ASX Announcement

24 September 2018

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Please find attached the 2018 Annual Report for Tatts Group Limited (**Tatts**) for the year ended 30 June 2018.

On 22 December 2017, Tabcorp Holding Limited (**Tabcorp**) (ASX code TAH) acquired all of the issued ordinary shares in Tatts following implementation of the Tatts Scheme of Arrangement pursuant to the Scheme Booklet dated 8 September 2017. Subsequently the ordinary shares of Tatts were removed from official quotation on ASX on 27 December 2017.

Tatts' debt securities (known as Tatts Bonds) are quoted on ASX under the code TTSHA. Tatts Bonds mature on 5 July 2019 and Tatts does not currently intend to redeem them earlier than this date.

Tatts advises that its sole shareholder, Tabcorp, released its financial results and 2018 Annual Report, including its Financial Report, for the year ended 30 June 2018 on ASX on 8 August 2018.

The Tatts Annual Report is also available on the Tatts website (www.tattsgroup.com).

Yours faithfully,

Chris Murphy
Acting Company Secretary

Tatts Group Limited

Annual Report

For the financial year ended 30 June 2018

ABN 19 108 686 040

Contents

The Directors of Tatts Group Limited (**Company** or **Tatts**) present their report for the consolidated entity consisting of the Company and the entities it controlled (**Tatts Group**) in respect of the financial year ended 30 June 2018.

1. Tabcorp-Tatts combination

The Company became a wholly owned subsidiary of Tabcorp Holdings Limited (**Tabcorp**) on 22 December 2017 when all of the Company's ordinary shares were acquired by Tabcorp pursuant to a Scheme of Arrangement between the Company and its shareholders (**Scheme of Arrangement**).

Following the Tabcorp-Tatts combination, the Company's ordinary shares ceased quotation on the Australian Securities Exchange (**ASX**). Tabcorp is the sole shareholder and ultimate parent entity of the Company. The Company's debt securities (known as **Tatts Bonds**) remain listed on the ASX under the code TTSHA.

From 14 December 2017, when the Tabcorp-Tatts combination became effective, the Company has been controlled by Tabcorp and formed part of the consolidated group comprising Tabcorp and its controlled entities (**Tabcorp Group**). Accordingly, from this date the Tabcorp Group's governance arrangements have been applied to the Company.

2. Principal activities

The Company's principal activities remain unchanged from the previous financial year, except as disclosed elsewhere in this report. The principal activities of the Company during the financial year were conducted within the following three businesses.

2.1 Lotteries overview

The Company's Lotteries business operates regulated lotteries in Victoria, Queensland, NSW, Tasmania, ACT, Northern Territory and South Australia. The Lotteries business has leading game brands including Set for Life, Powerball, Oz Lotto, TattsLotto, Saturday Lotto, Gold Lotto, X Lotto, Monday & Wednesday Lotto, Lucky Lotteries, The Pools, Lotto Strike, Super 66 and Instant Scratch-Its. The Lotteries business holds the following key licences/approvals: Victorian Public Lottery Licence (expires in June 2028); Queensland Licensed Lottery Operator Agreement (expires in July 2072); NSW Operator Licence and various product licences (expire in April 2050); Tasmanian Lottery Licence (expires in June 2020); Northern Territory Lottery Agreement (expires in June 2032); and ACT Lottery Licence (granted in perpetuity).

2.2 Wagering overview

The Company's Wagering business conducts wagering and sports betting through operations based in Queensland, South Australia, Northern Territory and Tasmania. The Wagering business provides totalisator (or pari-mutuel) and fixed odds betting offered on racing, sporting and other events under its UBET brand through agencies, hotels and clubs, on-course, internet, mobile devices and phone. The Wagering business also operates the RadioTAB network in Queensland, South Australia, Northern Territory and Tasmania. The Wagering business holds the following key licences: Queensland Race Wagering Licence and Sports Wagering Licence (expire in June 2098); South Australian Major Betting Operations Licence (expires in June 2100 with retail exclusivity period to expire in December 2032); Tasmanian Gaming Licence (expires in March 2062); and Northern Territory Totalisator Licence and Sports Bookmaker Licence (expire in October 2035).

2.3 Gaming Services overview

The Company's MAX business operates across NSW, Queensland, and Northern Territory providing electronic gaming machine monitoring and value-add services to venues such as reporting, loyalty systems management, linked jackpots, cashless pre-commitment and Ticket In Ticket Out services. The MAXtech business provides a mix of services including logistics, installation, relocation, repair and maintenance of electronic gaming machines, lottery and wagering terminals and other transaction devices across Australia. Key licences/approvals held by the Gaming Services business include: NSW Centralised Monitoring System Operator Licence (expires in November 2032); NSW Inter-Club Linked Gaming Systems Licence and Inter-Hotel Linked Gaming Systems Licence (expire in October 2019); NSW Gaming Machine Dealer's Licences; Queensland Monitoring Operator's Licence (expires in August 2027) and Service Contractor Licence; Victorian listings on the Roll of Manufacturers, Suppliers and Testers; South Australian Gaming Machine Service Licence; ACT Supplier Certificate; Northern Territory Monitoring Provider's Licence, listing on the Roll of Approved Gaming Equipment Suppliers, Gaming Machine Service Contractors Licence and other approvals; and Tasmanian listing on the Roll of Recognised Manufacturers, Suppliers and Testers of Gaming Equipment.

3. Operating and financial review

The financial results of the Tatts Group for the financial year ended 30 June 2018 relate to the Tatts Group's operations, which comprise its three businesses of Lotteries, Wagering, and Gaming Services. The principal activities and licences of these businesses are disclosed in section 2 of the Directors' Report.

3.1 Tatts Group overview

The financial performance of the Tatts Group for the year ended 30 June 2018 and comparison to the prior financial year is shown in the table below.

Summary financial performance

For the year ended 30 June	FY18 $m	FY17 $m	Change %
Revenue from continuing operations	2,866.6	2,768.3	3.6
Other revenue	6.9	10.1	(31.7)
Taxes, levies, commissions and fees	(1,962.1)	(1,897.3)	3.4
Operating expenses	(473.6)	(415.4)	14.0
Merger costs	(42.3)	(33.4)	26.6
Impairment	(149.0)	-	>100
Depreciation and amortisation	(85.0)	(78.2)	8.7
Profit before interest and income tax	161.5	354.1	(54.4)
Profit before income tax	127.7	307.7	(58.5)
NPAT from continuing operations	36.2	221.2	(83.6)

Revenue from continuing operations for FY18 was up 3.6% to $2,866.6m for the following reasons:

- Lotteries revenue was $2,112.2m, up 4.9%, benefitting from a favourable jackpot sequence compared to the prior financial year, particularly in 1H18. Digital sales increased 27.8% and accounted for 16.8% of all lottery sales. The business has over 2.9m registered digital customers. A Powerball game change was launched in April 2018 increasing prize frequency and opportunity for bigger jackpots, in line with consumer demand. New digital point of sale displays were installed in more than 1,000 outlets. The new Victorian Public Lottery Licence commenced 1 July 2018.
- Wagering revenue was $530.0m, marginally down by 0.5%. Totalisator revenue was $ 262.8m, down 6.5%, however there was a 5.6% increase in fixed odds racing revenue ($233.3m) and an 11.6% increase in fixed odds sports revenue ($33.9m) . UBET revenue growth turned positive in 2H18 up 1.2% (1H18: -1.9%) and UBET fixed odds revenue growth improved in 2H18 to 9.6% (1H18: 3.5%). Turnover from digital channels increased by 12.9%, assisted by a successful Soccer World Cup campaign and new products such as UBET's Tappy. As part of the integration of the Tabcorp and Tatts businesses, Tabcorp has commenced deploying its systems and processes into UBET's operations. Tabcorp's TAB wagering brand is planned to be rolled out into the UBET states after the Spring Racing Carnival in the 2019 financial year.
- Gaming Services revenue grew by 2.1%, supported by increases in value-added MAX services and Ticket In Ticket Out services. An operational highlight for the year was MAX's successful roll-out of the Centralised Monitoring System for gaming machines in NSW, which commenced on 1 December 2017 and provides a platform for future venue services opportunities.

