomination Conditions** has the meaning given in Section 1.8 of this Target's Statement.

**Links Business** means Tab's statewide linked jackpot game business operating under the Links Licence.

**Links Licence** means:

- (a) the exclusive licence granted to Tab under the Gaming Machines Act 2001 (NSW) to conduct statewide linked jackpot games for gaming machines in hotels in NSW; and
- (b) the exclusive licence granted to Tab under the Gaming Machines Act 2001 (NSW) to conduct statewide linked jackpot games for gaming machines in registered clubs in NSW.

**Notice of Status of Conditions** means Bidder's notice disclosing the status of the conditions to the Tabcorp Offer which is required to be given by Section 630(3) of the Corporations Act.

**Officer** means a director, alternate director, managing director, deputy managing director, executive director, associate director, secretary or assistant secretary.

**Option** means an option to acquire an unissued Tab Share.

**Privatisation Act** means the Totalizator Agency Board Privatisation Act 1997 (NSW).

**Racing Distribution Agreement** means the contract dated 11 December 1997 which governs the relationship and financial and other arrangements between Tab, NSW Racing Pty Limited, Greyhound Racing New South Wales, Harness Racing New South Wales and NSW Thoroughbred Racing Board (as amended).

**Racing Heads of Agreement** means the Heads of Agreement dated 23 February 2004 between Tabcorp and NSW Racing Pty Limited (as agent for the NSW Thoroughbred Racing Board, Greyhound Racing New South Wales and Harness Racing New South Wales), as amended per Tabcorp's announcement on 23 April 2004.

**Racing Industry Condition** means the condition in Section 10.7(b)(iii) of the Tabcorp Bidder's Statement.

**Racing Minister** means the NSW Minister for Gaming and Racing.

**RDA** refer to the definition of Racing Distribution Agreement.

**Rights** has the meaning given in Section 12 of the Tabcorp Bidder's Statement.



## SECTION FIVE: GLOSSARY AND INTERPRETATION

**Sky Channel** means Sky Channel Pty Limited ABN 77 009 136 010.

**Tab** means Tab Limited ABN 17 081 765 308.

**Tab Directors** or **Directors** means the persons listed in Section 2.4 of this Target's Statement.

**Tab Gaming Division** means the Data Monitoring Services Business and the Links Business.

**Tab Group** means Tab and each of its subsidiaries.

**Tab Shares** means fully paid ordinary shares in the capital of Tab.

**Tabcorp** means Tabcorp Holdings Limited ABN 66 063 780 709.

**Tabcorp Announcement Date** means 23 February 2004.

**Tabcorp Bidder's Statement** means the bidder's statement of Bidder in relation to Tab Shares dated 2 April 2004 together with any subsequent supplementary bidder's statement issued by Bidder.

**Tabcorp Group** means Tabcorp and each of its subsidiaries.

**Tabcorp Offer** means the offer by Bidder for the Tab Shares contained in the Tabcorp Bidder's Statement.

**Tabcorp Offer Period** means the period from 21 April 2004 to 7.00pm (Sydney time) on Tuesday 25 May 2004, unless the Tabcorp Offer is withdrawn or extended.

**Tabcorp Shares** means fully paid ordinary shares in Tabcorp.

**Tabcorp VWAP** means the VWAP (calculated to two decimal places) for Tabcorp Shares traded on ASX over the VWAP Period as calculated by ASX (subject to the exclusion of particular trades referred to in Section 10.1(b) of the Tabcorp Bidder's Statement).

**Target's Statement** means this document, being the statement of Tab under Part 6.5 Division 3 of the Corporations Act.

**Totalizator Act** means the Totalizator Act 1997 (NSW).

**Totalizator Amendment Act** means the Totalizator Legislation Amendment Act 2003 (NSW).

**UNITAB** means UNITAB Limited ABN 84 085 691 738.

**UNITAB Bidder's Statement** means the bidder's statement of UNITAB in relation to Tab Shares dated 22 January 2004 together with the supplementary bidder's statement issued by UNITAB on 12 March 2004.

