ASX Announcement

1 March 2018

TattsGroup

RESULTS FOR ANNOUNCEMENT TO THE MARKET

TATTS GROUP LIMITED HALF-YEAR REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

In accordance with the ASX Listing Rules, the documents which follow are for immediate release to the market.

1. Half-Year Report for the half-year ended 31 December 2017 (Appendix 4D)
2. Directors' Report and Interim Financial Report for the half-year ended 31 December 2017

The information contained in this release should be read in conjunction with the Company's most recent Annual Financial Report.

Fiona Mead
Director and Company Secretary

Tatts Group Limited
Half-Year Report
31 December 2017

Appendix 4D information
ABN 19 108 686 040
Half-Year ended 31 December 2017
(Previous corresponding period)
Half-Year ended 31 December 2016

Results for Announcement to the Market

From ordinary activities	Period to 31 December 2017 $'000		Period to 31 December 2016 $'000	% change
Revenue from ordinary activities	**1,480,059**		1,419,558	4.3%
Profit from ordinary activities for the period attributable to members	**102,345**		122,759	(16.6)%
Net profit after tax for the period attributable to members	**102,345**		122,759	(16.6)%

From continuing activities				
Revenue from ordinary activities excluding discontinued operations	**1,480,059**		1,419,558	4.3%
Net profit after tax for the period attributable to members excluding discontinued operations	**102,345**		123,454	(17.1)%

Distributions

Dividend/distributions	Amount per security (cents)	Franked amount per security (cents)	Amount $'000	Date Paid
Current year to 31 December 2017				
Special dividend (per share)	16.0	16.0	235,036	19 December 2017
Prior year to 30 June 2017				
Final dividend (per share)	8.0	8.0	117,482	3 October 2017
Interim dividend (per share)	9.5	9.5	139,509	3 April 2017

Explanation of revenue

Refer to Tatts Group Limited Directors' Report and Interim Financial Report.

Explanation of profit from ordinary activities after tax

Refer to Tatts Group Limited Directors' Report and Interim Financial Report.

Explanation of dividends

No interim dividend has been declared. A special dividend of 16.0 cents was declared and paid following the merger Scheme becoming effective in December 2017.

	31 December 2017	31 December 2016
Net tangible asset backing (per share)	**($1.14)**	($1.00)

The negative NTA backing reflects the composition of the companies that comprise Tatts Group Limited and its controlled entities (Group), being licensed networked gambling businesses which are typically characterised by significant levels of intangible assets.

Controlled entities acquired or disposed of
Nil.

Fiona Mead
Director and Company Secretary

Melbourne
1 March 2018

Tatts Group Limited
ABN 19 108 686 040
Directors' Report and Interim Financial Report
31 December 2017

Contents

This Interim Financial Report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2017 and any public announcements made by Tatts Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

Your Directors present their report on the consolidated entity (**Group**) consisting of Tatts Group Limited (**Company**) and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors

The following persons were Directors of the Company during the whole of the half-year and up to the date of this report unless otherwise stated:

David Attenborough (appointed 22 December 2017)
Damien Johnston (appointed 22 December 2017)
Fiona Mead (appointed 22 December 2017)
Harry Boon (resigned 22 December 2017)
Robbie Cooke (resigned 22 December 2017)
Lyndsey Cattermole AM (resigned 22 December 2017)
Brian Jamieson (resigned 22 December 2017)
Julien Playoust (resigned 22 December 2017)
Kevin Seymour AM (resigned 22 December 2017)
Dr. David Watson (resigned 22 December 2017)

Principal activities

The principal activities of the Group during the financial period consisted of:

- the operation of regulated lotteries in Victoria, Queensland, New South Wales, Tasmania, Australian Capital Territory, the Northern Territory and South Australia;
- the conduct of wagering and sports betting through operations based in Queensland, South Australia, the Northern Territory and Tasmania;
- the conduct of gaming machine monitoring and supply of jackpot and other value add services in Queensland, New South Wales and the Northern Territory. In New South Wales this includes exclusive licences to operate inter-venue linked jackpots;
- the provision of third party installation, repair and maintenance services for gaming, wagering, lottery, point-of-sale and other transactional equipment and systems throughout Australia.