Net profit after tax (NPAT) from continuing operations for FY18 was down 83.6% to $36.2m, and was adversely impacted by merger costs in respect of the Tabcorp-Tatts combination of $42.3m (up 26.6% from FY17), and impairment expenses of $149.0m incurred in relation to the Company's UBET wagering brand and associated assets due to the intention to leverage Tabcorp's TAB wagering brand. The commencement of the NSW Centralised Monitoring System licence on 1 December 2017 also contributed to an 8.7% increase in amortisation expense.

Shareholder's funds as at the end of the financial year on 30 June 2018 totalled $2,877.7m, up 2.7% from $2,957.8m at the end of the previous financial year.

Since the commencement of the financial year on 1 July 2017, the Company paid a special dividend of $0.16 per ordinary share fully franked on 19 December 2017 in accordance with the Scheme of Arrangement, which totalled $235.0m, and paid a final dividend in respect of the 2017 financial year of $0.08 per ordinary share fully franked on 3 October 2017, which totalled $117.5m. Under the terms of the Merger Implementation Deed entered into between the Company and Tabcorp, the Company agreed to suspend the operation of its dividend reinvestment plan (**DRP**). Accordingly, the Company's DRP was suspended and did not operate in respect of these dividends.

Following the Tabcorp-Tatts combination, a number of the Company's banking and debt facilities were repaid and consolidated into Tabcorp's financing facilities. As a consequence, loans advanced from related entities in the Tabcorp Group of $728.3m for FY18 are recorded in the Company's consolidated statement of cash flows (FY17: nil).

Following the implementation of the Tabcorp-Tatts combination, the Company entered the Tabcorp tax consolidation group. As a consequence, tax payable by the Tatts Group is held by Tabcorp and accordingly the Company's balance sheet records current tax payable as nil (FY17: $20.1m).

The Company has welcomed recent Federal and State Government reforms which aim to create a better regulated and more sustainable gambling industry. These reforms include the prohibition of synthetic lotteries products, and the introduction of point of consumption taxes on wagering and advertising restrictions. In addition, the Federal Government has introduced enhanced consumer protection initiatives such as the prohibition on offering of credit by wagering operators and restrictions on online in-play betting.

4. Significant changes in the state of affairs

The following event, which may be considered to be a significant change in the state of affairs of the Company, has occurred since the commencement of the financial year on 1 July 2017.

4.1 Tabcorp-Tatts combination

The Tabcorp-Tatts combination was implemented on 22 December 2017 and resulted in the Company's shares being acquired by Tabcorp Holdings Limited. In accordance with the Scheme of Arrangement, eligible Tatts shareholders received 0.80 Tabcorp Shares and $0.265 cash for every Tatts ordinary share held on 19 December 2017, and a Tatts Special Dividend of $0.16 per Tatts ordinary share fully franked paid on 19 December 2017.

4.2 Other significant changes in the state of affairs

There were no significant changes in the state of affairs of the Company that occurred during the financial year other than as set out in this Directors' Report.

5 Significant events after the end of the financial year

On 3 July 2018, the Company announced that Tatts Online Pty Ltd (a member of the Tatts Group) had exercised in full its option with Jumbo Interactive Limited to acquire approximately 3.5 million Jumbo shares. In conjunction with the exercise of the option, 2.9 million Jumbo shares held by Tatts Online Pty Ltd were sold to a group of institutional investors. As a result of these transactions, Tatts Online Pty Ltd holds approximately 7.2 million Jumbo shares.

No other matters or circumstances have arisen since the end of the financial year, which are not otherwise dealt with in this report or in the Financial Report, that have significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

6 Business strategies

The Company is a member of the Tabcorp Group, one of Australia's leading gambling entertainment companies, which seeks to deliver sustainable superior returns to its shareholders through the delivery of financial, operational and leadership excellence. As a member of the Tabcorp Group, the Company adopts the Tabcorp Group strategies that are applicable to the Tatts Group's businesses. In addition to the business strategies as disclosed elsewhere in this Directors' report, Tabcorp Group's FY19 priorities include:

- Deliver the expected benefits from the Tabcorp-Tatts combination.
- Continue to execute on growth opportunities across all businesses.
  - Enhance digital capability and improve consistency of customer digital experience.
  - Deepen integration of digital technology into retail network.
  - Deploy new products across all markets for all businesses.
  - Strengthen customer relationship management capability by effectively integrating systems and customer data platforms.
- Ensure the highest levels of regulatory compliance.
- Maintain a disciplined approach to operating expenditure, capital investment and balance sheet management.

7 Likely developments and expected results

The Company plans to continue with its business strategies, as set out in this report and referenced above. The execution of these strategies is expected to result in improved financial performance over the coming financial years.

The achievement of the expected results in future financial years is dependent on a range of factors, and may be adversely affected by any number of events, and are subject to, among other things, the material business risks described in section 8 below.

The Directors have excluded from this report any further information on the likely developments in the operations of the Tatts Group and the expected results of those operations in future financial years, as the Directors have reasonable grounds to believe that to include such information will be likely to result in unreasonable prejudice to the Tatts Group.

8 Material business risks

Following the implementation of the Tabcorp-Tatts combination on 22 December 2017, Tabcorp Group's governance arrangements have been applied to the Company and the Company's risk management functions, processes and practices have been integrated with those of Tabcorp.

Material business risks that could adversely affect the achievement of the financial prospects of the Tatts Group in future financial years are summarised below and are similar to those disclosed in Tabcorp's 2018 Annual Report dated 8 August 2018. These risks should not be taken to be a complete or exhaustive list of the risks and uncertainties that might potentially affect the Tatts Group. Many of the risks are outside the control of the Tatts Group. There can be no guarantee that the Tatts Group will achieve its stated objectives, that it will meet trading performance or financial results guidance that it may provide to the market, or that any forward looking statements contained in this report will be realised or otherwise eventuate.

8.1 Licences and other approvals

The conduct of lotteries, wagering and the provision of gaming services are regulated by laws, licences, permits and other approvals from relevant state and territory governments. Any material non-compliance by the Tatts Group with the relevant regulations or licence terms may result in financial penalties, disciplinary action or the suspension or loss of certain licences, permits or approvals, which may have an adverse impact on the financial performance of the Tatts Group or result in the loss of an operating unit and corresponding revenues from that operating unit.

In addition, the failure by a member of the Tatts Group to have any existing licence or authorisation renewed (or renewed on terms that are less favourable to the Tatts Group), may result in a loss of revenue and profit for the Tatts Group, which may adversely affect the Tatts Group's financial performance and financial position.

To mitigate these risks, the Tatts Group has a structured approach to managing compliance across its businesses. The Tatts Group also operates a diverse portfolio of businesses spread across a number of jurisdictions, business segments and customer categories which reduces the reliance on any one specific business or jurisdiction. In addition, the Tatts Group maintains long term gambling licences, and seeks new licences and to extend existing licences where possible.

8.2 Changes to the regulatory environment

The activities of the Tatts Group are conducted in a highly regulated environment. The gambling activities that members of the Tatts Group conduct, and will conduct, and the level of competition they face, and will face, will depend to a significant extent on:

- the licences, permits and other approvals granted to the Tatts Group and to third parties; and
- government policy and the manner in which relevant governments exercise their broad powers in relation to the conduct of relevant businesses.

Changes in legislation, regulation, taxation or government policy (or Court decisions concerning the constitutionality or interpretation of the same) may have an adverse impact on the Tatts Group's operational and financial performance.

The Tatts Group takes a proactive approach to engaging with relevant regulators and governments, and from time to time lodges submissions in respect of changes to the regulatory and licensing environments and industry which may impact the Tatts Group and its stakeholders. In addition, the Tatts Group regularly reviews its operating business model and strategies to take account of changes to the regulatory and licensing environments to mitigate adverse consequences of these changes.

8.3 Racing and sports products

The Tatts Group's wagering business is reliant on racing industries and sporting bodies across Australia and internationally providing a program of events for the purposes of wagering, and obtaining and maintaining the necessary broadcast rights for race meetings and sporting events. A significant decline in the quality or number of horses, greyhounds, or sporting contests or the number of sporting and racing events, or the occurrence of an event which adversely impacts on the racing industry or sporting events, or which otherwise disrupts the scheduled racing or sporting program (such as adverse weather conditions, an outbreak of equine influenza or other animal sickness pandemics), would have a significant adverse effect on wagering revenue and may have an adverse effect on the operational and financial performance of the Tatts Group.