**UNITAB Offer** means the offer by UNITAB for the Tab Shares contained in the UNITAB Bidder's Statement.

**VWAP** means volume weighted average share price.

**VWAP Period** means the period of 10 consecutive trading days (including each of those days) starting on the trading day following:

- (a) the day on which the Tabcorp Offer becomes, or is declared, free from all of the conditions set out in Section 10.7 of the Tabcorp Bidder's Statement; and

(b) the last day of the Tabcorp Offer Period,

whichever is the earlier.

## 5.2 INTERPRETATION

In this Target's Statement, unless the context otherwise requires:

- (a) other words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (b) words importing a gender include any gender;
- (c) words importing the singular include the plural and vice versa;
- (d) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (e) a reference to a section, clause, annexure and schedule is a reference to a section of, clause of and an annexure and schedule to this Target's Statement as relevant;
- (f) a reference to any statute, regulation, proclamation, ordinance or by-law includes all statutes, regulations, proclamations, ordinances, or by-laws amending, varying, consolidating or replacing it and a reference to a statute includes all regulations, proclamations, ordinances and by-laws issued under that statute;
- (g) headings, boldings and underlinings are for convenience only and do not affect the interpretation of this Target's Statement;
- (h) a reference to time is a reference to AEST; and
- (i) a reference to dollars, \$, A\$, AUD, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia.



## SECTION SIX: AUTHORISATION

48

TARGET'S STATEMENT

This Target's Statement has been approved by a resolution passed by the directors of Tab. All Tab Directors voted in favour of that resolution.

Signed for and on behalf of Tab:

Date: 3 May 2004

Graham Kelly, Chairman



## ASX and Media Release

29 April 2004

### Tab Limited Update

Tab Limited (**Tab**) today reiterated its Directors' recommendation to shareholders to take no action at this time with regard to the acceptance of Tabcorp Holding Limited's (**Tabcorp**) offer for their shares. The offer is currently scheduled to close on 25 May 2004. The Board and management will make full use of this time to ensure shareholders interests are served and the value of the company is maximised.

Tab also announced:

### Current Year Profit Update

Tab announced today that, as a result of favourable trading conditions and improving efficiencies, it is continuing to experience strong growth in operating earnings and cash flow in the current financial year ending 30 June 2004.

The company has experienced no adverse earnings impact in either its Wagering or Media operations from the loss of rights to telecast Sydney metropolitan thoroughbred racing on Sky Channel since mid-March.

The major factors contributing to the improving profitability are:

- increased wagering earnings arising from improved efficiencies and turnover growth;
- increasing profitability of Tab's Centralised Monitoring System business as a result of improved efficiencies and successful cost management; and
- improving performance of Tab's maxgaming linked jackpots business which is realising increased machine penetration and uptake of its games.

For the year ending 30 June 2004, Tab is expecting to announce that earnings before interest, tax, depreciation and amortisation are anticipated to increase by not less than 16% (on the prior corresponding period) to approximately \$240 million, on revenue which is expected to be up 7%. Net profit after tax from normal operations is anticipated to be not less than \$87 million which is an increase of 17% on the prior corresponding period

This growth in net profit after tax is notwithstanding a 17% increase in depreciation and amortisation expense to \$82 million for the full year which relates to major project expenditure which was completed at the end of calendar year 2002.

Given the completion of Tab's major capital expenditure programme, as previously foreshadowed in the Tab annual results for 2002/03 and the 2003/04 interim results in February this year, Tab expects its ongoing capital requirements to be lower than historical levels, with full year cash outlays on capital items expected to be below \$30 million.



ASX &amp; Media Release

It should be noted that the above profit estimates from operations do not take account of:

- (a) costs incurred in corporate activity which included \$9.7 million expensed in the six months ended 31 December 2003. This \$9.7 million included the payment of a one-off break-fee relating to the original UNiTAB merger proposal in October 2003 of \$5.0 million. Costs due to corporate activity are continuing to be incurred in the second half of the current financial year; and
- (b) any profit or loss on equity performance agreements over and above the pre-tax profit of \$8.3 million reported for the half-year ended 31 December 2003. In addition, a net unrecognised gain before tax in respect of the equity performance agreements in place at 27 April 2004 was in excess of \$5.8 million.

It should also be noted that these expectations are based upon unaudited management accounts and, accordingly, may be subject to change on completion of Tab's final accounts.

The assumptions used in preparation of the above forecasts are detailed in the attached appendix.