Change in ownership and ultimate parent

In December 2017 the ultimate parent entity of Tatts Group Limited changed to Tabcorp Holdings Limited.

Review of operations

Revenue from Group operations was up 4.2% to $1,481.9 million, whilst net profit after tax (NPAT) before significant items was down 2.9% to $127.8 million. Statutory NPAT decreased by 16.6% to $102.3 million.

The 4.0% lift in revenue was predominantly the result of a strong run of jackpots in the period with lotteries division revenue of $1.08 billion, up 6.2% to $1,080.9 million on the prior comparative period (**pcp**).

Statutory NPAT, which decreased by 16.6% to $102.3 million was impacted by merger costs of $36.4 million ($25.5 million after tax) together with the corporate items highlighted below.

The decline in NPAT before significant items of 2.6% is due mainly to the following corporate items:

- lease costs incurred on the new planned Brisbane office of $5.5 million ($3.9 million after tax);
- expenses of $4.9m ($3.5m after tax) incurred on the synthetic lottery public campaign highlighting the harm of this type of product to Australia and the community as a whole; and
- an increase in effective tax rate in H1 FY18 to 30.3% from 27.9% in H1 FY17 due to the $5.5m gain on sale of Newstead property being offset against prior year CGT losses.

Excluding the effects of these corporate items, NPAT before significant items showed an increase of 7.2% which better reflects the revenue increase and margin improvement of the operations for the period.

Review of operations (continued)

Other income in H1 FY17 included a gain on sale ($5.4 million) resulting from the disposal of a parcel of land held at Newstead, Brisbane. The use of the available capital losses against the taxable gain had a positive impact on the effective tax rate for the prior period which dropped to 27.9%. However the effective tax rate returned to a rate more consistent with historical experience at 30.3%.

Lotteries

Tatts' lotteries business had a very strong half with revenue up 6.2% to $1.08 billion assisted by a run of 18 jackpots at or above the influential $15 million mark compared to 15 equivalent jackpots in the prior period. There was also a significant increase in the first division jackpot pool (at or above $15 million) to $480 million compared with $345 million in the pcp. This resulted in a 20.5% increase in revenue from Powerball and Oz Lotto.

Tatts' non-jackpot games could not match the strong performance in the same period last year (including its largest game, Saturday Lotto which was cycling over the perfectly aligned Megadraw which fell on new year's eve in the pcp) with combined revenues down 2.9%, while continued growth was recorded in the Victorian Instant Scratch-Its product with revenue up 4.9%.

Digital lottery sales grew strongly in the period, up 29.8% and now represents 15.6% of total lottery sales (including South Australia and 16.5% excluding South Australia).

Earnings before interest and tax (**EBIT**) was up 12.6% to $142.7 million off the back of increased revenues of 6.2% with the EBIT margin up to 14.9%, an increase of 60 basis points (**bps**) over the pcp. The increased margin highlights the excellent leverage created by jackpots as well as growth in the digital sales channel.

Wagering

Earnings from the wagering division were softer with revenue down 2.0% to $311.4 million. Turnover performance was maintained at $2.0 billion with digital turnover up an impressive 13.8% in the period (against a modest 2.7% increase in the pcp) and active customers using the digital channel up 14.7%. The Sportsbook recorded growth of 14.1% following the continued expansion of the Self Service Terminals (**SSTs**) fleet and impressive growth in International sports betting. Furthermore, the period saw a slow-down in the decline of retail turnover due to the continued investment in retail - down only 5.5% compared to 7.1% in the pcp.

Fixed odds racing win-rates were softer at 13.8% versus 14.2%, while fixed odds sports win rates were 10.3% against 11.1% in the pcp.

EBIT declined 18.0% to $41.5 million as a result of the lower revenue and increased investment in retail. Furthermore, the EBIT margin declined to 18.0% from 19.6% in the pcp.

Gaming

Revenue in MAX was up 6.9% reflecting contracted increases in monitoring fees, a 5.1% increase in the uptake of MAXconnect, a 41.9% increase in TITO installed machines, a 38.2% increase in Simplay fees earned and the roll-out of 386 cash-redemption terminals.

MAXtech revenue increased 4.7% to $41.5 million reflecting increased service income to internal customers.