The Tatts Group engages and works closely with racing bodies and industry stakeholders to optimise racing schedules to provide the best racing product available to customers and mitigate the potential for adverse impacts which may result from a decline in racing product. In addition, the Tatts Group has business continuity plans to help manage and respond to significant events which may impact upon the supply of racing product.

8.4 Race field fees, sports products fees and taxes

Each state and territory of Australia has implemented race fields arrangements, under which each state or territory (or its racing industry) charges wagering operators product fees for use of that industry's race fields information. Consequently, the Tatts Group is required to pay product fees to the relevant racing controlling body. Similar arrangements exist in relation to sports, and the Tatts Group is also required to pay product fees to the relevant sports controlling bodies. There is the potential that fees will increase, or new fees will be introduced, and such fees may have an adverse effect on the operational and financial performance of the Tatts Group.

The Tatts Group has mitigation strategies to partly mitigate such impacts, including that members of the Tatts Group currently have contracts that the Tatts Group considers will allow them to offset some of the fees or obtain damages under contract. Members of the Tatts 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.

Taxes and levies relating to the lotteries, wagering and gaming segments of the gambling industry are currently determined by relevant governments. A material increase in the taxes and levies payable by the Tatts Group in respect of its lotteries, wagering or gaming businesses may reduce margins and have an adverse impact on the financial performance of the Tatts Group.

With effect from 1 July 2017 and 1 October 2018, respectively, the South Australian and Queensland Governments have introduced a 15% point of consumption tax applicable to wagering revenue on bets derived from customers in those states (**Point of Consumption Taxes**). Other governments have also announced the introduction of Point of Consumption Taxes effective from 1 January 2019 at various rates: Victoria (8%); NSW (10%); Western Australia (15%); and the ACT (15%). It is possible that the introduction of Point of Consumption Taxes could adversely affect the financial performance of the Tatts Group.

The Tatts Group (and Tabcorp from 22 December 2017) has engaged with a number of Australian state and territory governments regarding the introduction of Point of Consumption Taxes. The Tatts Group supports a uniform approach to taxation where all wagering and betting operators can compete effectively.

8.5 Racing Queensland arrangements

In 2017, Tabcorp and Racing Queensland Limited (**RQL**) entered into a commercial arrangement in relation to the Tabcorp-Tatts combination, under which the parties made various commitments in favour of each other, including that RQL consent to the Scheme of Arrangement. From a financial perspective, among other items, Tabcorp guaranteed a minimum amount of fees that RQL will receive under its deed with UBET QLD Pty Ltd (a member of the Tatts Group) in each calendar year from 2018 to 2020. The Tatts Group currently expects that UBET QLD Pty Ltd will be required to make a payment to RQL in relation to the 2018 calendar year which is not material to the Tatts Group and, while necessarily uncertain, depending on the performance of the business in future or the occurrence of unexpected circumstances, further payments may need to be made to RQL that may be material.

8.6 Competition

In a broad sense, gambling activities compete with other consumer products for consumers' discretionary expenditure and, in particular, with other forms of leisure and entertainment including cinema, restaurants, sporting events, the internet and pay television.

If the Tatts Group does not adequately respond to the competition for consumers' discretionary expenditure, including competing gambling offerings, there may be an adverse effect on the operational and financial performance of the Tatts Group.

The Tatts Group's wagering businesses currently compete with domestic bookmakers, and other interstate wagering operators who accept bets over the telephone or internet (such as corporate bookmakers based in the Northern Territory and betting exchanges). The internet and new forms of distribution have allowed new competitors to enter the Tatts Group's traditional markets without those competitors being licensed in those jurisdictions. Further, Court decisions, a relaxation of relevant advertising laws (or the way in which they have been administered) and the increasing application of competition policy have allowed other wagering operators to gain greater freedom to compete nationally. Competition from the interstate and international operators may extend to the Tatts Group's retail wagering network.

The emergence of synthetic lottery operators, such as Lottoland (a corporate bookmaker licensed in the Northern Territory), has seen competition extend to the Tatts Group's lotteries business. Despite recent and proposed changes to Northern Territory and Federal legislation, there is a risk that competition from operators such as Lottoland may extend to the Tatts Group's lotteries retail networks. Similarly, if a national sports lottery, or similar product, were introduced, there is a risk that this could have a negative impact on the Tatts Group's lotteries sales and have an adverse effect on the operational and financial performance of the Tatts Group's lotteries business.

To mitigate the risks of competition, the Tatts Group operates a diverse portfolio of businesses with operations spanning multiple jurisdictions and market segments, which reduces the reliance on any single business and customer category. In addition, the Tatts Group adopts a range of strategies to further mitigate this risk, including leveraging its exclusive retail network, enhancing its customer service and relationship management, introducing new products, and driving digital innovation and excellence across its multi-channel network.

8.7 Reliance on infrastructure and third party commercial arrangements

The Tatts Group is reliant on key infrastructure for the operation of its businesses. A significant malfunction or interruption to key business infrastructure may have an adverse impact on the financial performance of the Tatts Group. The Tatts Group manages such risks through business continuity plans, which are designed to mitigate potential adverse impacts should they arise.

The Tatts Group is also reliant on a number of third party commercial arrangements for the operation of its businesses.

Failure of, significant interruption to, or reduction in the quality of third party products and services upon which the Tatts Group relies for a sustained period of time may result in the Tatts Group being unable to provide certain services during that period or providing a less attractive service, which may have an adverse impact on the operating and/or financial performance of the Tatts Group.

8.8 Compliance risks

Any failure by members of the Tatts Group to meet compliance requirements, standards, values and systems (including, for example, in relation to privacy laws, anti-bribery and corruption laws, and anti-money laundering/counter terrorism financing programs and laws) at operational levels may increase exposure to a compliance failure, potentially leading to the suspension or loss of applicable gambling licences, other civil or criminal penalties and brand damage and loss of future licence or business opportunities. The Tatts Group has a structured approach to managing compliance across its businesses, which following the Tabcorp-Tatts combination has been integrated with the Tabcorp Group's risk management framework.

As part of the process to integrate Tatts and Tabcorp, an operational and functional review of the Tatts business is being conducted. The risk of non-compliance is being mitigated by implementing a detailed integration project plan with key actions to proactively identify and (where needed) update processes to ensure effective and efficient controls are in place. For example, opportunities have been identified to improve the Tatts Anti-Money Laundering/Counter-Terrorism Financing (AML/CTF) program, systems and controls. The plan is to combine the Tatts and Tabcorp AML/CTF programs during 2020 as part of integration.

8.9 Industry and economic conditions

Given the performance of the Tatts Group depends to a large extent on the level of discretionary consumer spending, there is a risk that adverse changes to general economic or industry conditions (for example, softer gambling trends) may adversely affect the financial performance of the Tatts Group.

8.10 Computer systems and technology security risks

The Tatts Group's businesses rely on the successful operation of technology infrastructure. A prolonged failure of the computer systems and/or related infrastructure or technology security failure, such as a cyber-attack, could impact upon the Tatts Group's technology systems and equipment, result in the loss or exposure of information assets, or personal customer data could be wrongfully appropriated, lost or disclosed, which may potentially adversely impact the reputation, operations or financial performance of the Tatts Group.

Significant resources are allocated to managing the Tatts Group's information technology portfolio, including specialist resources dedicated to information security and responding to cyber risks. The Tatts Group's information security management systems that are in scope are certified against the ISO 27001 standard and all remainder systems are compliant to the standard. The Tatts Group continues to evolve and strengthen its practices to effectively manage technology security risks.

8.11 Combination with Tabcorp

There are risks associated with the integration of the Tabcorp and Tatts businesses. These risks include that the integration or strategy implementation may take longer than expected or that the extraction of potential synergies or realisation of business improvements does not occur or may incur additional costs, which may impact the Tatts Group's financial performance. The Tatts Group continues to mitigate these risks through careful planning and execution and the involvement of internal staff and external experts and consultants, as required.

A detailed review has been undertaken of the structure, operations, systems and activities of both the Tabcorp and Tatts businesses, and progress is well advanced with implementing changes to integrate the two businesses. An organisational review has been completed and changes have been implemented to bring together the best management and employee talent from each of Tatts and Tabcorp.

9 Company Officers

The names of the Company's Directors and Secretaries in office during the financial year and until the date of this report (except as otherwise stated) are set out below. Most of these changes occurred as a result of the Tabcorp-Tatts combination.