#### **Cost Saving Initiatives**

The productivity and efficiency benefits now being realised from past investment and other initiatives are exceeding the previously announced expectations. As a consequence, management has identified cost savings of \$8.0 million per annum which, depending on the outcome of current corporate activity, will be pursued. In order to realise these savings, one-off costs of \$7.6 million will be incurred, being redundancy costs of \$3.8 million and capital costs of \$3.8 million.

In addition, if the cost saving initiatives are pursued, freehold property with an estimated value exceeding \$12 million will be divested.

#### **Further Updates on Tab's Financial Performance and Outlook**

Tab expects to make further announcements shortly, which may have a material impact on the company's financial outlook.

#### **Target's Statement**

Tab Limited is expected shortly to despatch its Target's Statement to Tab shareholders in response to Tabcorp's Bidder's Statement.

#### **Directors' Recommendation**

The Tab Board reiterates its recommendation that shareholders take no action in respect of the Tabcorp offer at this time.

Shareholder enquiries to: 1 300 137 984 (within Australia) or +61 3 9649 5408 (outside Australia)  
Enquiries to: Graham Cassidy on (02) 9218 1199 or 0419 202 317; or  
Russell Chenu on (02) 9218 1670



ASX & Media Release

**Appendix to Tab Limited Update  
29 April 2004**

**FY2004 Current Year Profit Update – Assumptions and Risks**

The profit update for Tab for the year ending 30 June 2004 comprises actual results for the 9 months ended 31 March 2004 and forecast results for the 3 months to 30 June 2004. The current year profit update is based on events and conditions existing at the date of this statement, including the assumptions which are set out below.

**Wagering**

- Total wagering turnover grew 5.8% for the nine months ended 31 March 2004 relative to the prior corresponding period. No material change in the rate of turnover growth is assumed in the 3 months to 30 June 2004
- It is assumed that the loss of Sydney Turf Club (STC) and Australian Jockey Club (AJC) racing broadcast rights continues to have no identifiable impact on total wagering turnover
- New promotional fees have been agreed with registered clubs in NSW and take effect from 1 July 2004. The impact of these new arrangements does not affect the forecast result to 30 June 2004

**Gaming**

- The NSW Government, in consultation with the Independent Pricing and Regulatory Tribunal (IPART) is currently undertaking a review of the pricing of the CMS monitoring fee, the results of which have not yet been announced. At privatisation, the NSW Government provided Tab with contractual indemnities, including an indemnity if the CMS monitoring fee was not determined in accordance with the same methodology (including as to the internal rate of return) as applied by IPART in the original determination of the monitoring fee in 1998. IPART stated in relation to that original determination that it applied an 11% pre-tax internal rate of return. It is assumed that from 1 May 2004 total CMS revenue received through a combination of the monitoring fee and the NSW Government indemnity will increase consistent with the terms of that indemnity<sup>1</sup>.
- On 6 April 2004, Tab announced it had signed over 3,000 machines to its Statewide Linked Jackpot games in NSW clubs and hotels. As at 29 April Tab had signed almost 3,500 machines for Statewide Linked Jackpot games, including the new game, Golden Goals, and had over 2,800 machines installed.

**Media**

- Operating revenue is assumed to increase 2.5% in the year ending 30 June 2004 relative to the year ended 30 June 2003
- In the 3 months to 30 June 2004, the reduction in AJC and STC race rights costs is assumed to be offset by a fee discount to venues which are commercial subscribers
- No significant change is assumed to the number of subscribers in the 3 months to 30 June 2004

<sup>1</sup> Unless the NSW Government agrees otherwise, a purchaser of the Tab Gaming Division will not be entitled to claim under the indemnity after the Tab Gaming Division is divested.