EBIT for the period reached $28.3 million, up 23.6% attributable to the increased revenue.

Balance sheet

The increase in current assets results from an increase in prize reserves in the Lotteries business in addition to the timing of lottery sweeps with the Saturday Lotto New Year's Eve Mega draw taking place on 30 December 2017. Intangible assets increased following the final payment for, and commencement of, the NSW CMS Monitoring right. This also caused a fall in other non-current assets due to the reclassification of the rights instalment payments following its commencement on 1 December 2017.

Review of operations (continued)

Balance sheet (continued)

All interest bearing liabilities were reclassified as Current liabilities at 31 December 2017 in recognition of the entitlement of the holders of both the Tatts Bonds and the US Private Placement notes to seek redemption following the change of control event of the Tabcorp combination.

As a consequence of the merger, Tatts Group's syndicated facility was repaid, replaced by an inter-company payable of $835 million becoming due to Tabcorp Finance Pty Ltd (formerly Tabcorp Investments No.4 Pty Ltd) and an equity contribution of $235 million by Tabcorp Holdings Limited.

Total capital expenditure for the period was $52.3 million. Depreciation and amortisation of $40.1 million includes $14.7 million of amortisation of licences and rights to operate.

A special dividend of 16.cents per share was paid during the period.

Merger

The merger with Tabcorp Holdings Limited was concluded and implemented on 22 December 2017. Costs relating to the merger and incurred in the period amounted to $36.4 million ($25.5 million after tax) with total merger costs to date amounting to $69.9 million. Merger costs included advisory fees, staff retention costs, and general costs associated with the preparation of the scheme booklet and implementing the scheme.

Share of net profit of associates

Net profit of $0.6 million was earned from the investment in Jumbo Interactive Limited (Jumbo). In the 2017 financial year, the Company expanded its decade-long commercial relationship with Jumbo with a 5-year extension and expansion of our existing lottery reseller agreements. As part of these arrangements, the Company also agreed to subscribe for a shareholding in Jumbo (approximately 13%) and also holds a 12-month option to acquire a further 3,474,492 ordinary shares in Jumbo at a $2.37 strike price.

Options

During the period ended 31 December 2017 all options over ordinary shares in Tatts Group Limited were either exercised or cancelled. There are no options over ordinary shares in Tatts Group Limited at 31 December 2017.

Rounding of amounts to nearest thousand dollars

The Company is of a kind referred to in Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off in accordance with that Legislative Instrument to the nearest thousand dollars.

This report is made in accordance with a resolution of Directors.

David RH Attenborough
Director

Damien Johnston
Director

Melbourne
1 March 2018

Building a better working world

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Auditor's Independence Declaration to the Directors of Tatts Group Limited

As lead auditor for the review of Tatts Group Limited for the half-year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Tatts Group Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

Bradley Tozer

Brad Tozer
Partner
1 March 2018

	Notes	Dec 2017 $'000	Dec 2016 $'000
Revenue from continuing operations		**1,480,059**	1,419,558
Statutory outgoings			
Government share		**(702,053)**	(655,857)
Venue share/commission		**(213,931)**	(208,107)
Product/program fees		**(96,083)**	(107,180)
Other income		**1,826**	5,486
Expenses			
Employee expenses		**(89,389)**	(85,833)
Operating fees and direct costs		**(27,959)**	(27,539)
Telecommunications and technology		**(21,825)**	(20,246)
Marketing and promotions		**(41,470)**	(33,131)
Information services		**(9,569)**	(10,645)
Property expenses		**(17,716)**	(12,273)
Restructuring expenses		**(116)**	(938)
Other expenses		**(17,391)**	(17,873)
Share of net profit of associates and joint ventures accounted for using the equity method		**559**	-
Merger costs		**(36,424)**	(10,359)
Depreciation and amortisation		**(40,121)**	(39,842)
Profit before interest and income tax		**168,397**	195,221
Interest income		**292**	388
Finance costs		**(21,761)**	(24,432)
Profit before income tax		**146,928**	171,177
Income tax expense		**(44,583)**	(47,723)
Profit from continuing operations		**102,345**	123,454
Loss from discontinued operations	6	**-**	(695)
Profit attributable to owners of Tatts Group Limited		**102,345**	122,759

The above consolidated income statement should be read in conjunction with the accompanying notes.

