Tabcorp
Celebrating 20 years

PASSION. THRILLS. ENTERTAINMENT

TAB.COM.AU | Luxbet BACKED BY TABCORP | SKY RACING | KENO | TGS Profit from experience

Financial Report 2014

Contents

About this Financial Report

This Financial Report should be read in conjunction with Tabcorp's Concise Annual Report which is available, free of charge, on request and can be accessed via the Company's website at **www.tabcorp.com.au.**

Income statement
For the year ended 30 June 2014

	Note	2014 $m	2013 $m
Revenue		**2,039.8**	2,003.2
Other income	2	**0.7**	8.5
Government taxes and levies		**(349.5)**	(334.1)
Commissions and fees		**(770.8)**	(763.1)
Employment costs		**(165.1)**	(154.2)
Communications and technology costs		**(75.9)**	(85.2)
Depreciation and amortisation	2	**(164.4)**	(151.1)
Impairment	2	**–**	(18.6)
Property costs		**(41.3)**	(40.3)
Advertising and promotions		**(38.1)**	(36.8)
Other expenses		**(113.7)**	(106.2)
Profit before income tax expense and net finance costs		**321.7**	322.1
Finance income		**3.4**	3.1
Finance costs	2	**(100.6)**	(106.8)
Profit from continuing operations before income tax expense		**224.5**	218.4
Income tax expense	4	**(75.1)**	(70.8)
Profit from continuing operations after income tax		**149.4**	147.6
Discontinued operations			
Loss from discontinued operations, net of tax	28	**(19.5)**	(21.0)
Net profit after tax		**129.9**	126.6
Other comprehensive income			
Change in fair value of cash flow hedges taken to equity that may be reclassified to profit or loss		**(4.9)**	(6.7)
Exchange differences on translation of foreign operations		**(0.2)**	–
Income tax on items that may be reclassified to profit or loss	4	**1.5**	2.0
Items that will not be reclassified to profit or loss		**(0.4)**	0.9
Income tax on items that will not be reclassified to profit or loss	4	**0.1**	(0.3)
Other comprehensive income/(loss) for the period, net of income tax		**(3.9)**	(4.1)
Total comprehensive income for the period		**126.0**	122.5
Earnings per share:			
From continuing operations			
Basic earnings per share (cents)	6	**19.8**	20.0
Diluted earnings per share (cents)	6	**19.7**	20.0
Total attributable to shareholders of Tabcorp			
Basic earnings per share (cents)	6	**17.2**	17.2
Diluted earnings per share (cents)	6	**17.1**	17.1

The accompanying notes form an integral part of this income statement.

Balance sheet
As at 30 June 2014

	Note	2014 $m	2013 $m
Current assets			
Cash and cash equivalents	7	**126.8**	109.7
Receivables	8	**39.9**	94.9
Consumables		**4.7**	4.4
Current tax assets		**0.7**	–
Other	9	**8.9**	12.3
Total current assets		**181.0**	221.3
Non current assets			
Receivables	8	**16.8**	52.4
Property, plant and equipment	10	**312.6**	308.5
Intangible assets – licences	11	**726.6**	750.3
Intangible assets – other	12	**1,833.9**	1,772.4
Derivative financial instruments		**21.6**	26.0
Other	9	**12.6**	13.7
Total non current assets		**2,924.1**	2,923.3
TOTAL ASSETS		**3,105.1**	3,144.6
Current liabilities			
Payables	14	**340.9**	293.6
Interest bearing liabilities	15	**–**	432.9
Current tax liabilities		**–**	13.7
Provisions	16	**25.9**	22.5
Derivative financial instruments		**22.6**	23.1
Other		**7.2**	3.8
Total current liabilities		**396.6**	789.6
Non current liabilities			
Interest bearing liabilities	15	**1,094.3**	821.5
Deferred tax liabilities	4	**66.9**	64.3
Provisions	16	**10.9**	10.9
Derivative financial instruments		**50.5**	43.8
Other		**4.5**	1.3
Total non current liabilities		**1,227.1**	941.8
TOTAL LIABILITIES		**1,623.7**	1,731.4
NET ASSETS		**1,481.4**	1,413.2
Equity			
Issued capital	17	**2,188.7**	2,128.7
Accumulated losses		**(0.7)**	(10.4)
Reserves	17	**(706.6)**	(705.1)
TOTAL EQUITY		**1,481.4**	1,413.2

The accompanying notes form an integral part of this balance sheet.

Cash flow statement
For the year ended 30 June 2014

	Note	2014 $m	2013 $m
Cash flows from operating activities			
Net cash receipts in the course of operations		**2,091.0**	2,189.8
Payments to suppliers, service providers and employees		**(1,274.7)**	(1,393.5)
Payment of government levies, betting taxes and GST		**(253.6)**	(346.9)
Refund of GST relating to prior years		**–**	25.4
Finance income received		**3.8**	3.1
Finance costs paid		**(103.9)**	(104.6)
Income tax paid		**(75.2)**	(108.4)
Net cash flows from operating activities	18	**387.4**	264.9
Cash flows from investing activities			
Payment for property, plant and equipment and intangibles		**(198.4)**	(204.2)
Proceeds from sale of property, plant and equipment and intangibles		**2.1**	15.7
Loan repayments received from customers		**40.9**	15.6
Loans advanced to customers		**(0.1)**	(6.4)
Net cash flows used in investing activities		**(155.5)**	(179.3)
Cash flows from financing activities			
Net cash flows from revolving bank facilities		**(154.5)**	–
Proceeds from long term borrowings		**434.5**	–
Repayment of long term borrowings		**(434.5)**	–
Dividends paid		**(67.0)**	(116.1)
Proceeds from issue of shares		**7.0**	–
Payment of transaction costs for demerger		**–**	(10.7)
Payments for on-market share purchase		**(0.4)**	(0.5)
Proceeds from sale of treasury shares		**0.1**	–
Net cash flows used in financing activities		**(214.8)**	(127.3)
Net increase/(decrease) in cash held		**17.1**	(41.7)
Cash at beginning of year		**109.7**	151.4
Cash at end of year	7	**126.8**	109.7

The accompanying notes form an integral part of this cash flow statement.

The cash flow statement includes the cash flows of the discontinued gaming operations, refer note 28.

Statement of changes in equity

For the year ended 30 June 2014

	Issued capital							
	Ordinary shares $m	Treasury shares $m	Retained earnings/ (accumulated losses) $m	Net unrealised losses reserve $m	Employee equity benefit reserve $m	Demerger reserve $m	Foreign currency translation reserve $m	Total equity $m
2014								
Balance at beginning of year	**2,129.3**	**(0.6)**	**(10.4)**	**(37.1)**	**1.9**	**(669.9)**	**–**	**1,413.2**
Profit for the period	**–**	**–**	**129.9**	**–**	**–**	**–**	**–**	**129.9**
Other comprehensive income/(loss)	**–**	**–**	**(0.3)**	**(3.4)**	**–**	**–**	**(0.2)**	**(3.9)**
Total comprehensive income	**–**	**–**	**129.6**	**(3.4)**	**–**	**–**	**(0.2)**	**126.0**
Dividends paid	**–**	**–**	**(119.9)**	**–**	**–**	**–**	**–**	**(119.9)**
Dividend reinvestment plan	**59.9**	**–**	**–**	**–**	**–**	**–**	**–**	**59.9**
Restricted shares issued	**–**	**(0.4)**	**–**	**–**	**–**	**–**	**–**	**(0.4)**
Share based payments expense	**–**	**0.4**	**–**	**–**	**2.1**	**–**	**–**	**2.5**
Disposal of shares	**–**	**0.1**	**–**	**–**	**–**	**–**	**–**	**0.1**
Balance at end of year	**2,189.2**	**(0.5)**	**(0.7)**	**(40.5)**	**4.0**	**(669.9)**	**(0.2)**	**1,481.4**
2013								
Balance at beginning of year	2,084.4	(0.4)	23.4	(32.4)	0.7	(669.9)	–	1,405.8
Profit for the period	–	–	126.6	–	–	–	–	126.6
Other comprehensive income/(loss)	–	–	0.6	(4.7)	–	–	–	(4.1)
Total comprehensive income	–	–	127.2	(4.7)	–	–	–	122.5
Dividends paid	–	–	(161.0)	–	–	–	–	(161.0)
Dividend reinvestment plan	44.9	–	–	–	–	–	–	44.9
Restricted shares issued	–	(0.5)	–	–	–	–	–	(0.5)
Share based payments expense	–	0.3	–	–	1.2	–	–	1.5
Balance at end of year	2,129.3	(0.6)	(10.4)	(37.1)	1.9	(669.9)	–	1,413.2

The accompanying notes form an integral part of this statement of changes in equity.

Notes to the financial statements

For the year ended 30 June 2014

1. Significant accounting policies and corporate information

Tabcorp Holdings Limited ('the Company') is a company limited by shares which are traded on the Australian Securities Exchange. The Company is incorporated and domiciled in Australia, and is a for-profit entity. The financial report of the Company for the year ended 30 June 2014 comprises the Company and its subsidiaries (collectively referred to as 'the Group') and the Group's interest in joint arrangements.

The financial report was authorised for issue by the Directors on 7 August 2014.

(a) Statement of compliance

(i) Changes in accounting policy and disclosures

The Group has adopted the following new and amended accounting standards, which became applicable from 1 July 2013:

AASB 10	Consolidated Financial Statements
AASB 11	Joint Arrangements
AASB 12	Disclosure of Interests in Other Entities
AASB 13	Fair Value Measurement
AASB 119	Employee Benefits
AASB 127	Separate Financial Statements
AASB 128	Investments in Associates and Joint Ventures
AASB 2011–4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements
AASB 2011–7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards
AASB 2011–8	Amendments to Australian Accounting Standards arising from AASB 13
AASB 2011–10	Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)
AASB 2012–2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities
AASB 2012–5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle
AASB 2012–6	Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures
AASB 2012–9	Amendments to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039
AASB 2012–10	Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments
AASB 2012–11	Amendments to Australian Accounting Standards – Reduced Disclosure Requirements and Other Amendments

The Group elected to early adopt AASB 2013–3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non Financial Assets.

The adoption of these standards did not have a material effect on the financial position or performance of the Group.

(ii) New Australian Accounting Standards or International Financial Reporting Standards issued but not yet effective

Australian Accounting Standards or International Financial Reporting Standards ('IFRS') that have been recently issued or amended but are not yet effective have not been applied to the financial report.

The following amendments by the Australian Accounting Standards Board ('AASB') to Australian Accounting Standards and the International Accounting Standards Board ('IASB') to IFRS are not expected to have a material impact on the Group's financial position and performance, however increased disclosures will be required in the Group's financial statements.

AASB/IFRS Reference	Title	Application date for Group
IFRS 9	Financial Instruments	1 July 2017
AASB 2010–7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 July 2015
AASB 2012–3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	1 July 2014
AASB 2013–4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting (AASB 139)	1 July 2014
AASB 2013–9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	
	Part A Conceptual Framework	1 July 2014
	Part B Materiality	1 July 2014
	Part C Financial Instruments	1 July 2015
AASB 2014–1	Amendments to Australian Accounting Standards	
	Part A Annual Improvements 2010–2012 and 2011–2013 Cycles	1 July 2014
	Part B Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)	1 July 2014
	Part C Materiality	1 July 2014
	Part E Financial Instruments	1 July 2015
Interpretation 21	Levies	1 July 2014

The financial report complies with Australian Accounting Standards as issued by the AASB. The financial report also complies with IFRS as issued by the IASB.

1. Significant accounting policies and corporate information (continued)

(b) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia.

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis, except for derivative financial instruments that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged. Non current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The accounting policies have been applied consistently throughout the Group for the purposes of this financial report.

The Company is of the kind specified in Australian Securities and Investments Commission Class Order 98/0100. In accordance with that Class Order, dollar amounts in the financial report and the Directors' report have been rounded to the nearest hundred thousand, unless specifically stated to be otherwise.