ASX &amp; Media Release

**Other**

- There will be no significant change to the economic conditions in Australia in which Tab currently operates
- There will be no significant change in international and domestic debt markets
- There will be no significant change in the competitive or regulatory environments in Australia in which Tab operates
- There will be no material industrial or employee relations disputes, litigation, strikes or acts of God relevant to the operations of Tab
- Tab continues to comply with the terms of its licences and there will be no material changes to the terms of these licences, applicable legislation or regulations
- There will be no material change to the contractual arrangements between Tab and NSW Racing Pty Limited
- The Australian company tax rate remains at 30%
- There are no changes in applicable Australian Accounting Standards or other mandatory professional reporting requirements in Australia which would have a material impact on Tab's financial results
- There are no investments in new projects outside of Tab's core business and no material sales of Tab's non-core assets
- It is assumed that there is no material increase in operating expenses in the 3 months to 30 June 2004
- Interest rates and other borrowing costs are assumed to be consistent with Tab's current borrowing arrangements

Tab notes that there can be no certainty that events will turn out as assumed in the three months to 30 June 2004.

## ANNEXURE B: SUMMARY OF SIGNIFICANT TABCORP LICENCES

The licences have been set out in the order of their expiry date (earliest expiring licences are listed first)

Description of licence	Tenure of licence (unless cancelled earlier)	Exclusivity period (if any)
<b>NSW Keno Licence</b> The licence is jointly held by Jupiters Gaming (NSW) Pty Limited and ClubKeno Holdings Pty Limited (a wholly owned subsidiary of the Registered Clubs Association of New South Wales). Licence authorises the operation of a real-time, wide-area Keno game in registered clubs in New South Wales.	Granted on 3 March 1995. Expires on 11 July 2007.	Licence is non-exclusive.
<b>Queensland licence to monitor gaming machines</b> Licence held by Jupiters Limited. Licence authorises provision of gaming machine monitoring and progressive jackpot services in Queensland.	Granted in 1997. Expires in August 2007.	Licence is non-exclusive.
<b>Victorian Wagering Licence</b> Licence held by Tabcorp. Sole licence issued to conduct wagering and approved betting competitions in Victoria. This licence is not transferable nor separable from the Victorian Gaming Licence (see below).	Granted on 28 June 1994. Expires in 2012.	Tabcorp's is the sole licence issued under the Betting and Gaming Act 1994 (Vic). On-course wagering permits are available and the proprietor of Crown Casino may conduct approved betting competitions at that venue.
<b>Victorian Gaming Licence</b> Licence held by Tabcorp. Allows Tabcorp to conduct gaming in licensed clubs and hotels in Victoria. Allows Tabcorp to conduct Club Keno games in licensed clubs and hotels in Victoria.	Granted on 28 June 1994. Expires in 2012.	Licence is non-exclusive. Tattersall's also holds a Victorian gaming licence. The proprietor of Crown Casino is separately licensed to conduct gaming at that venue.

Description of licence	Tenure of licence (unless cancelled earlier)	Exclusivity period (if any)
<b>Queensland Keno Licence</b> Licence held by Jupiters Gaming Pty Limited. Licence authorises the operation of a real-time, wide-area Keno game in Queensland casinos, clubs, bars, pubs and TAB outlets.	Granted in 1997. Expires in June 2022.	Licence is exclusive for Keno and similar games until 23 June 2007. The State of Queensland may terminate the licence at the end of the first 10 years of its term, or at the end of the first 20 years of its term, on giving six months' notice of termination. The State of Queensland may also terminate the licence at any time from year ten to year 17 of the licence by giving three years' notice of termination. At the end of the first 10 years of the term of the licence, the State of Queensland may (on giving 12 months' notice to Jupiters Limited and Jupiters Gaming Pty Limited) issue a Keno licence to Golden Casket Lottery Corporation Limited, a Queensland State-owned corporation (there are restrictions on the terms of such a new licence - see Section 1.5(b)(vi) of the Tabcorp Bidder's Statement).
Licence to operate Star City Casino (Sydney, NSW). Licence held by Star City Pty Limited .	Granted on 14 December 1994. Expires on 14 December 2093.	Star City has the exclusive licence in NSW to conduct specified table games with gambling chips until 13 September 2007. After that time the casino licence is non-exclusive.
Licence to operate Conrad Jupiters Hotel-Casino (Broadbeach Island, Queensland) Licence held by Jupiters Custodian Pty Limited.	Granted in 1985. Licence continues in perpetuity.	Licence is non-exclusive.
Licence to operate Jupiters Townsville Casino (Townsville, Queensland). Licence held by Breakwater Island Limited.	Granted in 1986 Licence continues in perpetuity.	Licence is non-exclusive.



**tab**limited

ABN 17 081 765 308