	Dec 2017 $'000	Dec 2016 $'000
Profit for the Half-Year	**102,345**	122,759
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of available-for-sale financial assets	**46**	(154)
Changes in the value of cross currency interest rate swaps	**(415)**	316
Changes in the value of interest rate swaps	**78**	4,169
Exchange differences on translation of foreign operations	**79**	(7)
Changes in the value of forward foreign exchange contracts	**(38)**	-
Income tax relating to these items	**99**	(1,299)
Other comprehensive income for the Half-Year, net of tax	**(151)**	3,025
Total comprehensive income for the Half-Year	**102,194**	125,784
Total comprehensive income for the half-year attributable to owners of Tatts Group Limited arises from:		
Continuing operations	**102,194**	126,479
Discontinued operations	**-**	(695)
	102,194	125,784

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	Notes	Dec 2017 $'000	June 2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**270,495**	228,779
Trade and other receivables		**132,320**	80,626
Inventories		**1,866**	1,854
Derivative financial instruments		**3,848**	18,336
Other current assets		**59,771**	55,763
Total current assets		**468,300**	385,358
Non-current assets			
Trade and other receivables		**805**	401
Investment in an associate		**14,902**	15,665
Available-for-sale financial assets		**20,579**	20,360
Held-to-maturity investments		**55,000**	55,000
Property, plant and equipment		**168,503**	157,075
Derivative financial instruments		**49,182**	56,259
Intangible assets		**4,674,981**	4,458,756
Deferred tax assets		**2**	2
Other non-current assets		**1,942**	144,349
Total non-current assets		**4,985,896**	4,907,867
Total assets		**5,454,196**	5,293,225
LIABILITIES			
Current liabilities			
Trade and other payables		**655,783**	587,961
Interest bearing liabilities	7	**414,555**	313,116
Derivative financial instruments		**1,491**	-
Tax liabilities		**11,062**	20,050
Provisions		**19,116**	18,449
Other current liabilities		**59,771**	55,763
Amounts payable to related companies	7	**835,000**	-
Total current liabilities		**1,996,778**	995,339
Non-current liabilities			
Trade and other payables		**232,083**	207,000
Interest bearing liabilities	7	**-**	847,159
Deferred tax liabilities		**267,940**	270,288
Derivative financial instruments		**722**	2,291
Provisions		**5,000**	3,261
Employee benefit obligations		**9,688**	10,130
Total non-current liabilities		**515,433**	1,340,129
Total liabilities		**2,512,211**	2,335,468
Net assets		**2,941,985**	2,957,757
EQUITY			
Contributed equity	8	**3,106,330**	2,869,480
Other reserves		**(2,159)**	290
Retained earnings/(accumulated losses)		**(162,186)**	87,987
Total equity		**2,941,985**	2,957,757