Name	Period in position if less than full financial year
Current Directors	
David Attenborough	From 22 December 2017
Damien Johnston	From 22 December 2017
Michael Scott	From 23 March 2018
Former Directors	
Fiona Mead	From 22 December 2017 to 23 March 2018
Harry Boon	Until 22 December 2017
Robbie Cooke	Until 22 December 2017
Lyndsey Cattermole AM	Until 22 December 2017
Brian Jamieson	Until 22 December 2017
Julien Playoust	Until 22 December 2017
Kevin Seymour AM	Until 22 December 2017
David Watson	Until 22 December 2017
Current Secretary	
Michael Scott	From 22 December 2017
Former Secretaries	
Fiona Mead	From 22 December 2017 to 23 March 2018
Anne Tucker	Until 22 December 2017

10 Directorships of other listed companies

The following table shows, for each person who served as a Director of the Company during the financial year and up to the date of this report (unless otherwise stated), all directorships of companies that were listed on the ASX or other financial markets operating in Australia, other than the Company, since 1 July 2015, and the period for which each directorship has been held. For those former Directors, the disclosures are relevant for the period they were a Director of the Company.

Name	Listed entity	Period directorship held
Current Directors		
David Attenborough	Tabcorp Holdings Limited	From June 2011 to present
Damien Johnston	Nil	Not applicable
Michael Scott	Nil	Not applicable
Former Directors		
Fiona Mead	Nil	Not applicable
Harry Boon [(i)]	Asaleo Care Limited	From May 2014
Robbie Cooke	Nil	Not applicable
Lyndsey Cattermole	Treasury Wine Estates Limited PACT Group Holdings Limited	From May 2011 From November 2013
Brian Jamieson	Chairman of Mesoblast Limited Sigma Pharmaceuticals Limited	From November 2007 From December 2005
Julien Playoust	Nil	Not applicable
Kevin Seymour	Ariadne Australia Limited	From December 1992
David Watson	Nil	Not applicable

(i) Harry Boon commenced as a director of Tabcorp Holdings Limited on 22 December 2017 upon implementation of the Tabcorp-Tatts combination.

11 Directors' interests in securities

At the date of this report, the Directors of the Company had the following interests in the securities of the Company and securities of Tabcorp (which is a related body corporate of the Company).

	Tatts		Tabcorp	
Name	**Bonds (i)**	**Ordinary shares**	**Ordinary shares**	**Performance Rights (ii)**
Current Directors				
David Attenborough	Nil	Nil	1,064,677	1,558,977
Damien Johnston	Nil	Nil	390,902	445,340
Michael Scott	Nil	Nil	2,327	Nil
Former Directors (iii)				
Fiona Mead	Nil	Nil	7,386	37,929
Harry Boon	Nil	150,000	Not applicable	Nil
Robbie Cooke	Nil	985,257	Not applicable	Nil
Lyndsey Cattermole	Nil	182,663	Not applicable	Nil
Brian Jamieson	Nil	114,734	Not applicable	Nil
Julien Playoust	Nil	25,000	Not applicable	Nil
Kevin Seymour	Nil	14,108,306	Not applicable	Nil
David Watson	Nil	25,000	Not applicable	Nil

(i) Tatts Bonds are debt securities listed on the ASX under the symbol TTSHA.
(ii) Tabcorp Performance Rights are issued to Tabcorp executives in accordance with Tabcorp's long term incentive arrangements which may vest into Tabcorp ordinary shares subject to satisfying certain performance hurdles and time based conditions.
(iii) For former Directors, the interests disclosed above were applicable at the time they ceased being a Director of the Company and (with the exception of Fiona Mead) immediately prior to Tatts becoming a related body corporate of Tabcorp. Refer to section 9 of the Directors' Report for their relevant cessation dates.

Refer also to section 15 of the Remuneration Report for relevant movements in securities.

12 Directors' interests in contracts

Some Directors of the Company, or related entities of the Directors, conduct transactions with entities within the Tatts Group that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the Director or Director-related entity on normal commercial terms and conditions. The current Directors of the Company have entered into employment contracts with Tabcorp, or a related body corporate of Tabcorp, in respect of their role as an employee of certain Tabcorp Group entities.

13 Indemnification and insurance of Directors and Officers

The Company has entered into insurance agreements with third party insurance providers for the benefit of the Company and its current and/or former Directors and Officers. In addition, the Company is a member of the Tabcorp Group, and the Tabcorp Group has entered into insurance agreements with third party insurance providers for the benefit of the Company and its current and/or former Directors and Officers. The Directors and Officers of the Company are indemnified against liabilities pursuant to these agreements. In accordance with normal commercial practices, under the terms of the insurance agreements, the nature of the liabilities insured against and the amount of premiums paid are confidential.

14 Corporate governance

The Tabcorp Group's governance arrangements have applied to the Company from 22 December 2017, when the Company became wholly owned by Tabcorp. The Tabcorp Group's corporate governance statement is available under the corporate governance section of Tabcorp's website (www.tabcorp.com.au). Prior to the Tabcorp-Tatts combination, the Tatts Group's historical governance arrangements applied to the Company.

15 Environmental regulation and performance

The operations of the Group are not subject to any particular and significant environmental regulation under any law. No environmental breaches have been notified to the Tatts Group by any government agency.

16 Non-audit services

Ernst & Young commenced as the Company's external auditor on 19 February 2018, following the resignation of the Company's previous external auditor, PricewaterhouseCoopers, and the receipt of consent from the Australian Securities and Investments Commission. The change of external auditor was made as a result of the Company becoming a member of the Tabcorp Group for which Ernst & Young acts as external auditor. Fees for audit, non-statutory audit and other services provided by Ernst & Young during the 2018 financial year were borne by Tabcorp, as the Company's parent entity.

During the 2018 financial year and acting as the Company's external auditor, PricewaterhouseCoopers received or are due to receive $555,100 and Ernst & Young received or are due to receive $401,700 in relation to the provision of non-statutory audit services to the Company. The Directors are satisfied that the provision of non-statutory audit services during this period was compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Company had processes in place during the period to monitor and where necessary approve non-statutory audit work undertaken by the auditors, including through the operations of the Company's Audit, Risk and Compliance Committee and the Tabcorp Group's Audit Committee.

Amounts paid or payable by the Company for audit and non-statutory audit services are disclosed in note 25 to the Company's Financial Report.

17 Auditor's independence declaration

On the next page is a copy of the auditor's independence declaration provided under section 307C of the Corporations Act 2001 in relation to the audit for the financial year ended 30 June 2018. This auditor's independence declaration forms part of this Directors' Report.

18 Rounding of amounts

Dollar amounts in the Financial Report and the Directors' Report have been rounded to the nearest hundred thousand unless specifically stated to be otherwise, in accordance with the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

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

As lead auditor for the audit of Tatts Group Limited for the financial year ended 30 June 2018, 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 audit; and

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

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

Ernst & Young

Ernst & Young

Brad Tozer

Brad Tozer
Partner
24 September 2018

Contents

This report sets out the remuneration arrangements of the Company for the year ended 30 June 2018 and is in accordance with Section 300A of the Corporations Act. The information has been audited as required by Section 308(3C) of the Corporations Act.

1. The Combination and approach to remuneration

During the year ended 30 June 2018, Tabcorp and Tatts Group combined (**Combination**). The Combination is expected to create significant value for shareholders and generate benefits to customers and stakeholders. The Combination, by way of a scheme of arrangement (**Scheme**), was approved by Tatts' shareholders on 12 December 2017 and implemented on 22 December 2017.

2. Key Management Personnel (KMP)

Tatts Group's KMP for the year ended 30 June 2018 are those persons with authority and responsibility for planning, directing and controlling the activities of Tatts Group. Prior to the Combination, Tatts Group KMP comprised its Non Executive Directors and the most senior executives in the Group, which included those executives who led operating units that contributed more than 25% to continuing consolidated EBITDA. On Combination:

- Mr. Harry Boon (the former Tatts Group Board Chairman) joined Tabcorp as a Non Executive Director. The remaining Tatts Group Non Executive Directors resigned from Tatts Group;
- Ms. Sue van der Merwe (former Chief Operating Officer, Lotteries), Ms. Mandy Ross (former Chief Information Officer) and Mr. Frank Makryllos (former Chief Operating Officer, Gaming) joined Tabcorp as executives. Ms. Mandy Ross ceased to be a KMP at this point;
- Tabcorp appointed three Executive Directors to the Board of Tatts Group and began providing the services of its management team to Tatts Group.