(c) Significant accounting estimates and assumptions

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities recognised in the financial statements are described in the following notes:

- note 1 – Significant accounting policies
  - – (j) Taxation
  - – (l) Receivables
  - – (q) Intangible assets
- note 13 – Impairment testing of goodwill and intangibles with indefinite lives
- note 24 – Contingent liabilities and contingent assets
- note 27 – Financial instruments – fair values

(d) Basis of consolidation

Controlled entities

Controlled entities are entities controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group controls an entity if and only if the Group has:

- power over the entity;
- exposure, or rights, to variable returns from its involvement with the entity; and
- the ability to use its power over the entity to affect its returns.

The financial statements of controlled entities are included in the consolidated financial report from the date control commences until the date that control ceases.

Joint arrangements

A joint arrangement is an arrangement over which the Group has joint control with other parties and is bound by a contractual arrangement.

A joint arrangement is classified as either a joint operation or a joint venture depending upon the rights and obligations of the parties to the arrangement.

Joint operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. The Group recognises in relation to its interest in a joint operation its assets, including its share of assets held jointly: its liabilities, including its share of any liabilities incurred jointly; its revenue including its share of revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.

Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since acquisition date.

Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(e) Foreign currency

Translation and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement with the exception of differences on foreign currency borrowings that are in an effective hedge relationship. These are taken directly to equity until the liability is extinguished at which time they are recognised in the income statement. Refer to note 1(g) for further detail.

Non monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

Group companies

On consolidation the assets and liabilities of foreign operations are translated into Australian dollars at the rate of the exchange prevailing at the reporting date, and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

(f) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for cash flow hedge accounting, the effective portion of the gain or loss is deferred in equity while the ineffective portion is recognised in the income statement.

The fair value of interest rate swap and cross currency swap contracts is determined by reference to market values for similar instruments.

(g) Hedging

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a non financial asset or liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement (i.e. when interest income or expense is recognised). For cash flow hedges, the effective part of any gain or loss on the derivative financial instrument is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects the income statement. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the designation of the hedge relationship is revoked but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability of changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, any gain or loss on the derivative is recognised directly in the income statement.

1. Significant accounting policies and corporate information (continued)

(h) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Wagering revenue

Revenue is recognised as the residual value after deducting the return to customers from wagering turnover.

Fixed odds betting revenue is recognised as the net win or loss on an event. The amounts bet on an event are recognised as a liability until the outcome of the event is determined, at which time the revenue is brought to account. Open betting positions are carried at fair value and gains and losses arising on these positions are recognised in revenue.

The Group operates loyalty programmes enabling customers to accumulate award credits for wagering spend. A portion of the spend, equal to the fair value of the award credits earned, is treated as deferred revenue. Revenue from the award credits is recognised when the award is redeemed or expires.

Keno and gaming revenue

Revenue is recognised as the residual value after deducting the return to customers from Keno and gaming turnover.

Rendering of services

Revenue is recognised once the service has been rendered.

Interest revenue

Interest revenue earned from customers in the ordinary course of operations is disclosed within revenue.

Dividends

Revenue is recognised when the right to receive payment is established.

(i) Net finance costs

Finance income is recognised using the effective interest rate method.

Finance costs are recognised as an expense when incurred.

(j) Taxation

Income tax

Income tax comprises current and deferred income tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- goodwill; and
- the initial recognition of an asset or liability in a transaction which is not a business combination and that affect neither accounting nor taxable profit at the time of the transaction.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Refer to note 4(d) for details regarding tax consolidation.

Goods and services tax

Revenues, expenses, assets and liabilities are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- wagering, gaming and certain Keno revenues, due to the GST being offset against government taxes; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Claims for refunds

Potential claims for refunds from taxation authorities are recognised when their existence is considered to be virtually certain. The Group considers virtually certain to be the point at which formal confirmation of the claim is received from the relevant authority.

(k) Cash

Cash comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash for the purpose of the cash flow statement.

(l) Receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amount (where applicable).

Other receivables are initially recognised at amortised cost. Subsequent increases in receivables due to the passage of time or resulting from a revision of the estimate of cash inflows are recognised in the income statement. Subsequent increases in receivables due to the passage of time are not recognised where a receivable is fully impaired.

An allowance for doubtful debts or impairment is made when there is objective evidence that collection of the full amount is no longer probable. Factors considered when determining if an impairment exists include ageing and timing of expected receipts, management's experienced judgement and facts in the individual situation. Bad debts are written off when identified.

(m) Consumables

Consumable stores are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

(n) Non current assets held for sale and discontinued operations

Assets classified as held for sale (and all assets and liabilities in a disposal group) are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in the income statement. The same applies to gains and losses on subsequent re-measurement. No depreciation or amortisation is charged on these assets while they are classified as held for sale.

A discontinued operation is a component of the Group's business that represents a separate major line of business or is a controlled entity acquired or held exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

1. Significant accounting policies and corporate information (continued)

(o) Investment in controlled entities

All investments are initially recognised at cost, being the fair value of the consideration given, and if acquired prior to 1 July 2009 included acquisition charges associated with the investment. Subsequently investments are carried at cost less any impairment losses.

(p) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (refer to note 1(r)).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leased assets

Leases where the lessee assumes substantially all the risks and rewards of ownership of the asset are classified as finance leases.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Depreciation

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment other than land, which is not depreciated.

Useful life	
Buildings	7 – 40 years
Leasehold improvements	4 – 7 years
Plant and equipment	3 – 10 years

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed annually and adjusted prospectively, if appropriate.

(q) Intangible assets

Goodwill arising from business combinations

All business combinations are accounted for by applying the acquisition method. Goodwill represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired and liabilities assumed. Any contingent consideration is recognised at fair value at the acquisition date.

Impairment

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to each cash generating unit or group of cash generating units expected to benefit from the business combination's synergies and is not amortised but is tested for impairment annually or whenever there is an indicator of impairment. Impairment is determined by assessing the recoverable amount of the cash generating unit or units, to which the goodwill relates. When the recoverable amount of the cash generating unit or units is less than the carrying amount, an impairment loss is recognised. Impairment losses are recognised directly in the income statement and are not subsequently reversed.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

Refer to note 13 for further details of key assumptions included in the impairment calculation.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses (refer to note 1(r)). The cost of internally developed software includes the cost of materials, direct labour and an appropriate proportion of overheads. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Amortisation

Amortisation of intangible assets is charged to the income statement as follows:

Victorian wagering and betting licence:

The licence is amortised on a straight line basis over the life of the licence from August 2012 until expiry in 2024.

Queensland Keno licence:

The licence is amortised on a straight line basis over the remaining life of the licence from the date of extension in July 2013 until expiry in 2047. Prior to the extension, the licence was amortised from the date of acquisition until expiry in 2022.

Victorian Keno licence:

The licence is amortised on a straight line basis over the life of the licence from April 2012 until expiry in 2022.

NSW wagering licence:

The licence is amortised on a straight line basis over the remaining life of the licence from the date of acquisition until expiry in 2097.

NSW Trackside concessions:

The Trackside concessions are amortised on a straight line basis over the period of expected benefits, which is until 2097.

NSW retail exclusivity:

The retail exclusivity is amortised over the period from September 2013 until June 2033.

Software:

Software is amortised on a straight line basis over its useful life, which varies from 5 to 10 years.

Other:

Other intangible assets relate to customer contracts and relationships which are amortised over a period of 3 to 15 years, being the estimated life of the contracts and relationships.

Brand names, broadcast rights and media content:

These intangible assets are not being amortised as the Directors believe that the life of these intangibles to the Group will not materially diminish over time, and the residual value at the end of that life would be such that the amortisation charge, if any, would not be material. These assets, together with goodwill, are tested for impairment annually or whenever there is an indicator of impairment.

(r) Impairment of non financial assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. When an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs of disposal and value in use. It is determined for an individual asset, unless the asset's recoverable value cannot be estimated as it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment losses are recognised immediately in the income statement.

Refer to note 13 for further details of key assumptions included in the impairment calculation.

(s) Payables

Payables are stated at amortised cost.

(t) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recorded as a finance cost.

(u) Interest bearing liabilities

Interest bearing liabilities are recognised initially at fair value together with directly attributable transaction costs. Subsequent to initial recognition, interest bearing liabilities are recognised at fair value or amortised cost. Amortised cost is calculated using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised in addition to the amortisation process.

Notes to the financial statements (continued)

For the year ended 30 June 2014

1. Significant accounting policies and corporate information (continued)

(v) Employee benefits

Post-employment benefits accumulation plan

The Group's commitment to accumulation plans is limited to making the contributions at least in accordance with the minimum statutory requirements. There is no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees relating to current and past employee services.

Contributions to accumulation plans are recognised as expenses in the income statement as the contributions become payable. A liability is recognised when the Group is required to make future payments as a result of employees' services provided.

Other long term employee benefits

The Group's net obligation in respect of long term employee benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is discounted to determine its present value. Remeasurements are recognised in the income statement in the period in which they arise.

Short term employee benefits

Short term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided and the obligation can be estimated reliably.

Share based payments

The Group operates the Long Term Performance Plan ('LTPP'), which is available at the most Senior Executive levels. Under the LTPP, employees may become entitled to Performance Rights in the Company.

The fair value of Performance Rights is measured at grant date and is recognised as an employee expense (with a corresponding increase in equity) over three years irrespective of whether the Performance Rights vest to the holder. A reversal of the expense is only recognised in the event the instruments lapse due to cessation of employment within the three year period.

The fair value of the Performance Rights is determined by an external valuer and takes into account the terms and conditions upon which the Performance Rights were granted.

The dilutive effect, if any, of outstanding Performance Rights is reflected in the computation of diluted earnings per share.

In addition, the Group operates the Short Term Performance Plan ('STPP'). For senior management, it is mandatory to defer 25% of their STPP into Restricted Shares, which are subject to a two year service condition.

The cost of the Restricted Shares is based on the market price at grant date and is recognised over a two year period for STPP.

Restricted Shares may be issued to executives as an incentive upon appointment or for retention. The fair value of Restricted Shares is recognised as an employee expense over the relevant vesting period.

Refer to note 21 for further details on the share based payments.

(w) Deferred revenue

Deferred revenue includes:

- subscriptions received relating to future periods; and
- the fair value of unredeemed customer loyalty award credits.

(x) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received.

When issued capital is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total issued capital.

Any transaction costs directly attributable to the issue of ordinary shares are recognised directly in equity, net of tax, as a reduction of the share proceeds received.

The unvested portion of Restricted Shares issued to executives as an incentive, on appointment or for retention are recorded as treasury shares, which is recognised as a reduction in issued capital.

The amount which has been credited to the employee equity benefit reserve in relation to Performance Rights is transferred to issued capital to the extent the relevant Performance Rights vest or have been treated as vested.

(y) Operating segment

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assesses its performance, and for which discrete financial information is available.

Operating segments have been identified based on the information provided to the chief operating decision maker, being the Managing Director and Chief Executive Officer.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- nature of the products and services;
- type or class of customer for the products and services;
- methods used to distribute the products or provide the services; and
- nature of the regulatory environment.

(z) Earnings per share

Basic earnings per share is calculated as net profit after tax, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit after tax, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(aa) Capitalised costs

Capitalised costs relating to development projects are recognised as an asset when it is:

- probable that any future economic benefit associated with the item will flow to the entity; and
- it can be reliably measured.

If it becomes apparent that the development will not occur the amount is expensed to the income statement.