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

	Notes	Share capital $'000	Other reserves $'000	Retained earnings/ (accumulated losses) $'000	Total equity $'000
		Attributable to owners of Tatts Group Limited			
Balance at 1 July 2016		2,854,416	(2,154)	120,464	2,972,726
Profit for the period		-	-	122,759	122,759
Other comprehensive income		-	3,025	-	3,025
Total comprehensive income for the period		**-**	**3,025**	**122,759**	**125,784**
Transactions with owners in their capacity as owners:					
Dividend Reinvestment Plan issues	8	13,167	-	-	13,167
Dividends provided for or paid	4	-	-	(117,162)	(117,162)
Employee performance rights		1,897	(12)	-	1,885
		15,064	(12)	(117,162)	(102,110)
Balance at 31 December 2016		**2,869,480**	**859**	**126,061**	**2,996,400**
Balance at 1 July 2017		2,869,480	290	87,987	2,957,757
Profit for the period		-	-	102,345	102,345
Other comprehensive income		-	(151)	-	(151)
Total comprehensive income for the period		**-**	**(151)**	**102,345**	**102,194**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	4	-	-	(352,518)	(352,518)
Employee performance rights		1,850	(2,298)	-	(448)
Issue of ordinary shares	8	235,000	-	-	235,000
		236,850	(2,298)	(352,518)	(117,966)
Balance at 31 December 2017		**3,106,330**	**(2,159)**	**(162,186)**	**2,941,985**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	Notes	Dec 2017 $'000	Dec 2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST) net of prizes paid/cash returns to customers		**1,513,609**	1,460,026
Payments to suppliers and employees (inclusive of GST)		**(275,270)**	(247,266)
Payments to Government		**(682,935)**	(623,415)
Payments to venues/commission		**(213,931)**	(208,107)
Payments for product and program fees		**(94,058)**	(105,002)
		247,415	276,236
Other revenue		**6**	6
Interest received		**932**	687
Interest paid		**(17,706)**	(22,132)
Income taxes paid		**(56,507)**	(54,589)
Net cash inflow from operating activities		**174,140**	200,208
Cash flows from investing activities			
Payments for property, plant and equipment		**(29,367)**	(9,611)
Payments for intangibles		**(27,467)**	(48,762)
Payments to Government for future monitoring rights		**(68,333)**	(68,333)
Payments for shares (unlisted)		**(200)**	-
Loans advanced from related entities		**835,000**	-
Proceeds from sale of assets held for sale		**-**	1,330
Proceeds/(payments) from sale of available-for-sale assets		**(173)**	(387)
Distributions received from joint ventures and associates		**1,322**	-
Net cash inflow (outflow) from investing activities		**710,782**	(125,763)
Cash flows from financing activities			
Proceeds from issues of shares		**235,000**	-
Net proceeds/(repayments) from borrowings		**(725,770)**	50,000
Dividends paid net of Dividend Reinvestment Plan	4	**(352,518)**	(103,997)
Net cash (outflow) from financing activities		**(843,288)**	(53,997)
Net increase in cash and cash equivalents		**41,634**	20,448
Cash and cash equivalents at the beginning of the financial year		**228,779**	194,064
Effects of exchange rate changes on cash and cash equivalents		**82**	(3)
Cash and cash equivalents at end of Half-Year		**270,495**	214,509

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

(a) Basis of preparation

This general purpose Interim Financial Report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This Interim Financial Report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2017 and any public announcements made by Tatts Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and prior corresponding interim reporting period, except as set out below.

(b) New and amended standards adopted by the Group

There are no accounting standards applicable for the first time for the 31 December 2017 Half-Year Report.

(c) Going concern

The Group is in a working capital deficient position at 31 December 2017. Although the business experiences strong profitability and conversion of sales to cash, the Group has sought support to ensure it remains a going concern. A letter of support has been provided by Tabcorp Finance Pty Ltd that it will not require repayment of the $835 million provided to repay the Group's bank loans without giving a minimum of 12 months notice, and furthermore that it will provide sufficient funds to continue operations should a need arise. Accordingly, the financials are prepared on a going concern basis.

(d) Ultimate parent

In December 2017 the ultimate parent entity of Tatts Group Limited changed to Tabcorp Holdings Limited.

(e) Entry into the Tabcorp Holdings Limited Australian tax consolidated group

On the acquisition of Tatts Group Limited by Tabcorp Holdings Limited the Tatts Group Limited Australian Tax Consolidated Group joined the Tabcorp Holdings Limited Australian Tax Consolidated Group. The joining date was 22 December 2017. An assessment has been made at 22 December 2017 in accordance with *UIG 1052 Tax Consolidation Accounting* to determine any adjustments to the tax bases of assets and liabilities applying on tax consolidation. This assessment involves a number of significant judgements and estimates related to the estimated fair value of assets and liabilities at 22 December 2017, as well as interpretation of complex tax legislation. Management has used their best estimate to determine these values. As a result of this analysis and the application of the stand alone taxpayer approach under *UIG 1052,* management has not identified any significant adjustments required to the deferred tax balances of Tatts Group Limited at 22 December 2017 and 31 December 2017.

2 Fair value measurements

(a) Fair value of financial assets and liabilities

Other than those classes of financial assets and liabilities denoted as 'listed', being equity securities, none of the classes of financial assets and liabilities are readily traded on organised markets in standardised form. The fair value of financial assets and liabilities is exclusive of costs which would be incurred on realisation of an asset, and inclusive of costs which would be incurred on settlement of a liability. The fair values of financial assets and liabilities of the Group are approximately the same as the carrying amount shown in the balance sheet.