Table 1: List of KMP for the year ended 30 June 2018

Name	Position held	Period in position if less than full financial year
Former Non Executive Directors		
Harry Boon	Chairman and Director (Non Executive)	Until 22 December 2017
Lyndsey Cattermole	Director (Non Executive)	Until 22 December 2017
Brian Jamieson	Director (Non Executive)	Until 22 December 2017
Julien Playoust	Director (Non Executive)	Until 22 December 2017
Kevin Seymour	Director (Non Executive)	Until 22 December 2017
David Watson	Director (Non Executive)	Until 22 December 2017
Current Executive Directors (employed by the Tabcorp Group)		
David Attenborough	Executive Director	From 22 December 2017
Damien Johnston	Executive Director	From 22 December 2017
Michael Scott	Executive Director	From 23 March 2018
Former Executive Directors		
Robbie Cooke	Managing Director & Chief Executive Officer	Until 22 December 2017
Fiona Mead	Executive Director	22 December 2017 to 22 March 2018
Current Executive KMP (employed by the Tabcorp Group in the following Tabcorp Group positions)		
Frank Makryllos	Managing Director Gaming Services	From 22 December 2017
Adam Rytenskild	Managing Director Wagering and Media	From 22 December 2017
Sue van der Merwe	Managing Director Lotteries and Keno	From 22 December 2017
Former Executive KMP (employed by Tatts Group in the following previous Tatts Group positions)		
Neale O'Connell	Chief Financial Officer	Until 22 December 2017
Brendan Parnell	Chief Operating Officer, Wagering	Until 22 December 2017
Mandy Ross	Chief Information Officer	Until 22 December 2017

3. Approach to remuneration

This Remuneration Report sets out the remuneration arrangements of the Group's KMP for the year ended 30 June 2018. Pre-Combination (i.e. the period from 1 July 2017 to 21 December 2017), the Tatts Group KMP were remunerated by Tatts Group for services provided to it. Since the Combination, certain Tabcorp executives have had authority and responsibility for planning, directing and controlling the activities of Tatts Group. Tabcorp provides the services of its management team to Tatts Group for no consideration and the relevant Tabcorp executives are not paid any specific amounts for the services they provide to Tatts Group. Therefore, post Combination (i.e. the period 22 December 2017 to 30 June 2018), no remuneration has been provided to Tatts Group KMP by Tatts Group. Instead, the relevant Tabcorp executives are provided remuneration in their capacity as Tabcorp executives, for services they provide to Tabcorp as a whole. These executives are remunerated by the Tabcorp Group for their services as Tabcorp executives. As such, remuneration provided to these executives cannot reasonably be allocated to Tatts Group. As such, Tabcorp executive remuneration has not been disclosed in this Remuneration Report. Details of the remuneration paid to Tabcorp's KMP for the year ended 30 June 2018 can be found in Tabcorp Holdings Limited's 2018 Remuneration Report.

4. Remuneration governance

4.1 The Tatts Group Remuneration and Human Resources Committee (Committee)

Prior to the Combination, the Committee consisted of four Non Executive Directors, with one performing the role of the Chairman. The MD & CEO was invited to attend but did not take part in the Committee's decisions.

Pre-Combination, remuneration set by the Committee was reviewed on an annual basis. During this process, consideration was given to individual and overall performance of the Group, as well as market conditions. The Committee was responsible for advising on:

- Non Executive Director fees and remuneration for the MD & CEO and Group executives;
- performance reviews for the MD & CEO;
- employee equity plans;
- remuneration disclosures;
- executive recruitment, termination policies and succession planning;
- remuneration risk management and controls; and
- strategic human resources initiatives, including diversity and related disclosures, such as environmental, social and governance (**ESG**).

4.2 The Tabcorp People and Remuneration Committee

Post Combination, Tabcorp provides the services of its management team to Tatts Group, and the Tabcorp executives that make up the Tatts Group KMP are remunerated for the services they provide to the Tabcorp Group as a whole. Therefore, on Combination, the remuneration arrangements for Tatts Group KMP are overseen by the Tabcorp People and Remuneration Committee. This committee is comprised of four independent Non Executive Directors and assists the Tabcorp Board in fulfilling its responsibilities as outlined below by:

Establishing and reviewing Group remuneration policies and practices	Establishing and reviewing competitive, reasonable and equitable remuneration policies and practices across the Group aligned to business strategy and performance.
Establishing and overseeing an appropriate remuneration framework	Reviewing and recommending an appropriate remuneration framework to the Board, that will drive the achievement of strategic imperatives.
Reviewing Non Executive Director remuneration	Annually reviewing and recommending to the Board appropriate remuneration arrangements for Non Executive Directors.
Reviewing MD & CEO remuneration	Reviewing and recommending to the Board appropriate remuneration arrangements for the MD & CEO, including incentive outcomes.
Approving executive remuneration levels and incentive outcomes	Agreeing remuneration levels and incentive outcomes for executives.
Ensuring remuneration is free from bias	Ensuring no biases in remuneration.

In exercising its responsibilities, the Tabcorp People and Remuneration Committee regularly assesses the appropriateness of the nature and amount of remuneration of Tabcorp executives (including the Tatts Group KMP). This is done by reference to role complexity, size of role and relevant market conditions and benchmarks to ensure fairness of reward and the retention of a high quality and high performing Board and executive team. To assist with this, the Tabcorp People and Remuneration Committee may receive independent advice on matters such as remuneration strategies and structure, as appropriate. During the year ended 30 June 2018 and to the date of this report, no remuneration consultant provided a remuneration recommendation in respect of any Tatts Group KMP. The Tabcorp People and Remuneration Committee is governed by its Charter, which is available on Tabcorp's website (**www.tabcorp.com.au**) under the Corporate Governance section.

5. Group performance and remuneration outcomes

5.1 Financial performance

Pre-Combination, Tatts Group's performance was reviewed to ensure appropriate remuneration outcomes. Post Combination, the remuneration of Tatts Group KMP is set by reference to the performance of the Tabcorp Group (refer to page 52 of the Tabcorp Holdings Limited 2018 Annual Report for more information). The following table details Tatts Group's performance outcomes over the preceding five years.

Table 2: Five-year financial performance summary

Measure	FY14	FY15	FY16	FY17	FY18
Revenue ($m)	2,868.3	2,803.9	2,928.1	2,768.3	2,866.6
Net profit after tax ($m)	200.4	252.0	233.8	220.5	36.2
Dividends paid/payable ($m)	192.3	239.7	256.3	257.0	235.0
EPS (basic) (¢) [(i)]	16.0	17.5	18.0	15.1	n/a
Share price at end of year ($) [(ii)]	3.27	3.72	3.82	4.18	4.61

(i) EPS was not calculated for the year ended 30 June 2018, as Tatts Group shares were no longer listed on the ASX.
(ii) Tatts Group shares were suspended from quotation at the close of trading on 13 December 2017. For FY18 the closing share price was $4.61 as at this date.

6. Non Executive Director remuneration

6.1 Pre-Combination remuneration framework

Pre-Combination, Tatts Group Non Executive Directors received a base fee and, where applicable, an additional fee in recognition of the higher workload and extra responsibilities resulting from Board Committee participation. Fees were based on peer market benchmarks and reviewed annually. The Chairman of any Board Committee received a higher fee to reflect the relative role, responsibilities and time commitment. The Board Chairman did not receive additional fees for participation in, or chairing of, Board Committees.

Non Executive Directors did not receive incentive payments, nor were entitled to participate in any Tatts Group employee or executive equity plans. They did not receive any non-monetary benefits and did not participate in any retirement benefit scheme, other than statutory superannuation contributions.

To align the Non Executive Directors' interests with the interests of Tatts' shareholders, the Board established guidelines to encourage Non Executive Directors to hold a minimum of 25,000 Tatts shares. Such shares were to be acquired over a three-year period from the date of their appointment.

As approved by Tatts Group shareholders in 2011, the maximum aggregate Non Executive Directors' fee pool was $2.0 million per annum, of which Tatts Group utilised $1.5 million during the year ended 30 June 2018. Fees paid to Non Executive Directors are set out in Table 3, and are comprised of cash and statutory superannuation contributions. In light of the Combination, each Non Executive Director (except the Board Chairman) also received a non-compete payment of $92,500, which was payable upon implementation of the Combination (refer to Table 9).