Notes to the financial statements (continued)

For the year ended 30 June 2014

2. Revenue and expenses

	2014 $m	2013 $m
(a) Revenue includes:		
Interest revenue	**3.0**	4.7
(b) Other income		
Consideration for extinguishing a right to acquire specified assets pertaining to gaming businesses in Victoria	**–**	7.5
Net gain/(loss) on disposal of non current assets	**–**	0.7
Other income	**0.7**	0.3
	0.7	8.5
(c) Government taxes and levies include:		
Refund of GST relating to prior years	**–**	25.4
(d) Commission and fees include:		
Refund of GST relating to prior years – NSW racing industry share	**–**	(5.0)
(e) Employment costs include:		
Defined contribution plan expense	**11.1**	11.1
Share based payments expense	**2.5**	1.5
	13.6	12.6
(f) Depreciation and amortisation		
Depreciation		
– buildings	**1.1**	1.0
– leasehold improvements	**12.7**	12.2
– plant and equipment	**69.3**	60.2
	83.1	73.4
Amortisation		
– Victorian wagering and betting licence	**34.8**	30.6
– NSW wagering licence	**3.7**	3.7
– Queensland and Victorian Keno licences	**5.2**	8.5
– NSW Trackside concessions	**1.7**	1.8
– NSW retail exclusivity	**2.5**	–
– software	**32.1**	30.3
– previous Victorian wagering licence	**–**	1.0
– other	**1.3**	1.8
	81.3	77.7
	164.4	151.1

	2014 $m	2013 $m
(g) Impairment		
Intangible assets – licences	**–**	18.6
(h) Operating lease rentals		
Minimum lease payments	**39.6**	38.8
(i) Other expenses include:		
Consumables	**7.5**	8.6
(j) Finance costs		
Interest costs	**91.1**	97.8
Other finance costs	**9.3**	9.0
Net loss on cash flow hedges	**0.2**	–
	100.6	106.8

3. Auditor's remuneration

	2014 $000	2013 $000
Amounts received or due and receivable by Ernst & Young for:		
– audit and review of the financial report of the Group	**990**	1,004
– other assurance services in relation to the Group [(i)]	**272**	258
	1,262	1,262

(i) Other services comprise other audit services for Group subsidiaries, regulatory audit services and other assurance work.

4. Income tax

	Note	2014 $m	2013 $m
(a) Income tax expense			
The major components of income tax expense are:			
Current tax expense		**(67.0)**	(84.4)
Adjustments in respect of current income tax of previous years		**1.9**	4.3
Deferred income tax expense relating to the origination and reversal of temporary differences		**(1.6)**	(2.9)
Income tax expense reported in the income statement		**(66.7)**	(83.0)
Income tax expense reported in the income statement		**(75.1)**	(70.8)
Income tax attributable to discontinued operations	28	**8.4**	(12.2)
		(66.7)	(83.0)
Aggregate current and deferred tax relating to items charged or credited to equity:			
Change in value of cash flow hedges		**1.5**	2.0
Other		**0.1**	(0.3)
Income tax benefit reported in other comprehensive income		**1.6**	1.7
Income tax expense			
A reconciliation between income tax expense and the product of accounting profit before income tax multiplied by the income tax rate is as follows:			
Accounting profit before income tax expense from continuing operations		**224.5**	218.4
Loss before income tax expense from discontinued operations	28	**(27.9)**	(8.8)
Accounting profit before income tax		**196.6**	209.6
At the Group's statutory income tax rate of 30%		**(59.0)**	(62.9)
– amortisation of Victorian licences		**(11.7)**	(12.0)
– impairment of goodwill		**–**	(14.1)
– impairment of intangible assets – licences		**–**	(5.6)
– Tab Limited acquisition tax benefit		**–**	5.3
– other		**4.0**	6.3
Aggregate income tax expense		**(66.7)**	(83.0)

Notes to the financial statements (continued)

For the year ended 30 June 2014

4. Income tax (continued)

	2014 $m	2013 $m
(b) Deferred tax assets		
The balance comprises temporary differences attributable to:		
Amounts recognised in the income statement		
Provisions		
– employee benefits	**7.1**	7.2
– other	**4.0**	2.9
Accrued expenses	**6.8**	7.5
Property, plant and equipment	**13.7**	13.8
Derivatives	**3.5**	4.1
Other	**7.2**	7.5
Amounts recognised directly in equity		
Fair value of cash flow hedges	**17.4**	15.9
Share issue transaction costs	**1.7**	4.3
	61.4	63.2
Deferred tax assets set off	**(61.4)**	(63.2)
Net deferred tax assets	**–**	–
Movements		
Carrying amount at beginning of year	**63.2**	63.1
Charged to the income statement	**(0.7)**	(1.9)
Credited to equity in current or prior years	**(1.1)**	1.7
Transfer to/(from) deferred tax liabilities	**–**	0.3
Carrying amount at end of year	**61.4**	63.2

	2014 $m	2013 $m
(c) Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Amounts recognised in the income statement		
Intangible assets – licences	**96.8**	98.1
Intangible assets – other	**8.7**	6.7
Unclaimed dividends	**5.8**	6.4
Research and development	**16.7**	14.7
Other	**0.1**	1.3
Amounts recognised directly in equity		
Other	**0.2**	0.3
	128.3	127.5
Deferred tax assets set off	**(61.4)**	(63.2)
Net deferred tax liabilities	**66.9**	64.3
Movements		
Carrying amount at beginning of year	**127.5**	126.2
Charged to the income statement	**0.9**	1.0
Credited to equity	**(0.1)**	–
Transfer from/(to) deferred tax assets	**–**	0.3
Carrying amount at end of year	**128.3**	127.5

(d) Tax consolidation

Effective 1 July 2002, Tabcorp Holdings Limited ('the Head Company') and its 100% owned subsidiaries formed an income tax consolidation group. Members of the tax consolidation group entered into a tax sharing arrangement that provides for the allocation of income tax liabilities between the entities should the Head Company default on its tax payment obligations. At balance date, the possibility of default is remote.

Tax effect accounting by members of the tax consolidation group

Members of the tax consolidation group have entered into a tax funding agreement effective from 1 July 2005. Under the terms of the tax funding agreement, the Head Company and each of the members in the tax consolidation group have agreed to make a tax equivalent payment to or from the Head Company, based on the current tax liability or current tax asset of the member. Deferred taxes are recorded by members of the tax consolidation group in accordance withthe principles of AASB 112 'Income Taxes'. Calculations under the tax funding agreement are undertaken for statutory reporting purposes.

The allocation of taxes under the tax funding agreement is recognised as either an increase or decrease in the subsidiaries' intercompany accounts with the tax consolidation group Head Company. The Group has chosen to adopt the Group Allocation method as outlined in Interpretation 1052 'Tax Consolidation Accounting' as the basis to determine each member's current and deferred taxes. The Group Allocation method as adopted by the Group will not give rise to any contribution or distribution of the subsidiaries' equity accounts as there will not be any differences between the current tax amount that is allocated under the tax funding agreement and the amount that is allocated under the Group Allocation method.

5. Dividends

	2014 $m	2013 $m
Dividends declared and paid during the year on ordinary shares:		
(a) Interim dividend for 2014 of 8.0 cents per share (2013: 11.0 cents per share)	**60.3**	80.7
(b) Final dividend for 2013 of 8.0 cents per share (2012: 11.0 cents per share)	**59.6**	80.3
	119.9	161.0
Dividends declared after balance date		
Since the end of the financial year, the Directors declared the following dividend:		
Final dividend for 2014 of 8.0 cents per share (2013: 8.0 cents per share)	**61.0**	59.6

The financial effect of this dividend has not been brought to account in the financial statements and will be recognised in subsequent financial reports (refer to note 25).

	2014 $m	2013 $m
Franking credit balance		
Franking credits available at the 30% corporate tax rate after allowing for tax payable provided for in the financial statements, payment of dividends provided and receipt of dividends receivable as at balance date – calculated under the tax paid basis	**382.8**	374.9

Dividends on ordinary shares are fully franked at a tax rate of 30%.

6. Earnings per share

	2014 $m	2013 $m
(a) Earnings used in calculating earnings per share		
Basic and diluted earnings per share		
Profit from continuing operations after income tax	**149.4**	147.6
Loss from discontinued operations, net of tax	**(19.5)**	(21.0)
Earnings used in calculation of basic and diluted EPS attributable to shareholders of Tabcorp	**129.9**	126.6

	2014 Number	2013 Number
(b) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used in calculating basic earnings per share	**755,602,974**	736,988,760
Effect of dilution		
– Performance Rights	**3,509,747**	2,284,241
Weighted average number of ordinary shares adjusted for the effect of dilution	**759,112,721**	739,273,001

(c) Information concerning the classification of securities

Performance Rights

Performance Rights granted to employees are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The Performance Rights have not been included in the determination of basic earnings per share. Details relating to Performance Rights are set out in note 21.

There have been no other significant transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

7. Cash and cash equivalents

	2014 $m	2013 $m
Cash on hand and in banks	**46.6**	52.6
Short term deposits, maturing within 30 days	**80.2**	57.1
	126.8	109.7

8. Receivables

	2014 $m	2013 $m
Current		
Trade debtors	**22.6**	26.1
Allowance for doubtful debts	**(2.5)**	(2.8)
	20.1	23.3
Receivable in respect of Victorian licences (i)	**474.6**	474.6
Allowance for impairment (i)	**(474.6)**	(474.6)
	–	–
Sundry debtors	**18.1**	64.4
Other (ii)	**1.7**	7.2
	39.9	94.9
Non current		
Other (ii)	**16.8**	52.4
	16.8	52.4

(i) Pursuant to section 4.3.12 of the Gambling Regulation Act 2003 (Vic) on the grant of new licences, the Company was entitled to be paid in 2012 an amount equal to the licence value of the former licences or the premium paid by the new licensee, whichever is the lesser. The Company's estimate of the payment to be received was $686.8 million and the receivable in respect of Victorian licences represents this estimate at its present value at 30 June 2008.

On 10 April 2008 the Victorian Government announced that it had decided to move to a new industry structure for gaming, wagering and Keno in Victoria beyond 2012 and stated that it had formed the view that the Company is not entitled to compensation ('the Announcement'). The Company commenced legal action in the Supreme Court of Victoria seeking a payment from the State of Victoria, refer to note 24 'Contingent assets (a) Victorian licence litigation', for further detail.

In accordance with AASB 139 'Financial Instruments: Recognition and Measurement' the Company assessed the estimated cash flows of the receivable for recoverability. Given the uncertainty created by the Announcement the receivable in respect of the Victorian licences was considered impaired and the full value was provided for at 30 June 2008.

(ii) Other receivables reflect fixed term loans and generate fixed or variable interest for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

Ageing analysis of trade debtors	0–30 days $m	31–60 days $m	> 60 days $m	Total $m
2014				
Current	**17.6**	**–**	**–**	**17.6**
Past due not impaired	**–**	**0.9**	**1.6**	**2.5**
Considered impaired	**–**	**0.4**	**2.1**	**2.5**
	17.6	**1.3**	**3.7**	**22.6**
2013				
Current	20.2	–	–	20.2
Past due not impaired	–	0.9	2.2	3.1
Considered impaired	–	0.2	2.6	2.8
	20.2	1.1	4.8	26.1

Other balances within receivables are not past due and are expected to be received when due.