2 Fair value measurements (continued)

(a) Fair value of financial assets and liabilities (continued)

(i) On-Balance Sheet

The fair value of cash and cash equivalents, and non-interest bearing monetary financial assets and financial liabilities of the Group approximates their carrying amounts.

The fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

Equity investments traded in active markets have been valued by reference to market prices prevailing at balance sheet date. For non-traded equity investments, the fair value is an assessment by management based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment.

(ii) Off-Balance Sheet

The Company and certain controlled subsidiaries have potential financial liabilities which may arise from certain contingencies. No material losses are anticipated in respect of any of those contingencies.

(iii) Derivative financial instruments

For interest rate swaps, the fair value is taken to be the unrealised gain or loss at balance sheet date calculated by reference to the current interest rate curve with similar remaining maturity profiles, adjusted for relevant credit risk.

For cross-currency interest rate swaps, the fair value is taken to be the unrealised gain or loss at balance sheet date calculated by reference to the current forward exchange rates and interest rate curve with similar maturity profiles, adjusted for relevant credit risk.

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Derivative financial instruments
- Available-for-sale financial assets

(b) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy (consistent with the hierarchy applied to financial assets and financial liabilities):

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(i) Recognised fair value measurements

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2017.

2 Fair value measurements (continued)

(b) Fair value hierarchy (continued)

At 31 December 2017	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Recurring fair value measurements				
Financial assets				
Cross currency interest rate swaps	-	49,182	-	49,182
Available-for-sale financial assets	-	20,579	-	20,579
Equity derivative: Call option	-	3,848	-	3,848
Total financial assets	-	73,609	-	73,609
Financial liabilities				
Interest rate swaps	-	2,213	-	2,213
Total financial liabilities	-	2,213	-	2,213

At 30 June 2017	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Recurring fair value measurements				
Financial assets				
Cross currency interest rate swaps	-	72,538	-	72,538
Available-for-sale financial assets	-	20,360	-	20,360
Forward foreign exchange contracts	-	38	-	38
Equity derivative: Call option	-	2,019	-	2,019
Total financial assets	-	94,955	-	94,955
Financial liabilities				
Interest rate swaps	-	2,291	-	2,291
Total financial liabilities	-	2,291	-	2,291

There were no transfers between levels 1 and 2 for recurring fair value measurements during the half-year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2017.

(c) Valuation techniques used to derive level 2 fair values

(i) Recurring and non-recurring fair value measurements

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Borrowings within Level 2 are measured at fair value on initial recognition.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.

2 Fair value measurements (continued)

(c) Valuation techniques used to derive level 2 fair values (continued)

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The main inputs used by the Group are derived and evaluated as follows:

- Discount rates for financial assets and liabilities are determined using publicly available pre-tax discount rate in the relevant currency, which reflects the market's assessment of the present value of the future cash flows of the individual instruments.
- Risk adjustments specific to the counter parties (including assumptions about credit default rates) are derived from publicly traded credit instruments.

3 Segment information

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker (CODM). Due to the merger with Tabcorp during the reporting period, there were two CODMs during this period, with Robbie Cooke (former Tatts Group MD & CEO) being the CODM until 13 December 2017 (former CODM), and David Attenborough (Tabcorp MD & CEO) being the CODM since 14 December 2017 (current CODM). Due to the proximity of the merger to the period end there has been no regular reporting of Tatts Group results at a disaggregated segment level to the current CODM. Operating segments for the Tabcorp Group (post merger with Tatts Group) will be reassessed prior to 30 June 2018.

The operating segments below reflect the operating segments regularly reported to the former CODM, with the following changes made to align with Tabcorp practice:

• MAX and MAXtech operating segments have been combined as one operating segment and renamed Gaming; and
• Corporate costs have been allocated to operating segments.