Table 3: Non Executive Director Fee Structure

Role	Financial year	Board $ per annum	Committee (per membership) $ per annum
Chairman	**2018**	**472,000**	**35,000**
	2017	472,000	35,000
Member	**2018**	**185,000**	**11,000**
	2017	185,000	11,000

6.2 Post Combination remuneration framework

Upon implementation of the Combination, each Tatts Non Executive Director resigned as a director of Tatts Group. Accordingly, no Non Executive Director fees were paid by Tatts following implementation of the Combination.

7. Executive remuneration – pre-Combination

7.1 Remuneration framework

The pre-Combination remuneration framework, summarised below, was designed to attract, motivate and retain highly skilled team members, incentivise and reward high performance and align with shareholder interests.

7.2 Fixed Annual Remuneration (FAR)

Pre-Combination, Tatts Group attracted, motivated and retained a highly skilled team by providing fixed remuneration that targeted the desired skills and experience, and was benchmarked at or above the median of the market. The Tatts fixed remuneration structure comprised base pay, superannuation and salary-sacrificed items.

The average executive KMP fixed remuneration increase for the year ended 30 June 2018 was 2.0%.

7.3 Variable remuneration

Prior to the Combination, Tatts Group encouraged high performance through its variable remuneration schemes. The MD & CEO was entitled to participate in a variable incentive scheme with a maximum opportunity of 100% of fixed remuneration (FAR). As such, under the standard remuneration framework, the MD & CEO's reward mix was in the form of fixed remuneration (50%) and variable remuneration (50%). More details regarding the variable remuneration component can be found in Table 4 below. Executive KMP (excluding the Chief Financial Officer and the MD & CEO) participated in short term and long term incentive plans with maximum opportunities of 60% and 30% of fixed remuneration (FAR) respectively under the standard Tatts Group remuneration framework, which resulted in a maximum reward mix in the form of fixed remuneration (52%), maximum short term incentive opportunity (33%) and maximum long term incentive opportunity (15%). The Chief Financial Officer's remuneration mix was in the form of fixed remuneration (50%), maximum short term incentive opportunity (35%) and maximum long term incentive opportunity (15%).

As disclosed in the Tatts Group Remuneration Report for the year ended 30 June 2017, given the proposed Combination with Tabcorp, Tatts decided to:

- suspend its usual variable remuneration schemes (mentioned above);
- replace the deferred equity component of its FY17 variable remuneration scheme with deferred cash, with payment deferred for twelve months or until implementation of the Combination; and
- implement retention arrangements for key employees including certain executive KMP.

For the year ended 30 June 2018:

- Tatts Group executive KMP were not offered any short term or long term incentive opportunities under Tatts Group's usual variable remuneration schemes;
- certain Tatts Group KMP had retention arrangements put in place; and
- the Tatts Group former MD & CEO was provided with a bonus in relation to the additional efforts required of him to implement the Combination.

8. Former MD & CEO remuneration

8.1 Remuneration structure

The former MD & CEO had the following remuneration structure in place for the year ended 30 June 2018 (until he ceased employment with the company on 22 March 2018).

Table 4: MD & CEO remuneration structure

Component	Detail
Fixed annual remuneration (FAR)	$2,050,000 per annum.
Variable remuneration	Performance-based entitlement up to 100% of FAR, subject to the achievement of KPIs set annually, and as approved by the Board. Paid as 35% cash and 65% rights to restricted shares.

8.2 Fixed annual remuneration increases for the year ended 30 June 2018

During the year ended 30 June 2018, the former MD & CEO's fixed annual remuneration increased by 2%.

8.3 Short term incentive (STI)

No STI was awarded to the former MD & CEO (Mr. Cooke) under Tatts Group's variable remuneration schemes for the year ended 30 June 2018. However, Mr. Cooke was awarded a cash bonus of $1,166,135 in recognition of the additional efforts required of him to implement the Combination. The deferred cash component of his STI award for the year ended 30 June 2017 was paid on the Combination taking effect (The Tatts Group 2017 Remuneration Report sets out information on the structure of the 2017 STI plans, including the targets that were set and assessed).

8.4 Legacy long term incentive (LTI)

No LTI was provided to Mr. Cooke for the year ended 30 June 2018. On Combination the FY16 LTI (Performance Rights) vested into unrestricted shares and the FY17 LTI (deferred cash) was paid to him. All restricted shares under historic plans had trading restrictions lifted on Combination. All these shares participated in the Scheme (see the Tatts Group 2017 Remuneration Report for further details of the terms of these grants).

8.5 Retention arrangement

As disclosed in the Tatts Group's 2017 Remuneration Report, Mr. Cooke was awarded a retention payment equivalent to 12 months' fixed annual remuneration ($2,050,000). This sum was paid to him in March 2018, three months after the implementation of the Combination when his employment with Tatts Group ended. Payment of the retention arrangement was not subject to any performance conditions (other than service). The previous Tatts Group Board considered the arrangement necessary to retain his services, as he was responsible for managing critical Group activities and was key to the delivery of strategic objectives in anticipation of the Combination.

8.6 Termination payments

Mr. Cooke ceased employment with Tatts Group on 22 March 2018. On cessation of employment he was provided with the following termination payments:

- a payment in lieu of notice (as part of his contractual entitlement) to the value of $522,750;
- a statutory redundancy payment equivalent to $402,115 (gross); and
- accrued but unused annual leave to the value of $374,655.

9. Executive KMP excluding the former MD & CEO

9.1 Retention arrangements

Pre-Combination, the Tatts Group Board implemented retention arrangements for select executive KMP. For these participants, the retention arrangements were due to remain on foot until the earlier of 30 June 2018 (or 31 December 2018 in the case of the former Chief Financial Officer) or three months after the implementation of the Combination. As such, the retention awards vested in favour of eligible executive KMP on 22 March 2018. The following retention payments were made to former executive KMP (other than the former MD & CEO):

Table 5: Retention awards provided to executive KMP (excluding the MD & CEO)

Name	Tatts Group position	Value of retention award ($)
Neale O'Connell	Former Chief Financial Officer	820,000
Brendan Parnell	Former Chief Operating Officer, Wagering	336,000
Mandy Ross	Former Chief Information Officer	630,000

9.2 FY17 Deferred Cash

In FY17, considering the Combination, the Tatts Group Board determined that the STI would be awarded as a combination of cash and deferred cash (instead of Performance Rights). The Tatts Group Board determined to pay the portion normally allocated to the Performance Rights component in cash but to defer payment for twelve months or until implementation of the Combination (whichever occurred first). The deferred cash component was subsequently paid to participants upon Combination on 22 December 2017.

9.3 Past grants of Performance Rights

As noted in the Tatts Group 2017 Remuneration Report, on completing the Combination, the following treatment of LTI grants applied to former executive KMP (excluding the former MD & CEO):

- the Board waived the disposal restrictions on any shares (previously allocated on vesting of Performance Rights); and
- the Board cancelled all unvested Performance Rights issued to executive KMP as part of their at-risk performance based incentive for FY17 (2017 Long Term Performance Rights) in consideration for a cash payment to each holder. The payment was based on the value of the maximum potential entitlement of each holder (determined having regard to Tatts Group volume weighted average share price for the 10 trading days prior to the effective date of the Combination) discounted to reflect the pro rata portion of the performance period which had elapsed since the date the Performance Rights were issued.

Table 6: Cash payments in consideration of cancelled FY17 Performance Rights

Name	Tatts Group position	Value of cash payment ($)
Neale O'Connell	Former Chief Financial Officer	103,112
Brendan Parnell	Former Chief Operating Officer, Wagering	72,429
Mandy Ross	Former Chief Information Officer	69,160
Sue van der Merwe	Former Chief Operating Officer, Lotteries	60,358

9.4 Termination payments

Following the Combination, the former Chief Financial Officer (Mr. O'Connell) and former Chief Operating Officer Wagering (Mr. Parnell) ceased employment with the Group and the following termination payments were made:

- gross payments in lieu of notice as part of their contractual entitlements of $611,215 to Mr. O'Connell and $329,534 to Mr. Parnell;
- gross statutory redundancy payments of $225,185 to Mr. O'Connell and $37,662 to Mr. Parnell; and
- gross payment for leave accrued (not taken) of $394,814 to Mr. O'Connell and $14,556 to Mr. Parnell.