9. Other assets

	2014 $m	2013 $m
Current		
Prepayments	**8.8**	10.9
Other	**0.1**	1.4
	8.9	12.3
Non current		
Prepayments	**8.6**	10.3
Other	**4.0**	3.4
	12.6	13.7

10. Property, plant and equipment

	2014 $m	2013 $m
Freehold land		
– at cost	**5.3**	5.3
Buildings		
– at cost	**20.2**	18.9
– accumulated depreciation	**(10.2)**	(8.8)
	10.0	10.1
Leasehold improvements		
– at cost [(i)]	**99.3**	95.0
– accumulated depreciation	**(52.5)**	(44.3)
	46.8	50.7
Plant and equipment		
– at cost [(i)]	**659.4**	631.3
– accumulated depreciation	**(408.9)**	(388.9)
	250.5	242.4
	312.6	308.5
(i) Includes capital works in progress of:		
Leasehold improvements – at cost	**5.6**	4.2
Plant and equipment – at cost	**10.2**	6.9
Total capital works in progress	**15.8**	11.1

Reconciliations	Freehold land $m	Buildings $m	Leasehold improvements $m	Plant and equipment $m	Total $m
2014					
Carrying amount at beginning of year	**5.3**	**10.1**	**50.7**	**242.4**	**308.5**
Additions	**–**	**1.1**	**8.8**	**77.4**	**87.3**
Disposals	**–**	**(0.1)**	**–**	**–**	**(0.1)**
Depreciation expense	**–**	**(1.1)**	**(12.7)**	**(69.3)**	**(83.1)**
Carrying amount at end of year	**5.3**	**10.0**	**46.8**	**250.5**	**312.6**
2013					
Carrying amount at beginning of year	5.3	10.8	52.1	250.0	318.2
Additions	–	0.3	11.5	67.1	78.9
Disposals	–	–	(0.6)	(8.9)	(9.5)
Depreciation expense	–	(1.0)	(12.3)	(65.8)	(79.1)
Carrying amount at end of year	5.3	10.1	50.7	242.4	308.5

11. Intangible assets – licences

	2014 $m	2013 $m
Victorian wagering and betting licence		
– at cost	**418.7**	418.7
– accumulated amortisation	**(65.4)**	(30.6)
	353.3	388.1
NSW wagering licence		
– at cost	**339.1**	339.1
– accumulated amortisation	**(36.9)**	(33.2)
	302.2	305.9
Queensland and Victorian Keno licences		
– at cost	**102.3**	104.9
– accumulated amortisation and impairment	**(31.2)**	(48.6)
	71.1	56.3
	726.6	750.3

Reconciliations	Victorian wagering and betting licence $m	NSW wagering licence $m	Queensland and Victorian Keno licences $m	Total $m
2014				
Carrying amount at beginning of year	**388.1**	**305.9**	**56.3**	**750.3**
Additions – acquired	**–**	**–**	**20.0**	**20.0**
Amortisation expense	**(34.8)**	**(3.7)**	**(5.2)**	**(43.7)**
Carrying amount at end of year	**353.3**	**302.2**	**71.1**	**726.6**
2013				
Carrying amount at beginning of year	418.7	309.6	83.4	811.7
Impairment (i)	–	–	(18.6)	(18.6)
Amortisation expense	(30.6)	(3.7)	(8.5)	(42.8)
Carrying amount at end of year	388.1	305.9	56.3	750.3

(i) The impairment relates to the Victorian Keno licence and results from slower than previously expected revenue growth on commencement of this business in the prior period. Refer to note 13 for key assumptions to the impairment test.

12. Intangible assets – other

	2014 $m	2013 $m
Goodwill		
– at cost	**2,053.3**	2,050.9
– accumulated impairment	**(704.9)**	(704.9)
	1,348.4	1,346.0
NSW Trackside concessions		
– at cost	**150.0**	150.0
– accumulated amortisation	**(6.1)**	(4.4)
	143.9	145.6
NSW retail exclusivity		
– at cost	**51.3**	–
– accumulated amortisation	**(2.5)**	–
	48.8	–
Software		
– at cost (i)	**399.0**	350.6
– accumulated amortisation and impairment	**(248.1)**	(213.0)
	150.9	137.6
Other		
– at cost	**12.2**	14.9
– accumulated amortisation	**(6.4)**	(7.8)
	5.8	7.1
Brand names – at cost	**105.5**	105.5
Media content and broadcast rights – at cost	**30.6**	30.6
	1,833.9	1,772.4
(i) Includes capital works in progress of	**27.0**	23.9

Reconciliations	Goodwill $m	NSW Trackside concessions $m	NSW retail exclusivity $m	Software $m	Other $m	Brand names $m	Media content and broadcast rights $m	Total $m
2014								
Carrying amount at beginning of year	**1,346.0**	**145.6**	**–**	**137.6**	**7.1**	**105.5**	**30.6**	**1,772.4**
Additions:								
– acquired	**2.4**	**–**	**51.3**	**28.9**	**–**	**–**	**–**	**82.6**
– internally developed	**–**	**–**	**–**	**16.5**	**–**	**–**	**–**	**16.5**
Amortisation	**–**	**(1.7)**	**(2.5)**	**(32.1)**	**(1.3)**	**–**	**–**	**(37.6)**
Carrying amount at end of year	**1,348.4**	**143.9**	**48.8**	**150.9**	**5.8**	**105.5**	**30.6**	**1,833.9**
2013								
Carrying amount at beginning of year	1,389.0	147.4	–	122.5	8.2	105.5	30.6	1,803.2
Additions:								
– acquired	4.2	–	–	26.2	0.7	–	–	31.1
– internally developed	–	–	–	22.4	–	–	–	22.4
Disposals	–	–	–	(0.4)	–	–	–	(0.4)
Write-off [(i)]	(47.2)	–	–	–	–	–	–	(47.2)
Amortisation	–	(1.8)	–	(33.1)	(1.8)	–	–	(36.7)
Carrying amount at end of year	1,346.0	145.6	–	137.6	7.1	105.5	30.6	1,772.4

(i) The write-off of goodwill is a result of the expiration of the Victorian Gaming Licence in the prior period.

13. Impairment testing of goodwill and intangibles

Goodwill and intangible assets with indefinite useful lives (brand names, broadcast rights and media content) acquired through business combinations have been allocated to the applicable cash generating unit or group of units for impairment testing. Each cash generating unit represents a business operation of the Group.

Carrying amount of goodwill and other intangible assets with indefinite useful lives allocated to each cash generating unit or segment:

	2014 $m	2013 $m
Goodwill		
– Wagering	**976.2**	976.2
– Media and International	**218.2**	215.8
– Keno	**154.0**	154.0
	1,348.4	1,346.0
Other intangible assets with indefinite useful lives		
– NSW Wagering	**98.8**	98.8
– Sky Racing	**30.8**	30.8
– Sky Sports Radio	**6.5**	6.5
	136.1	136.1

The recoverable amount of each cash generating unit is determined based on fair value less costs of disposal, which is calculated using the discounted cash flow approach. This approach utilises cash flow forecasts that are principally based upon management approved business plans for a four year period and extrapolated using growth rates ranging from 2.0% to 2.5%. These cash flows are then discounted using a relevant long term post tax discount rate, ranging between 9.2% and 9.7%.

Key assumptions

The following describes the key assumptions on which management based its cash flow projections when determining fair value less costs of disposal to undertake impairment testing of goodwill and intangibles:

i. Cash flow forecasts

The cash flow forecasts are based upon the management approved four year business plan for each cash generating unit.

Cash flows beyond the four year period are extrapolated using growth rates which are either in line with or do not exceed the long term average growth rate for the industry in which the cash generating unit operates.

The terminal growth rate used is in line with the forecast long term underlying growth rate in Consumer Price Index.

ii. State tax regimes

The State tax regimes in which the Group currently operates remain largely unchanged, other than announced changes.

iii. Regulatory

The regulatory environment in which the Group currently operates remains largely unchanged, other than announced changes and changes expected to be approved.

iv. Discount rates

Discount rates applied are based on the post tax weighted average cost of capital applicable to the relevant cash generating unit.

v. Exclusive retail wagering licences in Victoria and New South Wales

It is assumed that retail exclusivity is retained. The wagering business competes with bookmakers in Victoria and New South Wales, and other interstate and international wagering operators who accept bets over the phone and the internet. There is a possibility that competition from the interstate and international operators may extend further to the Group's retail wagering network in the future.

vi. Race fields fees

Each State or Territory of Australia (except for the Northern Territory) has implemented race fields arrangements, under which the State or Territory or its racing industry charges wagering operators race fields fees for use of that industry's race fields information (or otherwise charges fees in respect of the operator's race betting operations in that State or Territory). Members of the Group currently have contracts in place that the Group considers will allow them to offset some of the fees or obtain damages under contract. Members of the Group may in the future disagree with various racing industry bodies regarding the application of certain aspects of the race fields regimes or contracts that govern product fees. Such disagreements may lead to litigation or other dispute resolution processes, including negotiated settlement.

The key estimates and assumptions used to determine the fair value less costs of disposal of a cash generating unit are based on management's current expectations after considering past experience and external information, and are considered to be reasonably achievable. However, significant changes in any of these key estimates and assumptions may result in a cash generating unit's carrying value exceeding its recoverable value requiring an impairment charge to be recognised at a future date.

14. Payables

	2014 $m	2013 $m
Current		
Trade creditors and accrued expenses – unsecured	**340.9**	293.6

15. Interest bearing liabilities

	2014 $m	2013 $m
Current		
Medium term notes (i)	–	432.9
Non current		
Bank loans – unsecured	**616.2**	337.5
Subordinated notes (ii)	**246.0**	244.5
US private placement (iii)	**232.1**	239.5
	1,094.3	821.5

(i) Floating interest rate, matured in May 2014.

(ii) Floating interest rate, matures in March 2037, with an early redemption right exercisable from March 2017 and each quarter thereafter (or earlier in certain circumstances).

(iii) Fixed interest rate US dollar debt, matures in April 2019 and April 2022. Aggregate US dollar principal of $220.0m (June 2013: $220.0m). Cross currency swaps are in place for all US dollar debt. Under these swaps the aggregate Australian dollar amount payable is $210.5m (June 2013: $210.5m). The mark to market valuation of these swaps are included in 'Derivative financial instruments'.

Fair value disclosures

Details of the fair value of the Group's interest bearing liabilities are set out in note 27.

Financing arrangements

Bank loans – the facilities at the end of the current year consist of:

Type	$m	Expiry date
Revolving facility	400.0	June 2016
	400.0	June 2018
	150.0	December 2018
	950.0	

Each of the above facilities is subject to financial undertakings as to gearing and interest cover.

16. Provisions

	2014 $m	2013 $m
Current		
Employee benefits	**20.7**	21.1
Premises	**1.5**	1.4
Other	**3.7**	–
	25.9	22.5
Non current		
Employee benefits	**2.9**	2.8
Premises	**8.0**	8.1
	10.9	10.9

Reconciliations

Movement in premises and other provisions during the year are set out below:

	Premises $m	Other $m
Carrying amount at beginning of year	**9.5**	–
Provisions made during the year	**2.1**	3.7
Provisions used during the year	**(1.4)**	–
Provisions reversed during the year	**(0.7)**	–
Carrying amount at end of year	**9.5**	3.7

Premises

Premises provisions comprise lease rental amortised on a straight-line basis over the term of the lease, make good provisions for leasehold properties requiring remedial work at the end of the lease arrangement and surplus lease space provisions.

17. Capital and reserves

(a) Issued capital	2014 $m	2013 $m
Ordinary shares – issued and fully paid [i]	**2,189.2**	2,129.3
Treasury shares [ii]	**(0.5)**	(0.6)
	2,188.7	2,128.7

(i) Ordinary shares

There is only one class of share (ordinary shares) on issue. These ordinary shares entitle the holder to participate in dividends and proceeds on winding up of the Company in proportion to the number and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. The Company does not have authorised capital nor par value in respect of its issued shares.

Movements in ordinary share capital	2014 Number of shares	2013 Number of shares
Balance at beginning of year	**744,885,690**	730,113,969
Dividend reinvestment plan	**18,068,329**	14,771,721
Balance at end of year	**762,954,019**	744,885,690

(ii) Treasury shares

Treasury shares comprise the unvested portion of Restricted Shares issued to executives as an incentive, on appointment or for retention. Refer to note 21 for details of employee share plans.

(b) Reserves	2014 $m	2013 $m
Net unrealised losses reserve [i]	**(40.5)**	(37.1)
Employee equity benefit reserve [ii]	**4.0**	1.9
Demerger reserve [iii]	**(669.9)**	(669.9)
Foreign currency translation reserve	**(0.2)**	–
	(706.6)	(705.1)

Nature and purpose of reserves

(i) Records fair value changes on the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

(ii) Records the movement of equity benefits provided to executives and employees as part of their remuneration (refer to note 21).