3 Segment information (continued)

Segment information provided to the Chief operating decision maker

Half-Year Dec 2017	Lotteries $'000	Wagering $'000	Gaming $'000	Unallocated (i) $'000	Intersegment eliminations (ii) $'000	Total Continuing Operations $'000	Discontinued Operations (Note 5) (iii) $'000	Consolidated $'000
Total segment revenue and other income	1,081,225	311,073	91,818	2,280	(4,511)	1,481,885	-	1,481,885
Segment profit before interest and tax	**142,653**	**41,476**	**28,253**	**(8,120)**	**-**	**204,262**	**-**	**204,262**

Half-Year Dec 2016	Lotteries $'000	Wagering $'000	Gaming $'000	Unallocated (i) $'000	Intersegment eliminations (ii) $'000	Total Continuing Operations $'000	Discontinued Operations (Note 5) (iii) $'000	Consolidated $'000
Total segment revenue and other income	1,018,396	317,539	87,610	-	(3,949)	1,419,596	-	1,419,596
Segment profit before interest and tax	**126,732**	**50,523**	**22,877**	**-**	**-**	**200,132**	**(1,000)**	**199,132**

3 Segment information (continued)

Segment information provided to the Chief operating decision maker (continued)

(i) Segment profit excludes Merger costs. The comparative has been restated to reflect this. Unallocated mainly comprises lottery campaign costs ($4.9m), Ann Street property costs ($5.5m) and Jumbo Interactive gain ($1.8m).
(ii) Inter-segment eliminations against revenue primarily comprises of MAXtech revenue.
(iii) Tatts Pokies segment ceased gaming machine operations on 15 August 2012 and costs are included in discontinued operations.

Other segment information

Segment profit before interest and tax

A reconciliation of adjusted Segment profit before interest and tax to operating profit before income tax is provided as follows:

	Half-Year Dec 2017 $'000	Half-Year Dec 2016 $'000
Segment profit before interest and tax	**204,262**	200,132
Share of net profit from associate and joint ventures accounted using the equity method	**559**	-
Significant item: Merger costs	**(36,424)**	(10,359)
Significant item: Property gain	**-**	5,448
Interest income	**292**	388
Finance costs	**(21,761)**	(24,432)
Profit before income tax from continuing operations	**146,928**	171,177

4 Dividends

(a) Ordinary shares

	2017 $'000	2016 $'000
Final dividend for the year ended 30 June 2017 of 8.0 cents per share paid on 3 October 2017 (2016: 8.0 cents paid on 4 October 2016)	**117,482**	117,162
Special dividend of 16.0 cents per share paid on 19 December 2017	**235,036**	-
	352,518	117,162

Dividends not recognised at the end of the reporting period

No interim dividend has been declared.

5 Expenses

(a) Significant expenses

The following significant expense items are relevant in explaining the financial performance:

	Dec 2017 $'000	Dec 2016 $'000
Merger costs	**36,424**	10,359
Total significant expenses	**36,424**	10,359

Merger costs relate to costs incurred to date by the Company in the merger with Tabcorp. These include accounting, legal, advisory fees and staff retention costs.

6 Discontinued Operations

(a) Expiry of gaming operator's licence

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. On 15 August 2012 the gaming operator's licence issued to Tatts Pokies expired resulting in this segment ceasing gaming machines operations.

(b) Results

	Dec 2017 $'000	Dec 2016 $'000
Expenses	**-**	(1,000)
Income tax benefit	**-**	305
Loss after income tax of discontinued operation	**-**	(695)

7 Borrowings

(a) Interest bearing liabilities

	Dec 2017 $'000	June 2017 $'000
Current		
Unsecured		
Bank loans	**-**	239,901
Loan notes (US Private Placement)	**219,891**	73,215
Tatts Bonds	**194,664**	-
Total current interest bearing liabilities	**414,555**	313,116

	Dec 2017 $'000	June 2017 $'000
Non-current		
Unsecured		
Bank loans	**-**	427,786
Tatts Bonds	**-**	193,411
Loan notes (US Private Placement)	**-**	225,962
Total unsecured non-current borrowings	**-**	847,159

Interest bearing liabilities were reclassified as Current liabilities at 31 December 2017 in recognition of the entitlement of the holders of both the Tatts Bonds and the US Private Placement notes to seek redemption following the change of control event of the Tabcorp combination. Tatts Group's syndicated facility was repaid upon implementation of the merger. Refer note 11.

All interest bearing liabilities are disclosed net of capitalised borrowing costs.