10. Executive KMP remuneration – post Combination

Post Combination, the Tatts Group executive KMP provide their services in their capacity as executives of Tabcorp. Accordingly, they are remunerated by Tabcorp for services rendered to the Tabcorp Group and are not paid any specific remuneration for the services they provide to Tatts Group. Remuneration paid by Tabcorp for services provided to the Tabcorp Group is not required to be disclosed in this report. However, details of remuneration paid to Tabcorp KMP for the year ended 30 June 2018 are set out in the Tabcorp Holdings Limited 2018 Annual Report.

11. Contracts of employment

The employment conditions of former and current executive KMP are provided in the table below. Other than the former MD & CEO, all executive KMP are employed under contracts of no fixed duration.

Table 7: Tatts Group executive KMP contracts of employment

Name	Contract term	Notice period by company (months)	Notice period by KMP (months)
David Attenborough	Ongoing	12	6
Robbie Cooke	3-year contract commencing 1 September 2015 – ceased employment on 22 March 2018	The lesser of 12 months or the period remaining until 31 August 2018	6
Damien Johnston	Ongoing	9	6
Frank Makryllos	Ongoing	9	6
Fiona Mead	Ongoing – ceased employment on 22 March 2018	9	6
Neale O'Connell	Ongoing – ceased employment on 22 March 2018	12	6
Brendan Parnell	Ongoing – ceased employment on 22 March 2018 (i)	6	6
Mandy Ross	Ongoing – ceased to be KMP on 22 December 2017	9	6
Adam Rytenskild	Ongoing	9	6
Michael Scott	Ongoing	6	3
Sue van der Merwe	Ongoing	9	6

(i) On 1 September 2017, the notice period was increased to 9 months if employment was terminated as a result of the position being made redundant as a result of a divestment of the Company's wagering operation.

In the event of serious misconduct, the Group may terminate employment without a termination payment being made. Any options or Performance Rights not exercised or deferred cash not paid before or on the date of termination will lapse.

12. Additional information

12.1 Policy prohibiting hedging

Participants in the Tatts Group incentive plans (STI and LTI) were restricted from hedging the value of restricted shares and unvested Performance Rights, and from entering into derivative arrangements in respect of the equity instruments granted under those plans. Equity instruments granted under the incentive plans could only be registered in the name of the participant, were identified as non-tradable on the share register, and could not be traded or transferred to another party until vested or until any trading restriction period had expired (where applicable).

12.2 Transactions and loans with KMP

No KMP (including their related parties) entered into a contract with Tatts or a subsidiary during the year ended 30 June 2018 other than as disclosed in this Remuneration Report. No KMP (including their related parties) have entered into a loan made, guaranteed or secured, directly or indirectly, by the Tatts Group or a subsidiary during the reporting period.

12.3 Tatts Group first strike at the 2017 Annual General Meeting

At the Tatts 2017 Annual General Meeting, the resolution to adopt the Tatts Group FY17 Remuneration Report was not passed by more than 75% of shareholders. This resulted in Tatts Group receiving a “first strike”. Tatts Group is not required to hold an Annual General Meeting following the Combination, because it has only one shareholder being Tabcorp. Following the Combination, Tatts Group KMP are engaged by Tabcorp and Tabcorp provides the services of its management team to Tatts Group for no consideration. Tatts Group KMP are remunerated by Tabcorp in their capacity as executives of Tabcorp, and are not paid additional amounts for services rendered to Tatts Group.

13. Statutory tables

As outlined previously, following the Combination, the Tatts Group executive KMP provide their services in their capacity as executives of Tabcorp and remuneration is outlined in the Tabcorp Holdings Limited 2018 Remuneration Report. The table below reflects remuneration of executive KMP of the Tatts Group prior to the Combination.

Table 8: Executive KMP remuneration for the year ended 30 June 2018

KMP	Financial year	Short term: Salary & fees [(i)] $	Short term: Cash bonus [(ii)] $	Short term: Retention payment [(iii)] $	Short term: Other $	Long term: Accrued leave benefits $	Post employment: Super-annuation $	Charge for share based allocations [(iv)]: Performance Rights [(iv)] $	Charge for share based allocations [(iv)]: Deferred cash [(ii)] $	Total $	Performance Related [(v)] %	Termination benefits $
Former Executive Director												
Robbie Cooke [(vi)]	**2018**	**1,499,305**	**1,166,135**	**2,050,000**	**5,236**	**-61,894**	**15,036**	**-**	**-**	**4,673,818**	**25%**	**924,865**
	2017	2,022,051	632,275	-	-	38,649	19,616	-	1,174,225	3,886,816	46%	-
Current Executive												
Sue van der Merwe[(vii)]	**2018**	**226,791**	**-**	**-**	**-**	**31,748**	**25,887**	**83,327**	**-**	**367,753**	**23%**	**-**
	2017	423,932	43,550	-	-	12,246	51,452	36,672	21,450	589,302	17%	-
Former Executives												
Neale O'Connell [(viii)]	**2018**	**590,974**	**-**	**820,000**	**5,236**	**67,142**	**15,037**	**142,351**	**-**	**1,640,740**	**9%**	**836,400**
	2017	797,051	250,000	-	3,950	15,236	19,616	62,648	250,000	1,398,501	40%	-
Brendan Parnell [(ix)]	**2018**	**339,890**	**-**	**336,000**	**133,692**	**-9,679**	**16,671**	**99,993**	**-**	**916,567**	**11%**	**367,196**
	2017	340,057	60,000	-	-	8,764	14,489	44,006	60,000	527,316	31%	-
Mandy Ross [(x)]	**2018**	**255,976**	-	**630,000**	**-**	**-8,411**	**10,024**	**95,479**	**-**	**983,068**	**10%**	**-**
	2017	497,051	47,500	-	-	9,620	19,616	42,020	47,500	663,307	21%	-
Barry Fletton [(xi)]	2017	218,036	-	-	-	**-**	7,771	**-**	-	225,807	0%	570,000
Total	**2018**	**2,912,936**	**1,166,135**	**3,836,000**	**144,164**	**18,906**	**82,655**	**421,150**	**-**	**8,581,946**		**2,128,461**
	2017	4,298,178	1,033,325	-	3,950	84,515	132,560	185,346	1,553,175	7,291,049		570,000

(i) Comprises salary and salary-sacrificed benefits (including salary-sacrificed superannuation where applicable).

(ii) Cash bonus in the year ended 30 June 2018 was paid to the MD & CEO in recognition of the additional efforts required of him to implement the Combination.
Cash bonus in the prior year represents the cash portion of the annual incentive, being 35% for the MD & CEO and either 33% or 50% for other executive KMP. The remaining portion of the annual incentive, being 65% for the MD & CEO and either 67% or 50% for other executive KMP, is delivered as deferred cash in lieu of Performance Rights and is reflected in the deferred cash column. The deferred cash was paid to participants in December 2017.

(iii) Retention payments were paid in March 2018, refer section 8.5 and section 9.1. The prior year did not include disclosure of the accounting expense accrued for expected retention payments to KMP of $1.4m.

(iv) Represents the fair value of share based payments expensed by Tatts Group. Value only accrues to the KMP when conditions have been met. The Performance Rights granted in April 2017 were cancelled and a cash payment was made to the participant, refer section 9.3. The year ended 30 June 2018 reflects the remaining expense for the fair value of these Performance Rights.

(v) Represents the sum of cash bonus, Performance Rights and deferred cash as a percentage of total remuneration, excluding termination payments.

(vi) Mr Cooke ceased as a KMP on 22 December 2017 and ceased employment on 22 March 2018. The above remuneration reflects payments made until 22 March 2018. Termination payment includes $522,750 payment in lieu of notice and $402,115 statutory redundancy payment. In addition to the amounts disclosed above, payment on cessation of annual leave and long service leave amounted to $374,655.

(vii) Remuneration until 22 December 2017 is reflected in the above table. From 22 December 2017, Ms. van der Merwe provided her services in her capacity as an executive and KMP of Tabcorp. Refer section 10.

(viii) Mr. O'Connell ceased as a KMP on 22 December 2017 and ceased employment on 22 March 2018. The above remuneration reflects payments made until 22 March 2018. Termination payment includes $611,215 payment in lieu of notice and $225,185 statutory redundancy payment. In addition to the amounts disclosed above, payment on cessation of annual leave and long service leave amounted to $394,814.