(iii) This reserve arose on the demerger of the Echo Entertainment Group in 2011. It represents the difference between the fair value of the Echo Entertainment Group shares (being the distribution liability arising on demerger), the amount allocated as a capital reduction and any transfers to retained earnings.

(c) Capital management

The Group's objectives when managing capital are to ensure the Group continues as a going concern while providing optimal returns to shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to be paid to shareholders, return capital to shareholders or issue new shares. The Group has a target of an investment grade credit rating. Gearing is managed primarily through the ratio of gross debt to earnings before interest, tax, depreciation, amortisation and impairment (EBITDA).

The Group is not subject to any externally imposed capital requirements.

	2014 $m	2013 $m
Gross debt	**1,103.3**	1,265.2
EBITDA from continuing operations	**486.1**	491.8
Gearing ratio	**2.3**	2.6

18. Notes to the cash flow statement

	2014 $m	2013 $m
Reconciliation of net profit after tax to net cash flows from operating activities		
Net profit after tax	**129.9**	126.6
Add/(less) items classified as investing/financing activities:		
– net gain on disposal of non current assets	**–**	(9.8)
Add/(less) non cash income and expense items:		
– depreciation and amortisation	**164.4**	159.2
– impairment	**–**	18.6
– goodwill write-off	**–**	47.2
– share based payments expense	**2.5**	1.5
– other	**3.9**	3.8
Net cash provided by operating activities before changes in assets and liabilities	**300.7**	347.1
Changes in assets and liabilities:		
(Increase)/decrease in:		
– trade and sundry receivables	**47.7**	(43.7)
– consumables	**(0.3)**	0.4
– other assets	**2.9**	0.8
(Decrease)/increase in:		
– payables	**41.4**	(6.8)
– provisions	**3.4**	2.0
– deferred tax liabilities	**4.3**	2.9
– provision for income tax	**(14.4)**	(28.3)
– other liabilities	**1.7**	(9.5)
Net cash flows from operating activities	**387.4**	264.9

19. Commitments

	2014 $m	2013 $m
(a) Capital expenditure commitments		
Property, plant and equipment	**20.5**	36.2
Software	**1.1**	0.8
	21.6	37.0

	2014 $m	2013 $m
(b) Operating lease commitments		
Contracted but not provided for and payable:		
Not later than one year	**43.7**	44.6
Later than one year but not later than five years	**104.2**	113.1
Later than five years	**70.0**	48.4
	217.9	206.1
Non cancellable sub-leases exist in relation to the operating lease commitments disclosed above with the following future minimum lease payments contracted to be received:		
Not later than one year	**0.4**	0.9
Later than one year but not later than five years	**–**	0.3
	0.4	1.2

The Group leases property under operating leases expiring from 1 to 13 years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or are subject to market rate review. For leases relating to the Victorian wagering operations 50% of the cost is recoverable from VicRacing Pty Ltd.

Notes to the financial statements (continued)

For the year ended 30 June 2014

20. Segment information

The Group's operating segments have been determined based on the internal management reporting structure and the nature of products and services provided by the Group. They reflect the business level at which financial information is provided to management for decision making regarding resource allocation and performance assessment. The measure of segment profit used excludes significant items not considered integral to the ongoing performance of the segment, which are outlined in the reconciliation below. Intersegment pricing is determined on commercial terms and conditions.

The Group has four operating segments:

Wagering	Totalizator and fixed odds betting activities.
Media and International	National and international broadcasting of racing and sporting events.
Gaming Services	Supply of electronic gaming machines and specialised services to licensed gaming venues.
Keno	Keno operations in licensed venues and TABs in Victoria and Queensland, and in licensed venues in NSW.

	Wagering $m	Media and International $m	Gaming Services $m	Keno $m	Total $m
2014					
Revenue – external	**1,574.7**	**163.1**	**98.1**	**203.9**	**2,039.8**
Revenue – intersegment	**–**	**57.3**	**–**	**–**	**57.3**
Segment revenue	**1,574.7**	**220.4**	**98.1**	**203.9**	**2,097.1**
Segment profit before interest and tax	**175.4**	**58.7**	**39.7**	**51.7**	**325.5**
Depreciation and amortisation	**106.8**	**9.8**	**27.3**	**20.5**	**164.4**
Capital expenditure	**114.4**	**10.2**	**43.5**	**35.9**	**204.0**
2013					
Revenue – external	1,558.0	153.5	86.3	205.4	2,003.2
Revenue – intersegment	–	54.1	–	–	54.1
Segment revenue	1,558.0	207.6	86.3	205.4	2,057.3
Segment profit before impairment, interest and tax	167.3	57.7	37.5	52.2	314.7
Depreciation and amortisation	97.7	9.3	20.8	23.3	151.1
Impairment losses recognised in the income statement	–	–	–	18.6	18.6
Capital expenditure	58.8	8.7	37.5	18.5	123.5

	2014 $m	2013 $m
Reconciliation of segment revenue and profit		
(a) Revenue		
Segment revenue	**2,097.1**	2,057.3
Intersegment revenue elimination	**(57.3)**	(54.1)
Consolidated revenue	**2,039.8**	2,003.2
(b) Profit		
Segment profit before impairment, interest and tax	**325.5**	314.7
Significant items not considered integral to the ongoing performance of the segment:		
– impairment	**–**	(18.6)
– refund of GST relating to prior years	**–**	20.4
– consideration for extinguishing a right to acquire specified assets	**–**	7.5
	–	9.3
Unallocated items:		
– finance income	**3.4**	3.1
– finance costs	**(100.6)**	(106.8)
– other	**(3.8)**	(1.9)
Profit from continuing operations before income tax expense	**224.5**	218.4

21. Employee share plans

The Company has share plans in operation which were established to provide equity instruments to senior executives and management as a component of their remuneration.

The maximum number of shares that can be outstanding at any time under these plans is limited to 5% of the Company's issued capital.

These incentive equity plans operate under the following names:

Short Term Performance Plan ('STPP')

Long Term Performance Plan ('LTPP')

In addition, the Company has granted Restricted Shares to certain executives as an incentive upon appointment or for retention.

The share based payments expense in respect of the equity instruments granted is recognised in the income statement for the period and is disclosed in note 2.

A detailed explanation of the incentive equity plans are disclosed in note 1(v) and the Remuneration report.

21. Employee share plans (continued)

Performance Rights

Details of and movements in Performance Rights granted under the LTPP and service agreements that existed during the current or previous year are:

Grant date	Exercise expiry date	Balance at start of year Number	Granted during the year Number	Forfeited during the year Number	Exercised during the year Number	Balance at end of year Number	Exercisable at end of year Number
2014							
25 October 2010	14 September 2017	**41,017**	**–**	**(41,017)**	**–**	**–**	**–**
23 September 2011	23 September 2014	**1,058,998**	**–**	**–**	**–**	**1,058,998**	**–**
26 October 2011	23 September 2014	**447,761**	**–**	**–**	**–**	**447,761**	**–**
4 October 2012	20 September 2015	**1,092,344**	**–**	**(32,075)**	**–**	**1,060,269**	**–**
31 October 2012	20 September 2015	**427,586**	**–**	**–**	**–**	**427,586**	**–**
2 October 2013	18 September 2016	**–**	**1,030,398**	**(51,526)**	**–**	**978,872**	**–**
31 October 2013	18 September 2016	**–**	**590,062**	**–**	**–**	**590,062**	**–**
		3,067,706	**1,620,460**	**(124,618)**	**–**	**4,563,548**	**–**
2013							
23 October 2008	15 September 2015	103,920	–	(103,920)	–	–	–
19 October 2009	17 June 2016	87,199	–	(87,199)	–	–	–
25 October 2010	14 September 2017	41,017	–	–	–	41,017	–
23 September 2011	23 September 2014	1,214,148	–	(155,150)	–	1,058,998	–
26 October 2011	23 September 2014	447,761	–	–	–	447,761	–
4 October 2012	20 September 2015	–	1,092,344	–	–	1,092,344	–
31 October 2012	20 September 2015	–	427,586	–	–	427,586	–
		1,894,045	1,519,930	(346,269)	–	3,067,706	–

Fair value of equity instruments

The Performance Rights have been independently valued at the date of grant using a modified form of Monte-Carlo simulation-based model.

The weighted average fair value of Performance Rights granted during the year was $1.87 (2013: $1.35).

The assumptions underlying the Performance Rights valuations are:

Grant date	Expiry date	Share price at date of grant $	Expected volatility in share price(i) %	Expected dividend yield(ii) %	Risk free interest rate(iii) %	Value per Performance Right $
23 October 2008	15 September 2015	6.95	24.00	5.50	4.37	4.42
19 October 2009	17 June 2016	7.20	26.00	5.50	5.19	3.92
25 October 2010	14 September 2017	7.47	24.00	6.50	4.97	4.50
23 September 2011	23 September 2014	2.61	24.00	7.00	3.46	1.34
26 October 2011	23 September 2014	2.87	24.00	7.00	3.73	1.49
4 October 2012	20 September 2015	2.86	22.00	6.00	2.40	1.37
31 October 2012	20 September 2015	2.84	22.00	6.00	2.57	1.31
2 October 2013	18 September 2016	3.27	22.00	5.50	2.92	1.73
31 October 2013	18 September 2016	3.60	22.00	5.50	3.00	2.07

(i) Reflects the assumption that the historical volatility is indicative of future trends.

(ii) Reflects the assumption that the current payout ratio will continue with no anticipated increases.

(iii) Represents the zero coupon interest rate derived from government bond market interest rates on the valuation date and vary according to each maturity date.

22. Related party disclosure

(a) Parent entity

The ultimate parent entity within the Group is Tabcorp Holdings Limited.

(b) Investments in controlled entities

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in note 1(d).

			Equity interest at 30 June	
Name of controlled entity	**Note**	**Country of incorporation**	**2014 %**	**2013 %**
Parent entity				
Tabcorp Holdings Limited	(a)	Australia		
Controlled entities				
Tabcorp Assets Pty Ltd	(a)	Australia	**100.0**	100.0
Tabcorp Manager Pty Ltd		Australia	**100.0**	100.0
Luxbet Pty Ltd	(a)	Australia	**100.0**	100.0
Tabcorp Investments No.5 Pty Ltd		Australia	**100.0**	100.0
Tabcorp Employee Share Administration Pty Ltd		Australia	**33.3**	33.3
Tabcorp Participant Pty Ltd	(a)	Australia	**100.0**	100.0
Tabcorp Investments No.2 Pty Ltd	(a)	Australia	**100.0**	100.0
Tabcorp Investments Pty Ltd		Australia	**100.0**	100.0
Showboat Australia Pty Ltd		Australia	**100.0**	100.0
Tabcorp Wagering Holdings Pty Ltd		Australia	**100.0**	100.0
Tabcorp Investments No. 8 Pty Ltd	(d)	Australia	**100.0**	n/a
Tabcorp Wagering (Vic) Pty Ltd	(a)(b)	Australia	**100.0**	100.0
Tabcorp Wagering Participant (Vic) Pty Ltd	(a)(b)	Australia	**100.0**	100.0
Tabcorp Wagering Manager (Vic) Pty Ltd		Australia	**100.0**	100.0
Tabcorp Wagering Assets (Vic) Pty Ltd	(a)(b)	Australia	**100.0**	100.0
Tabcorp Investments No.4 Pty Ltd	(a)	Australia	**100.0**	100.0
Tab Limited	(a)	Australia	**100.0**	100.0
Sky Channel Pty Ltd	(a)	Australia	**100.0**	100.0
2KY Broadcasters Pty Ltd	(a)(b)	Australia	**100.0**	100.0
Tabcorp Services Pty Ltd	(a)(b)	Australia	**100.0**	100.0
Tabcorp Training Pty Ltd	(a)(b)(c)	Australia	**100.0**	n/a
Sky Channel Marketing Pty Ltd		Australia	**100.0**	100.0
Sky Australia International Racing Pty Ltd		Australia	**100.0**	100.0