(b) Other borrowings

	Dec 2017 $'000	June 2017 $'000
Current		
Unsecured		
Amounts payable to related companies	**835,000**	-
Total current other borrowings	**835,000**	-

Tabcorp Finance Pty Ltd (formerly Tabcorp Investments No. 4 Pty Ltd) provided $835 million to Tatts Group Limited to facilitate the repayment of the Syndicated Facility. The loan is non-interest bearing and repayable in accordance with the terms disclosed in note 1(c).

8 Contributed equity issued

Share capital

	Dec 2017 Shares	Dec 2016 Shares	Dec 2017 $'000	Dec 2016 $'000
Issue of ordinary shares during the half-year				
Performance rights issues	**461,283**	503,289	**1,850**	1,897
Dividend Reinvestment Plan issues	**-**	3,492,549	**-**	13,167
Ordinary shares - fully paid	**49,578,060**	-	**235,000**	-
	50,039,343	3,995,838	**236,850**	15,064

9 Bank guarantees

Bank Guarantees

Guarantees in respect of bank facilities drawn down but not included in the accounts of the Group are $17.2 million (June 2017: $83.6 million).

10 Impairment testing of non-current assets

The Group has the same Cash Generating Units as were reported at 30 June 2017. An impairment test was undertaken by the Group at 31 December 2017, and it was determined that no charges were required.
The recoverable amount of each CGU was determined based on fair value less cost of disposal, calculated using discounted cash flows. The cash flow forecasts are principally based upon Board approved budget. These were adjusted for expected synergistic benefits arising from the merger with Tabcorp, and were extrapolated using growth rates ranging from 2.0% to 4.0%. These cash flows are then discounted using a relevant long term post tax discount rate, ranging between 7.6% and 9.2%.

Sensitivity to changes in key assumptions

Management do not believe that reasonably possible changes to any of the key assumptions would trigger considerations of impairment of any of the Group's CGUs except as outlined below.

Management have assessed that the Wagering and Max CGU's are sensitive to reasonable changes in key assumptions including the realisation of expected synergistic benefits. Based on assumptions made, the recoverable amount of these CGU's would equal their carrying amount if any of the following key assumptions were to change as follows:

(i) Wagering CGU

Assumption	From	To
Long term growth rate (%)	2.5	2.4
Post-tax discount rate (%)	9.2	9.3
Year 5 EBITDA forecast (%)		Decrease of 2%

(ii) Maxgaming CGU

Assumption	From	To
Long term growth rate (%)	3.0	2.6
Post-tax discount rate (%)	7.8	7.9
Year 5 EBITDA forecast (%)		Decrease of 3%

11 Events occurring after the reporting period

Indebtedness Guarantee
On 7 January 2018, Tatts Group Limited was added to the Tabcorp Holdings Limited Deed of Cross Guarantee and Guarantor Group. The indebtedness of Tatts Group Limited is now guaranteed by Tabcorp Holdings Limited and its subsidiaries. Correspondingly, Tatts Group and its subsidiaries are now guarantors of Tabcorp's indebtedness.

Current Interest Bearing Liabilities
The Tabcorp combination resulted in a Change of Control event that provided Tatts Bonds and US Private Placement holders with the option to redeem their holdings. The term in which these redemption options could be exercised has closed with a total of 26,752 Tatts Bonds with a value of $2,675,200 and no US Private Placement notes being redeemed by holders. The Tatts Bonds and US Private Placement notes have subsequently been reclassified as non-current liabilities.

In the opinion of the Directors there have been no other material matters or circumstances which have arisen between 31 December 2017 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

In the Directors' opinion:

(a) the Interim Financial Report and notes set out on pages 8 to 22 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year on that date; and

(b) there are reasonable grounds to believe that Tatts Group Limited will be able to pay its debts as and when they become due and payable. The company has received a letter of support from Tabcorp Finance Pty Ltd.

This declaration is made in accordance with a resolution of Directors.

David RH Attenborough
Director

Damien Johnston
Director

Melbourne
1 March 2018

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Independent Auditor's Review Report to the Members of Tatts Group Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Tatts Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated income and comprehensive income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Brad Tozer

Brad Tozer
Partner
Brisbane
1 March 2018