Tabcorp
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Media Release

3 June 2011

Standard & Poor's assigns 'BBB' rating to Tabcorp Holdings Ltd

Standard & Poor's Ratings Services has changed its credit rating of Tabcorp Holdings Ltd ('Tabcorp') to 'BBB' from 'BBB+' and has retained a negative outlook. A lower credit rating for Tabcorp was foreshadowed in the Scheme Booklet for the demerger of Tabcorp's Casinos business.

A copy of the Standard & Poor's announcement is attached.

The Standard & Poor's announcement follows today's Court approval of Tabcorp's scheme of arrangement to effect the demerger. As announced by the Company earlier today, the demerger is now binding. The Court approval follows the overwhelming support of shareholders for the demerger at the Company's scheme meeting earlier this week.

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Research Update:

Tabcorp Holdings Ltd. Ratings Lowered To 'BBB' After Court Approves Demerger; Outlook Is Negative

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Research Update:

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Overview

- Tabcorp has received court and shareholder approval for the demerger of its casino business into a separately listed entity.
- We believe Tabcorp will become a more narrowly focused wagering business following the demerger.
- We have lowered our ratings on Tabcorp by one notch and assigned a negative outlook.
- The negative outlook reflects primarily our view of the risks to the group's business risk profile if Tabcorp were unsuccessful in renewing its Victorian wagering license, which expires in 2012.

Rating Action

On June 3, 2011, Standard & Poor's Ratings Services lowered its long-term ratings on Australian-based wagering company Tabcorp Holdings Ltd. (Tabcorp) and Tabcorp's related debt issues and programs to 'BBB' from 'BBB+'. At the same time, the ratings were removed from CreditWatch with negative implications, where they were placed on Oct. 18, 2010. The outlook on the long-term rating is negative.

Rationale

This rating action follows shareholder and court approval for the demerger of the group's casino operations into a separately listed company, Echo Entertainment Group Ltd. (not rated). As a consequence of the demerger, and the loss of its Victorian gaming revenue from 2012, we believe that Tabcorp will become a more narrowly focused Australian wagering business.

Tabcorp's business risk and credit profile also remains exposed to further downward pressure if the group fails to renew its Victorian wagering license from 2012. The Victorian wagering license will expire in August 2012, and Tabcorp may or may not be successful in its bid to secure a new license. We estimate that Tabcorp's Victorian wagering operations account for about one-third of Tabcorp's post-demerger EBITDA, excluding the discontinuing gaming operations. Accordingly, a failure to renew the Victorian wagering would further reduce the diversity of the group's revenue and earnings base, and would likely result, all other things being equal, in a downgrade of the long-term rating to 'BBB-'.

The ratings on Tabcorp reflect our opinion of the Australian-based group's significant, regulated market positions in the Australian wagering sector; relatively stable free-operating cash flow; and "intermediate" financial risk profile. These strengths are tempered by the structural industry risks associated with new, and increasingly well-capitalized, online competitors that are eroding the group's traditional wagering revenue, and significant regulatory risks associated with license renewal and operating restrictions.

Liquidity

We consider Tabcorp's post demerger liquidity position to be adequate. In our view, Tabcorp has sufficient liquidity to meet all of its needs in the next 12 months. This expectation is based on the following:

- We estimate that Tabcorp's sources of liquidity--cash, funds from operations (FFO), and available debt facilities--will cover its uses of cash (such as capital expenditure and dividends) by more than 1.2x in the next 12 months; and
- Even if Tabcorp's EBITDA fell by more than 15% in fiscal 2012, the group should still retain sufficient liquidity to meet its needs.

We also expect Tabcorp to maintain adequate headroom under its debt-facility financial covenants under a range of conservative earnings scenarios.

Outlook

The negative outlook reflects primarily our view of the risks to the group's business risk profile if the group were unsuccessful in renewing its Victorian wagering license from 2012. Accordingly, a return of the outlook to stable would likely be reliant on Tabcorp renewing its Victorian wagering license and funding any license payment in a manner consistent with the 'BBB' rating. A financial profile consistent with the 'BBB' rating-assuming retention of the Victorian wagering license-would include FFO to debt of 30% or more and debt to EBITDA of about 2x or less.

Conversely, the long-term rating on Tabcorp could be lowered to 'BBB-' if Tabcorp fails to renew its Victorian wagering license. Downside rating pressure could also emerge if: competition from online bookmakers materially erodes the group's market shares or margins; the group's financial risk profile moves outside our expectations for the rating, which could include FFO to debt being sustained below 30%; or the funding cost associated with renewing the Victorian wagering license was materially outside our current expectations and was not funded in a manner consistent with the 'BBB' rating.

Related Criteria And Research

- Corporate Ratings Criteria 2008, April 15, 2008.
- Use of CreditWatch and Outlooks, Sept. 14, 2009.

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Tabcorp Holdings Ltd.		
Corporate Credit Rating	BBB/Negative/--	BBB+/Watch Neg/--
Tabcorp Holdings Ltd.		
Senior Unsecured (2 issues)	BBB	BBB+/Watch Neg
Tabcorp Investments No. 4 Pty Ltd.		
Senior Unsecured (8 issues)	BBB	BBB+/Watch Neg

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.