Name of controlled entity	Note	Country of incorporation	Equity interest at 30 June 2014 %	2013 %
Tabcorp Gaming Holdings Pty Ltd		Australia	**100.0**	100.0
Tabcorp Investments No.6 Pty Ltd		Australia	**100.0**	100.0
Keno (Qld) Pty Ltd		Australia	**100.0**	100.0
Tabcorp Gaming Solutions Pty Ltd		Australia	**100.0**	100.0
Tabcorp Gaming Solutions (NSW) Pty Ltd		Australia	**100.0**	100.0
Tabcorp Gaming Solutions (Qld) Pty Ltd		Australia	**100.0**	100.0
TAHAL Pty Ltd		Australia	**100.0**	100.0
Keno (NSW) Pty Ltd		Australia	**100.0**	100.0
Club Gaming Systems (Holdings) Pty Ltd		Australia	**100.0**	100.0
The CGS Trust		Australia	**100.0**	100.0
Tabcorp International Pty Ltd	(a)(b)	Australia	**100.0**	100.0
Tabcorp International No.4 Pty Ltd	(a)(b)	Australia	**100.0**	100.0
Tabcorp Europe Holdings Limited		Isle of Man	**100.0**	100.0
Premier Gateway International Limited		Isle of Man	**50.0**	50.0
Premier Gateway Services Limited		Isle of Man	**50.0**	50.0
Luxbet Europe Limited		Isle of Man	**100.0**	100.0
Luxbet Europe Service Limited		Isle of Man	**100.0**	100.0
Tabcorp International No.5 Pty Ltd		Australia	**100.0**	100.0
Tabcorp Canada Limited		Canada	**100.0**	100.0
Tabcorp International No.6 Pty Ltd		Australia	**100.0**	100.0
Sky Racing World HoldCo LLC		United States of America	**100.0**	100.0
Sky Racing World LLC		United States of America	**100.0**	100.0

(a) These companies have entered into a deed of cross guarantee with Tabcorp Holdings Limited.

(b) These companies were added by an assumption deed contemplated by the Tabcorp Holdings Limited deed of cross guarantee on 15 May 2014.

(c) This company was incorporated on 12 July 2013.

(d) This company was incorporated on 10 February 2014.

Notes to the financial statements (continued)

For the year ended 30 June 2014

22. Related party disclosure (continued)

(b) Investments in controlled entities (continued)

Deeds of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly owned subsidiaries within a deed of cross guarantee are relieved from the Corporations Act 2001 ('the Act') requirements for preparation, audit and lodgement of financial reports and Directors' report, subject to meeting the compliance requirements for relief.

It is a condition of the class order that a deed of cross guarantee be entered into by the head company and each of the subsidiaries within the relevant class order group. For each class order group, the effect of the deed is that each company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Act. If a winding up occurs under other provisions of the Act, the company within the relevant class order group will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event the head company of the relevant class order group is wound up.

The consolidated income statement and balance sheet of all entities included in the Tabcorp Holdings Limited class order closed group (see (a) above) are set out below.

Tabcorp Holdings Limited Closed Group	2014 $m	2013 $m
Income statement		
Revenue	**1,856.0**	1,686.2
Other income	**–**	0.9
Government taxes and levies	**(311.1)**	(295.8)
Commissions and fees	**(699.2)**	(673.9)
Employment costs	**(145.4)**	(137.9)
Communication and technology costs	**(69.1)**	(78.1)
Depreciation and amortisation	**(118.9)**	(111.1)
Property costs	**(39.7)**	(38.7)
Advertising and promotions	**(24.9)**	(24.3)
Other expenses	**(111.4)**	(94.7)
Profit before income tax expense and net finance costs	**336.3**	232.6
Finance income	**3.4**	3.1
Finance costs	**(100.6)**	(106.8)
Profit from continuing operations before income tax expense	**239.1**	128.9
Income tax expense	**(46.5)**	(42.5)
Profit from continuing operations after income tax	**192.6**	86.4
Discontinued operations		
Loss from discontinued operations, net of tax	**(19.5)**	(21.0)
Net profit after tax	**173.1**	65.4

Tabcorp Holdings Limited Closed Group	2014 $m	2013 $m
Other comprehensive income		
Change in fair value of cash flow hedges taken to equity that may be reclassified to profit or loss	**(4.9)**	(6.7)
Income tax on items that may be reclassified to profit or loss	**1.5**	2.0
Items that will not be reclassified to profit or loss	**(0.4)**	0.9
Income tax on items that will not be reclassified to profit or loss	**0.1**	(0.3)
Other comprehensive loss for the period, net of income tax	**(3.7)**	(4.1)
Total comprehensive income for the period	**169.4**	61.3
Net profit after tax	**173.1**	65.4
Accumulated losses at beginning of year	**(189.3)**	(94.2)
Other comprehensive income/(loss)	**(0.3)**	0.6
Dividends paid	**(119.9)**	(161.1)
Accumulated losses at end of year	**(136.4)**	(189.3)

Tabcorp Holdings Limited Closed Group	2014 $m	2013 $m
Balance sheet		
Cash and cash equivalents	**111.4**	96.9
Receivables	**26.0**	75.5
Consumables	**3.1**	2.7
Current tax asset	**0.7**	–
Other	**7.5**	11.2
Total current assets	**148.7**	186.3
Receivables	**257.9**	213.1
Investment in controlled entities	**0.4**	–
Property, plant and equipment	**185.4**	184.4
Intangibles – licences	**655.5**	694.0
Intangibles – other	**1,638.7**	1,591.3
Derivative financial instruments	**21.6**	26.0
Other	**7.8**	10.9
Total non current assets	**2,767.3**	2,719.7
TOTAL ASSETS	**2,916.0**	2,906.0
Payables	**306.7**	247.7
Interest bearing liabilities	**–**	432.9
Provisions	**24.8**	21.6
Current tax liabilities	**–**	13.7
Derivative financial instruments	**22.6**	23.1
Other	**5.4**	3.6
Total current liabilities	**359.5**	742.6
Interest bearing liabilities	**1,094.3**	821.5
Deferred tax liabilities	**55.6**	53.6
Provisions	**10.2**	10.2
Derivative financial instruments	**50.5**	43.8
Total non current liabilities	**1,210.6**	929.1
TOTAL LIABILITIES	**1,570.1**	1,671.7
NET ASSETS	**1,345.9**	1,234.3
Issued capital	**2,188.7**	2,128.7
Accumulated losses	**(136.4)**	(189.3)
Reserves	**(706.4)**	(705.1)
TOTAL EQUITY	**1,345.9**	1,234.3

(c) Transactions with joint arrangements

The Group conducts an unincorporated joint venture with VicRacing Pty Ltd in Victoria. Following changes to the structure of the Victorian wagering and gaming licences, a new Victorian wagering joint venture commenced from 16 August 2012. The principal activity of the joint venture is the organisation, conduct, promotion and development of wagering and betting within the State of Victoria. The Group receives 50% of the revenue and expenses of the new joint venture (75% under the previous joint venture). The joint venture is accounted for as a joint operation.

Consolidated

The Group charges the joint venture for the provision of employee, management and asset services. On consolidation, 50% (75% under the previous joint venture) of the charges eliminate (being the Group's interest in the joint venture). Charges for the remaining 50% (25% under the previous joint venture) of $65.2 million were received by the Group in 2014 (2013: $60.7 million).

(d) Significant restrictions

The Group operates under various state-based licences which have regulatory requirements in place that restrict the Group's use of certain cash balances. The carrying amount of these cash balances included within the consolidated financial statements is $26.4 million (2013: $23.9 million).

(e) Director and executive disclosures

(i) Compensation of key management personnel ('KMP')

	2014 $	2013 $
Short term	**5,042,996**	5,160,126
Other long term	**58,776**	38,538
Post employment	**182,426**	168,908
Share based payments	**1,366,071**	760,640
Termination benefits	**–**	521,138
	6,650,269	6,649,350

The above reflects the compensation for the period while the individuals were a KMP or a KMP awaiting all necessary regulatory approvals. The compensation for the period while the individuals were a KMP is $6,650,269 (2013: $6,641,547).

	2014	2013
(ii) KMP interests in bonds of Tabcorp Holdings Limited (included in current interest bearing liabilities)	**–**	350,000

22. Related party disclosure (continued)

(e) Director and executive disclosures (continued)

(iii) KMP interests in Performance Rights of Tabcorp Holdings Limited

Grant date	Exercise expiry date	2014 Number	2013 Number
25 October 2010	14 September 2017	**–**	41,017
23 September 2011	23 September 2014	**621,604**	419,775
26 October 2011	23 September 2014	**447,761**	447,761
4 October 2012	20 September 2015	**616,877**	400,602
31 October 2012	20 September 2015	**427,586**	427,586
2 October 2013	18 September 2016	**574,759**	–
31 October 2013	18 September 2016	**590,062**	–
		3,278,649	1,736,741

Refer to note 21 for further details on the plan.

	2014	2013
(iv) KMP interests in shares of Tabcorp Holdings Limited	**489,403**	426,161

23. Parent entity disclosures

	Tabcorp Holdings 2014 $m	Tabcorp Holdings 2013 $m
Result of the parent entity		
Profit for the period	**70.3**	97.9
Other comprehensive income/(loss)	**(0.3)**	0.6
Total comprehensive income for the period	**70.0**	98.5
Financial position of the parent entity		
Current assets	**39.7**	44.3
Total assets	**2,401.2**	2,683.7
Current liabilities	**16.0**	311.5
Total liabilities	**267.2**	561.9
Total equity of the parent entity comprising of:		
Issued capital	**2,188.7**	2,128.7
Employee equity benefit reserve	**4.0**	1.9
Demerger reserve	**(669.9)**	(669.9)
Retained earnings	**611.2**	661.1
Total equity	**2,134.0**	2,121.8

Contingent assets

Refer to note 24 contingent assets (a).

Capital expenditure

The parent entity does not have any capital expenditure commitments for the acquisition of property, plant and equipment contracted but not provided for at 30 June 2014 or 30 June 2013.

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a deed of cross guarantee with the effect that the Company guarantees debts in respect of its subsidiaries. Further details of the deed of cross guarantee and the subsidiaries subject to the deed, are set out in note 22.

24. Contingent liabilities and contingent assets

Details of contingent liabilities and contingent assets where the probability of future payments is not considered remote are set out below as well as details of contingent liabilities and contingent assets, which although considered remote, the Directors consider should be disclosed as they are not disclosed elsewhere in the notes to the financial statements.

Contingent liabilities

(a) Charge

A controlled entity, Tabcorp Wagering Participant (Vic) Pty Ltd, which is a participant in the joint venture, has entered into a deed of cross charge with its joint venture partner to cover the non payment of a called sum in the event of the joint venture incurring a loss. The charge is over undistributed and future earnings of the joint venture to the level of the unpaid call.

(b) Legal challenges

There are outstanding legal actions between controlled entities and third parties as at 30 June 2014. It is expected that any liabilities arising from such legal action would not have a material adverse effect on the Group's financial position, other than as outlined below.

Contingent assets

(a) Victorian licence litigation

On 24 August 2012, the Company commenced legal action in the Supreme Court of Victoria seeking a payment from the State of Victoria. The State's obligation to make the payment to the Company came into existence when it privatised the Victorian TAB and listed the Company on the Australian Securities Exchange (ASX) in 1994. The Gaming and Betting Act 1994 provided for a payment by the State of Victoria to the Company on the grant of new licences, irrespective of whether the Company was the new licensee. If the Company is ultimately successful in its claims, the estimate of the payment to be received under the Act is $686.8 million.

On 26 June 2014 the Supreme Court of Victoria handed down judgment in the proceeding in favour of the State of Victoria. The Company has appealed the Court's decision.

Notwithstanding the appeal lodged, the Company is in the process of seeking confirmation from the Australian Taxation Office as to the tax characterisation of certain aspects of the arrangements the subject of the legal proceedings, including the amount of any deduction to which the Company may be entitled if the Company is unsuccessful in its appeal.

