



Tabcorp Holdings Limited
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21 October 2016

To: Australian Securities Exchange
Market Announcements Office
20 Bridge Street
Sydney NSW 2000

**LETTER TO TABCORP SHAREHOLDERS
REGARDING TABCORP AND TATTS TO COMBINE**

Attached is a copy of a letter in relation to the proposed combination of Tabcorp Holdings Limited and Tatts Group Limited which will be despatched to Tabcorp Holdings Limited shareholders from today.

A handwritten signature in black ink that reads "F Mead". The signature is written in a cursive, flowing style.

Fiona Mead
Company Secretary (subject to approval)

Enc.

21 October 2016

Dear Fellow Shareholder,

Ahead of our upcoming Annual General Meeting, it gives me great pleasure to write to you with the news that this week, Tabcorp Holdings Limited ("Tabcorp") announced it has reached an agreement with Tatts Group Limited ("Tatts") to combine our two businesses. The announcement, which was lodged with the Australian Securities Exchange on 19 October 2016, is available on Tabcorp's website.

The transaction will create a world-class, diversified gambling entertainment group, with a pro forma enterprise value of approximately \$11.3 billion, a national footprint and a diverse product offering across wagering, media, lotteries, Keno and gaming services (the "Combined Group"). The Combined Group is expected to be an ASX 50 company with pro forma revenue in excess of \$5 billion.¹

The Directors believe that the transaction represents a unique and compelling opportunity to create significant value for Tabcorp shareholders. The combination will also deliver a winning offer for customers and material benefits for stakeholders, including the racing industry, TAB agencies, licenced venues, newsagents, and Federal, State and Territory Governments.

The transaction will be affected by way of a Tatts Scheme of Arrangement, under which Tatts shareholders will receive 0.80 Tabcorp shares plus 42.5 cents cash for each Tatts share held (the "Transaction"). On completion of the Transaction, existing Tabcorp shareholders will own approximately 42% of the Combined Group and existing Tatts shareholders will own approximately 58%.

Benefits for Tabcorp shareholders

The Directors believe that the Transaction will deliver significant benefits for Tabcorp shareholders, including:

- Exposure to a more diversified business, including Tatts' attractive lotteries business, and a suite of long-dated gambling licences
- Earnings per share accretion (before significant items) and value accretion, including from at least \$130 million of annual EBITDA synergies and business improvements, net of benefits to the racing industry, in the first full year following completion of integration
- A strong investment grade balance sheet, supporting an enhanced ability to invest, innovate and compete in an evolving marketplace, and the capacity to undertake a share buyback of up to \$500 million post-implementation, subject to Board approval and market conditions
- A continued commitment to paying strong dividends to shareholders, with the dividend payout ratio of the Combined Group expected to be a target of 90% of net profit after tax, before significant items and amortisation of the Victorian Wagering and Betting Licence

¹ Based on reported FY16 revenue of Tabcorp and Tatts. Excludes impact of synergies

Combined Group Board and management

The Board of the Combined Group will be comprised of the existing Tabcorp Board of Directors. I will continue as Chairman. Tatts Chairman Harry Boon will join the Board of the Combined Group as a Non-Executive Director following implementation of the Transaction.

David Attenborough will be Managing Director and Chief Executive Officer of the Combined Group and Damien Johnston will be Chief Financial Officer.

Implementation process

Tabcorp and Tatts currently expect the Transaction to complete in mid-2017 following the receipt of required approvals, including Tatts shareholder, regulatory and other approvals.

Until implementation of the Transaction, the businesses will continue to operate as usual and will continue to pay dividends in the ordinary course (subject to the Implementation Deed).

Completion of integration is expected to take approximately two years following implementation, subject to the receipt of all necessary regulatory approvals.

Unanimous board support

All of the Tabcorp Directors believe this Transaction is in the best interests of Tabcorp shareholders and unanimously support it.

The Directors of Tatts also believe the Transaction is in the best interests of Tatts shareholders and unanimously recommend that Tatts shareholders vote in favour of the Transaction, in the absence of a superior proposal and subject to an independent expert concluding the Transaction is in the best interests of Tatts shareholders. The Directors of Tatts intend to vote all shares they personally hold in favour of the Transaction.

Action required by you

The Transaction is a Tatts Scheme of Arrangement that will be voted on by Tatts shareholders. There is no requirement under the Corporations Act or the ASX Listing Rules for Tabcorp shareholders to vote on the Transaction and as such, no further action is required by you to effect the Transaction.

I feel privileged to be able to share this news with you. The Transaction represents a unique and exciting new period of growth for Tabcorp and our shareholders, and I look forward to being part of this journey with you.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Paula J Dwyer', written in a cursive style.

Paula J Dwyer

Chairman

Tabcorp Holdings Limited