(b) Health Benefit Levy

In May 2013 the Victorian Government applied a Health Benefit Levy on the Tabaret Gaming Business for the year ended 30 June 2013. The levy was not applied pro rata and it does not reflect that the Group ceased to operate gaming machines on 15 August 2012. In July 2014, the Supreme Court of Victoria allowed an appeal by the Victorian Government against a decision of the Supreme Court of Victoria which was handed down in June 2013 in favour of the Group. The Group has applied for special leave to appeal the decision to the High Court. If the Group is ultimately successful in its claims, the estimated post tax profit impact would be $19 million.

25. Subsequent events

(a) Dividends

Since 30 June 2014, the Directors have declared a final dividend of 8.0 cents per ordinary share. The total amount of the final dividend is $61.0 million. This has not been provided for in the 30 June 2014 financial statements (refer to note 5).

(b) Acquisition of ACTTAB

On 30 July 2014 the Group agreed to acquire ACTTAB for $105.5 million, subject to regulatory approvals, including ACCC clearance. The ACT government will issue a 50 year exclusive totalizator licence, a sports bookmaking licence for an initial term of 15 years with further rolling extensions to a total term of 50 years, and ongoing approvals to offer Keno and Trackside products for 50 years. The financial effects of the above transaction have not been brought to account in the financial statements for the year ended 30 June 2014.

26. Financial instruments – risk management

The Group's principal financial instruments, other than derivatives, comprise cash, short term deposits, bank bills, Australian denominated bank loans, notes and foreign currency denominated notes.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities which arise directly from its operations. Derivative transactions are also entered into by the Group, principally interest rate swaps and cross currency swaps, the purpose being to manage the interest rate risk and foreign exchange risk arising from the Group's sources of finance. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk.

Details of significant accounting policies and methods adopted, including criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument, are disclosed in note 1.

26. Financial instruments – risk management (continued)

(a) Interest rate risk

The Group has a policy of controlling exposure to interest rate fluctuations by the use of fixed and variable rate debt and by the use of interest rate swaps or caps. It has entered into interest rate swap agreements to hedge underlying debt obligations and allow floating rate borrowings to be swapped to fixed rate borrowings. Under these arrangements, the Group will pay fixed interest rates and receive the bank bill swap reference rate (BBSW) calculated on the notional principal amount of the contracts.

At 30 June 2014 after taking into account the effect of interest rate swaps, approximately 76% (2013: 87%) of the Group's borrowings are at a fixed rate of interest.

The Group had the following classes of financial assets and financial liabilities exposed to floating interest rate risk:

	2014 $m	2013 $m
Financial assets		
Cash assets	**28.0**	21.2
Short term deposits	**80.2**	57.1
Total financial assets	**108.2**	78.3
Financial liabilities		
Bank loans – unsecured (i)	**616.2**	337.5
Medium term notes	**–**	432.9
Subordinated notes	**246.0**	244.5
Interest rate swaps (ii)	**825.5**	1,075.5
Cross currency swaps (ii)	**210.5**	210.5
Total financial liabilities	**1,898.2**	2,300.9

(i) Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. The floating rates represent the most recently determined rate applicable to the instrument at balance date.

(ii) Notional principal amounts.

Sensitivity analysis – interest rates – AUD and USD

The following sensitivity analysis is based on interest rate risk exposures in existence at year end.

At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

Judgements of reasonably possible movements:

	Post tax profit higher/(lower)		Other comprehensive income higher/(lower)	
	2014 $m	2013 $m	2014 $m	2013 $m
AUD				
+ 1% (100 basis points) (2013: + 1%)	**(0.8)**	(1.0)	**22.1**	27.1
- 1% (100 basis points) (2013: - 1%)	**0.8**	1.0	**(23.3)**	(28.5)
USD				
+ 0.2% (20 basis points) (2013: + 0.2%)	**–**	–	**(2.2)**	(2.4)
- 0.2% (20 basis points) (2013: - 0.2%)	**–**	–	**2.2**	2.5

The movements in profit are due to higher/lower interest costs from variable rate debt and investments. The movement in other comprehensive income is due to an increase/decrease in the fair value of financial instruments designated as cash flow hedges.

The numbers derived in the sensitivity analysis are indicative only.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on the Group's current credit rating and mix of debt, relationships with financial institutions and the level of debt that is expected to be renewed, as well as a review of the last two years' historical movements and economic forecaster's expectations;
- Price sensitivity of derivatives is based on a reasonably possible movement of spot rates at balance dates; and
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months.

There are no changes to the methods and assumptions used from the previous financial year.

(b) Foreign currency risk

As a result of issuing private notes denominated in US dollars ('USD'), the Group's balance sheet can be affected by movements in the USD/AUD exchange rate. In order to hedge this exposure, the Group has entered into cross currency swaps to fix the exchange rate on the notes until maturity. The Group agrees to exchange a fixed USD amount in exchange for an agreed AUD amount with swap counterparties, and re-exchange this again at maturity. These swaps are designated to hedge the principal and interest obligations under the private notes.

Sensitivity analysis foreign exchange

The following sensitivity analysis is based on foreign currency risk exposures in existence at the balance sheet date.

At 30 June, had the AUD moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

Judgements of reasonably possible movements:

	Post tax profit higher/(lower)		Other comprehensive income higher/(lower)	
	2014 $m	**2013 $m**	**2014 $m**	**2013 $m**
AUD/USD +10 cents (2013: +10 cents)	**–**	–	**(2.0)**	(2.3)
AUD/USD -10 cents (2013: -10 cents)	**–**	–	**2.8**	1.9

The movement in other comprehensive income is due to an increase/decrease in the fair value of financial instruments designated as cash flow hedges.

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

The numbers derived in the sensitivity analysis are indicative only.

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last two years' historical movements and economic forecaster's expectations;
- The reasonably possible movement of 10 cents was calculated by taking the USD spot rate as at balance date, moving this spot rate by 10 cents and then reconverting the USD into AUD with the 'new spot-rate'. This methodology reflects the translation methodology undertaken by the Group;
- Price sensitivity of derivatives is based on a reasonably possible movement of spot rates at balance dates; and
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months.

(c) Credit risk

Credit risk on financial assets which have been recognised on the balance sheet, is the carrying amount less any allowance for non recovery. The Group minimises credit risk via adherence to a strict cash management policy. Collateral is not held as security.

Credit risk is managed through the use of a risk assessment process for customers requesting credit using the Credit Reference Association of Australia,bank opinions and trade references.

Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents (including short term deposits), the maximum exposure of the Group to credit risk from default of a counterparty is equal to the carrying amount of these instruments.

In relation to financial liabilities, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The Group's maximum credit risk exposure in respect of derivative contracts is detailed in the liquidity risk table below.

Credit risk includes liabilities under financial guarantees. For financial guarantee contract liabilities the fair value at initial recognition is determined using a probability weighted discounted cash flow approach. The fair value of financial guarantee contract liabilities has been assessed as nil (2013: nil), as the possibility of an outflow occurring is considered remote. Details of the financial guarantee contracts at balance date are outlined below:

26. Financial instruments – risk management (continued)

(c) Credit risk (continued)

Deed of cross guarantee

As explained in note 22, the Company has entered into a deed of cross guarantee pursuant to ASIC Class Order 98/1418 (as amended).

Guarantees and indemnities

Entities in the Group are called upon to give in the ordinary course of business, guarantees and indemnities in respect of the performance of their contractual and financial obligations. The maximum amount of these guarantees and indemnities is $8.1 million (2013: $5.7 million).

All investment and financial instrument activity is with approved counterparties with investment grade credit ratings. To manage credit risk, compliance with counterparty exposure limits is reviewed on a continuous basis. The aggregate value of transactions are spread amongst the approved counterparties.

(d) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligations to repay its financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and notes.

To help reduce liquidity risk, the Group targets a minimum level of cash and cash equivalents to be maintained, and has revolving facilities in place with sufficient undrawn funds available.

The Group's policy is that not more than 33% of debt facilities should mature in any financial year within the next four years. At 30 June 2014, no debt facilities will mature in less than one year (2013: 26%).

Due to the measures in place for managing liquidity and access to capital markets, this risk is not considered significant.

Refer to note 15 and further below for maturity of financial liabilities.

The contractual cash flows including principal and estimated interest payments of financial liabilities in existence at year end are as follows:

(i) Non-derivative financial instruments

	2014			2013		
	< 1 year $m	1–5 years $m	> 5 years $m	< 1 year $m	1–5 years $m	> 5 years $m
Financial liabilities						
Trade creditors and accrued expenses	**340.9**	**–**	**–**	293.6	–	–
Bank loans – unsecured	**27.3**	**666.1**	**–**	16.6	355.3	–
Medium term notes	**–**	**–**	**–**	460.0	–	–
Subordinated notes	**16.8**	**67.1**	**566.7**	17.0	68.0	572.2
US private placement	**13.5**	**54.0**	**246.4**	14.0	56.0	247.8
Net outflow	**398.5**	**787.2**	**813.1**	801.2	479.3	820.0

(ii) Derivative financial instruments

	2014			2013		
	< 1 year $m	1–5 years $m	> 5 years $m	< 1 year $m	1–5 years $m	> 5 years $m
Financial assets						
Interest rate swaps – receive AUD floating	**22.1**	**56.9**	**13.5**	29.4	73.0	25.5
Cross currency swaps – receive USD fixed	**11.6**	**129.0**	**147.7**	11.9	47.7	243.0
	33.7	**185.9**	**161.2**	41.3	120.7	268.5
Financial liabilities						
Interest rate swaps – pay AUD fixed	**41.0**	**118.4**	**28.0**	47.5	136.5	50.9
Cross currency swaps – pay AUD floating	**13.5**	**136.6**	**150.4**	14.0	56.0	247.8
	54.5	**255.0**	**178.4**	61.5	192.5	298.7
Net outflow	**(20.8)**	**(69.1)**	**(17.2)**	(20.2)	(71.8)	(30.2)

For floating rate instruments, the amount disclosed is determined by reference to the interest rate at the last repricing date. For foreign currency receipts and payments, the amount disclosed is determined by reference to the USD/AUD rate at balance date.

27. Financial instruments – fair values

The carrying amount of financial assets or liabilities recognised in the financial statements are deemed to be the fair value unless otherwise stated in the table below:

	Carrying amount		Fair value	
	2014 $m	2013 $m	2014 $m	2013 $m
Financial liabilities				
US private placement	**233.2**	240.8	**254.5**	250.1
Medium term notes	**–**	434.5	**–**	440.8
Subordinated notes	**250.0**	250.0	**264.6**	248.8
	483.2	925.3	**519.1**	939.7

Swaps

Fair value is calculated using discounted future cash flow techniques, where estimated cash flows and estimated discount rates are based on market data at balance date.

US Private Placement

Fair value is calculated using discounted future cash flow techniques, where estimated cash flows and estimated discount rates are based on market data at balance date, in combination with restatement to current foreign exchange rates (level 2 in fair value hierarchy).

Medium Term Notes

Fair value is determined using independent market quotations (level 1 in fair value hierarchy).

Subordinated Notes

Fair value is determined using independent market quotations (level 1 in fair value hierarchy).

(a) Interest rate swaps

Interest rate swap contracts are classified as cash flow hedges and are stated at fair value.

These swaps are being used to hedge the exposure to variability in cash flows attributable to movements in the reference interest rate of the designated debt or instrument and are assessed as highly effective in offsetting changes in the cash flows attributable to such movements. Hedge effectiveness is measured by comparing the change in the fair value of the hedged item and the hedging instrument respectively each quarter. Any difference represents ineffectiveness and is recorded in the income statement.

The notional principal amounts and periods of expiry of these interest rate swap contracts are as follows:

	Notional principal	
	2014 $m	2013 $m
Less than one year	**150.0**	250.0
One to five years	**383.5**	350.0
More than five years	**292.0**	475.5
Notional principal	**825.5**	1,075.5
Fixed interest rate range p.a.	**3.2% – 7.3%**	3.1% – 7.3%
Variable interest rate range p.a.	**2.6% – 2.7%**	2.8% – 2.9%

Net settlement receipts and payments are recognised as an adjustment to interest expense on an accruals basis over the term of the swaps, such that the overall interest expense on borrowings reflects the average cost of funds achieved by entering into the swap agreements.

27. Financial instruments – fair values (continued)

(b) Cross currency swaps

Cross currency swap contracts are classified as cash flow hedges and are stated at fair value.

These cross currency swaps are being used to hedge the exposure to the variability in the fair value of the USD debt under the US private placement and are assessed as highly effective in offsetting changes in movements in the forward USD exchange rate. Hedge effectiveness is measured by comparing the change in the fair value of the hedged item and the hedging instrument respectively each quarter. Any difference represents ineffectiveness and is recorded in the income statement.

The principal amounts and periods of expiry of the cross currency swap contracts are as follows:

	2014		2013	
	Pay principal AUD $m	Receive principal USD $m	Pay principal AUD $m	Receive principal USD $m
One to five years	**83.5**	**87.0**	–	–
More than five years	**127.0**	**133.0**	210.5	220.0
Notional principal	**210.5**	**220.0**	210.5	220.0
Fixed interest rate range p.a.		**4.6%–5.2%**		4.6%–5.2%
Variable interest rate range p.a.	**6.2%–6.5%**		6.5%–6.8%	

The terms and conditions in relation to the interest rate and maturity of the cross currency swaps are similar to the terms and conditions of the underlying hedged US private placement borrowings as set out in note 15.

(c) Fair value hierarchy

There are various methods available in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the derivative financial instruments, as well as the methods used to estimate the fair value for the Group, are as follows:

	Valuation technique			
2014	**Quoted market price (Level 1) $m**	**Observable inputs (Level 2) $m**	**Non market observable inputs (Level 3) $m**	**Total $m**
Financial assets – non current				
Cross currency swaps	**–**	**21.6**	**–**	**21.6**
	–	**21.6**	**–**	**21.6**
Financial liabilities – current				
Interest rate swaps	**–**	**18.9**	**–**	**18.9**
Cross currency swaps	**–**	**3.7**	**–**	**3.7**
Open betting positions	**–**	**12.0**	**–**	**12.0**
	–	**34.6**	**–**	**34.6**
Financial liabilities – non current				
Interest rate swaps	**–**	**50.5**	**–**	**50.5**
	–	**85.1**	**–**	**85.1**
2013				
Financial assets – non current				
Cross currency swaps	–	26.0	–	26.0
	–	26.0	–	26.0
Financial liabilities – current				
Interest rate swaps	–	19.6	–	19.6
Cross currency swaps	–	3.5	–	3.5
Open betting positions	–	7.2	–	7.2
	–	30.3	–	30.3
Financial liabilities – non current				
Interest rate swaps	–	43.8	–	43.8
	–	74.1	–	74.1

There have been no significant transfers between Level 1 and Level 2 during the financial year ended 30 June 2014.

28. Discontinued operations

The Group's Victorian gaming licence expired on 15 August 2012, following the Victorian Government's decision to move to a new industry structure for gaming, wagering and Keno in Victoria. The gaming business conducted under this licence, being the operation of electronic gaming machines in licensed hotels and clubs in Victoria, ceased and is reported as discontinued operations.

The results of the discontinued operations are presented below:

	Note	2014 $m	2013 $m
Revenue		–	130.2
Expenses (i)(ii)		**(27.9)**	(139.0)
Loss before income tax expense		**(27.9)**	(8.8)
Income tax benefit/(expense) on discontinued operations		**8.4**	(12.2)
Loss from discontinued operations, net of tax		**(19.5)**	(21.0)

Cash flow information – discontinued operations

	2014 $m	2013 $m
The cash flows from the discontinued operation contained in the Group cash flow statement are:		
Net cash inflow from operating activities	**3.0**	13.5
Net cash inflow/(used in) from investing activities	**(0.5)**	14.9
Net cash inflow	**2.5**	28.4

Earnings per share from discontinued operations:	Note	2014	2013
Basic earnings per share (cents)	6	**(2.6)**	(2.8)
Diluted earnings per share (cents)	6	**(2.6)**	(2.8)

(i) Current year expenses reflect the Health Benefit Levy and associated costs relating to the Tabaret Gaming Business. This levy is the subject of a legal matter, further details are contained in note 24.

(ii) Prior period expenses include a write-off of goodwill of $47.2 million resulting from the expiration of the Victorian Gaming Licence.

Directors' declaration

In the opinion of the Directors of Tabcorp Holdings Limited ('the Company'):

(a) the financial statements and notes of the Group are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

  (ii) complying with Accounting Standards and Corporations Regulations 2001;

(b) the financial statements and notes also complies with International Financial Reporting Standards as disclosed in note 1; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with sections 295A of the Corporations Act 2001.

In the opinion of the Directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 22 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

Signed in accordance with a resolution of Directors.

Paula J Dwyer

Paula J Dwyer
Chairman

David R H Attenborough
Managing Director and Chief Executive Officer

Melbourne
7 August 2014

Independent auditor's report

EY
Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent auditor's report to the members of Tabcorp Holdings Limited

Report on the financial report

We have audited the accompanying financial report of Tabcorp Holdings Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

EY
Building a better working world

Opinion

In our opinion:

a. the financial report of Tabcorp Holdings Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Tabcorp Holdings Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Tony Johnson
Partner
Melbourne
7 August 2014

Jason Perry
Partner
Melbourne
7 August 2014

Five year review (unaudited)

	2014 $m	2013 $m	2012 $m	2011 $m	2010 $m
Total revenue	**2,039.8**	2,133.4	3,038.5	4,469.6	4,219.8
EBITDA[1]	**459.4**	472.3	725.2	774.7	998.0
Profit before interest and tax[2]	**295.0**	313.1	591.7	856.3	794.4
Profit after income tax attributable to members of parent entity[3]	**129.9**	126.6	340.0	534.8	469.5
Dividend[4]	**121.3**	140.3	173.0	295.1	335.5
Cash and deposits	**126.8**	109.7	151.4	147.1	261.9
Other current assets	**54.2**	111.6	76.8	103.8	119.2
Intangible assets – licences	**726.6**	750.3	814.8	430.2	652.6
Intangible assets – other	**1,833.9**	1,772.4	1,803.2	1,805.7	3,627.5
Other non current assets	**363.6**	400.6	402.8	351.7	1,796.5
Total assets	**3,105.1**	3,144.6	3,249.0	2,838.5	6,457.7
Current interest bearing liabilities	**–**	432.9	–	449.8	175.0
Other current liabilities	**396.6**	356.7	490.2	502.2	671.0
Non current interest bearing liabilities	**1,094.3**	821.5	1,224.0	515.2	1,816.8
Other non current liabilities	**132.8**	120.3	129.0	160.4	340.2
Total liabilities	**1,623.7**	1,731.4	1,843.2	1,627.6	3,003.0
Shareholders' funds	**1,481.4**	1,413.2	1,405.8	1,210.9	3,454.7
Capital expenditure – payments	**198.4**	204.2	631.0	595.6	408.1

	cents	cents	cents	cents	cents
Earnings per share	**17.2**	17.2	47.6	80.7	77.1
Dividends per share[4]	**16.0**	19.0	24.0	43.0	55.0
Operating cash flow per share[5]	**25.0**	8.2	(14.8)	9.4	48.2
Return on shareholders' funds	**8.9%**	9.0%	25.9%	18.5%	13.9%
Net assets per share	**$1.96**	$1.92	$1.97	$1.83	$5.68

Revenue[6]	$m	$m	$m	$m	$m
Wagering	**1,574.7**	1,558.0	1,637.4	1,569.1	1,553.5
Media and International	**220.4**	207.6	190.2	179.3	164.0
Gaming Services	**98.1**	86.3	4.7	–	–
Keno	**203.9**	205.4	183.1	169.6	157.2
Gaming[7]	**–**	130.2	1,074.2	1,077.4	1,037.2
Casinos[8]	**–**	–	–	1,439.4	1,371.9
Unallocated/elimination	**(57.3)**	(54.1)	(51.1)	(53.0)	(51.8)
Normalisation adjustment	**–**	–	–	87.8	(12.2)
Total	**2,039.8**	2,133.4	3,038.5	4,469.6	4,219.8

1. 2013 includes impairment of $65.8 million, 2011 includes impairment of $358.0 million and excludes net gain on demerger of Echo Entertainment Group before income tax benefit of $304.6 million.
2. 2011 includes net gain on demerger of Echo Entertainment Group before income tax benefit of $304.6 million.
3. 2011 includes net gain on demerger of Echo Entertainment Group of $351.2 million.
4. Dividends attributable to the year, but which may be payable after the end of the period.
5. Net operating cash flow per the statement of cashflows does not include payments for property plant and equipment and intangibles, whereas these items are included in the calculation for the operating cash flow per share ratio. 2012 includes payment for the Victorian Wagering and Betting Licence of $418.7 million.
6. Revenue includes both external and internal revenue.
7. Gaming includes the Victorian Tabaret business which ceased operations on 15 August 2012.
8. The Casino revenues are normalised.

Company directory

Registered office

Tabcorp Holdings Limited

5 Bowen Crescent
Melbourne VIC 3004
Australia
Telephone 03 9868 2100
Facsimile 03 9868 2300
Email investor@tabcorp.com.au

Website

www.tabcorp.com.au

Stock exchange listings

The Company's securities are quoted on the Australian Securities Exchange (ASX) under the codes 'TAH' for ordinary shares and 'TAHHB' for Tabcorp Subordinated Notes.

New South Wales office

495 Harris Street
Ultimo NSW 2007
Telephone 02 9218 1000

Sky Racing/Sky Sports Radio

79 Frenchs Forest Road
Frenchs Forest NSW 2086
Telephone 02 9451 0888

Queensland office

Level 16
15 Adelaide Street
Brisbane QLD 4000
Telephone 07 3243 4100

Share Registry

Link Market Services Limited

Locked Bag A14
Sydney South NSW 1235
Australia
Telephone 1300 665 661
Telephone 02 8280 7418
Facsimile 02 9287 0303
Facsimile 02 9287 0309 (proxy forms only)
Email tabcorp@linkmarketservices.com.au
Website www.linkmarketservices.com.au

Key dates

2014	
Annual General Meeting (Shangri-La Hotel, Sydney)	28 October

2015*	
Half-year results announcement	5 February
Ex-dividend for interim dividend	10 February
Record date for interim dividend	12 February
Interim dividend payment	18 March
End of financial year	30 June
Full-year results announcement	13 August
Ex-dividend for final dividend	18 August
Record date for final dividend	20 August
Final dividend payment	24 September
Annual General Meeting	29 October

* These are proposed dates.
See the Company's website for updates (if any).

About the Annual Report
Tabcorp's Annual Report consists of two documents – the Concise Annual Report (which incorporates the concise financial statements) and the full financial report. The concise financial statements included in the Concise Annual Report comprise extracts from the full financial report and are derived from the full financial report. The Concise Annual Report cannot be expected to provide as full an understanding of Tabcorp's performance, financial position and investing activities as provided by the full financial report. A copy of Tabcorp's financial report is available, free of charge, on request and can be accessed via the Company's website at **www.tabcorp.com.au.**

Currency

References to currency are in Australian dollars unless otherwise stated.

Investment warning

Past performance of shares is not necessarily a guide to future performance. The value of investments and any income from them is not guaranteed and can fall as well as rise. Tabcorp recommends investors seek independent professional advice before making investment decisions.

Privacy

Tabcorp respects the privacy of its stakeholders. Tabcorp's Privacy Policy is available on the Company's website at **www.tabcorp.com.au.**

Celebrating 20 years

www.tabcorp.com.au