(ix) Mr. Parnell commenced as a KMP on 30 November 2016, ceased as a KMP on 22 December 2017 and ceased employment on 22 March 2018. The above remuneration reflects payments made until 22 March 2018. Termination payment includes $329,534 payment in lieu of notice and $37,662 statutory redundancy payment. In addition to the amounts disclosed above, payment on cessation of annual leave and long service leave amounted to $14,556.

(x) Ms. Ross ceased as a KMP on 22 December 2017.

(xi) Mr. Fletton ceased as a KMP and employment on 30 November 2016. Termination payment includes $570,000 payment in lieu of notice. In addition to the amounts disclosed above, payment on cessation of annual leave and long service leave amounted to $405,202.

Table 9: Non Executive Director fees for the year ended 30 June 2018

KMP	Financial year	Short term Fees $	Non-compete payment (ii) $	Post employment Superannuation $	Total $
Former Non Executive Directors (i)					
Harry Boon	**2018**	**217,009**	**-**	**10,024**	**227,033**
	2017	452,384	-	19,616	472,000
Lyndsey Cattermole	**2018**	**94,111**	**92,500**	**-**	**186,611**
	2017	196,000	-	-	196,000
Brian Jamieson	**2018**	**101,294**	**92,500**	**9,623**	**203,417**
	2017	211,384	-	19,616	231,000
Julien Playoust	**2018**	**101,294**	**92,500**	**9,623**	**203,417**
	2017	211,384	-	19,616	231,000
Kevin Seymour	**2018**	**85,946**	**92,500**	**8,165**	**186,611**
	2017	178,995	-	17,005	196,000
David Watson	**2018**	**85,946**	**92,500**	**8,165**	**186,611**
	2017	178,995	-	17,005	196,000
Total	**2018**	**685,600**	**462,500**	**45,600**	**1,193,700**
	2017	1,429,142	-	92,858	1,522,000

(i) All Non Executive Directors retired from the Board on 22 December 2017.

(ii) Non Executive Directors excluding the Chairman received a non-compete payment of $92,500.

14. Remuneration and equity tables

14.1 STI outcomes for the year ended 30 June 2018

No STI was awarded in respect of the year ended 30 June 2018. The FY17 STI awards were paid part in cash and part in deferred cash. The cash component was paid to eligible KMP on 15 September 2017 and the deferred cash component was paid on 22 December 2017. KMP have received the following percentages of their total target incentive for the FY17 year, with the respective splits between cash and deferred cash outlined in the following table.

Table 10: STI outcomes for executive KMP for the year ended 30 June 2018

Executive KMP	Financial year	Actual STI achieved					Actual STI achieved as a % of maximum STI	STI forgone as a % of maximum STI
		Cash portion		Deferred portion (i)		Total		
		%	$	%	$	$		
Robbie Cooke	**2018**	**-**	**-**	**-**	**-**	**-**	**0%**	**100%**
	2017	35%	632,275	65%	1,174,225	1,806,500	88%	12%
Neale O'Connell	**2018**	**-**	**-**	**-**	**-**	**-**	**0%**	**100%**
	2017	50%	250,000	50%	250,000	500,000	87%	13%
Brendan Parnell	**2018**	**-**	**-**	**-**	**-**	**-**	**0%**	**100%**
	2017	50%	60,000	50%	60,000	120,000	42%	58%
Mandy Ross	**2018**	**-**	**-**	**-**	**-**	**-**	**0%**	**100%**
	2017	50%	47,500	50%	47,500	95,000	26%	74%
Sue van der Merwe	**2018**	**-**	**-**	**-**	**-**	**-**	**0%**	**100%**
	2017	67%	43,550	33%	21,450	65,000	23%	77%
Barry Fletton	2017	-	-	-	-	-	0%	100%

(i) The deferred portion of the prior year incentive was paid in deferred cash.

14.2 Equity incentives

Shares issued under Tatts Group's incentive plans are subject to a cap of 5% of equity. This is inclusive of shares that may be issued in respect of each outstanding offer or grant of shares, options or Performance Rights if accepted or exercised under other equity plans. This amount excludes offers made outside of Australia, made under a disclosure document, or which do not require a disclosure document.

The following KMP did not participate in the Tatts Group long term incentive plan and did not hold any Performance Rights during the year ended 30 June 2018:

- all former Non Executive Directors;
- all current Executive Directors;
- Fiona Mead (former Executive Director); and
- all current executives.

Terms, conditions and total unissued shares for each grant of Performance Rights for the previous and current reporting periods are as follows.

Table 11: Performance Rights vested and lapsed and shares issued during the year ended 30 June 2018

KMP	Number of Performance Rights vested	Value of Performance Rights exercised (i) $	Number of Performance Rights lapsed (ii) $	Number of shares issued	Amount paid per share $
Robbie Cooke	240,711	962,844	-	240,711	Nil
Neale O'Connell	57,357	229,428	51,122	57,357	Nil
Brendan Parnell	-	-	35,910	-	-
Mandy Ross	29,925	119,700	34,289	29,925	Nil
Sue van der Merwe	19,751	79,004	29,925	19,751	Nil
Total	**347,744**	**1,390,976**	**151,246**	**347,744**	

(i) Represents the value of Performance Rights exercised during the year. Performance Rights were granted on 6 October 2016 under the incentive plan and were exercised on 1 October 2017. The value is based on the market value of Tatts Group shares at the date of exercise.

(ii) Performance Rights that lapsed were granted on 12 April 2017 under the Long Term Incentive Plan. Upon completion of the Combination with Tabcorp, the Board cancelled all the 2017 Long Term Performance Rights for a cash payment to each holder. Refer section 9.3.

14.3 Movement in Performance Rights held by executive KMP

Table 12: KMP interests in Performance Rights for the year ended 30 June 2018 (number)

KMP	Balance at start of year	Balance as KMP commencement (i)	Granted as remuneration	Vested	Cancelled	Balance at KMP cessation (ii)	Balance at end of year (iii)
Robbie Cooke	240,711	n/a	-	(240,711)	-	-	n/a
Neale O'Connell	108,479	n/a	-	(57,357)	(51,122)	-	n/a
Brendan Parnell	35,910	n/a	-	-	(35,910)	-	n/a
Mandy Ross	64,214	n/a	-	(29,925)	(34,289)	-	n/a
Sue van der Merwe	49,676	n/a	-	(19,751)	(29,925)	n/a	-
Total	**498,990**	**-**	**-**	**(347,744)**	**(151,246)**	**-**	**-**

(i) Reflects Performance Rights held at 22 December 2017 for Mr Attenborough, Mr Johnston, Mr Makryllos, Ms Mead and Mr Rytenskild; and Performance Rights held at 23 March 2018 for Mr Scott.
(ii) Reflects Performance Rights held at 21 December 2017 for Mr Cooke, Mr O'Connell, Mr Parnell and Ms Ross; and Performance Rights held at 22 March 2018 for Ms Mead.
(iii) The number of Performance Rights vested and exercisable at year end was nil.

15. KMP shareholdings and Tatts Group Bond holdings

The numbers of shares in the Company held during the financial year by each of the KMP, including their related parties, are set out below. There were no shares granted during the reporting period as compensation, and all shares are ordinary shares. The following table sets out the number of shares held by KMP and their related parties, directly, indirectly or beneficially, during the year ended 30 June 2018. Movements in Tatts Group shares have been reflected for the period 1 July 2017 until 22 December 2017 for Directors and executives who were KMP during this period. From 22 December 2017, all Tatts Group shares were held by Tabcorp Holdings Limited.

The following KMP did not have any relevant interests in Tatts Group shares at any time during the year ended 30 June 2018 when they were a KMP:

- all current Executive Directors;
- Fiona Mead (former Executive Director); and
- current Executive KMP: Frank Makryllos and Adam Rytenskild.

No Tatts Group Bonds were held by KMP during the year ended 30 June 2018.

Table 13: KMP interests in shares of Tatts Group for the year ended 30 June 2018 (number of shares)

KMP	Balance at start of year	Granted as remuneration	On vesting of Performance Rights	Net change other (i)	Balance at 21 December 2017
Former Non Executive Directors					
Harry Boon	150,000	-	-	-	150,000
Lyndsey Cattermole	182,663	-	-	-	182,663
Brian Jamieson	114,734	-	-	-	114,734
Julien Playoust	25,000	-	-	-	25,000
Kevin Seymour	14,108,306	-	-	-	14,108,306
David Watson	25,000	-	-	-	25,000
Former Executive Director					
Robbie Cooke	744,546	-	240,711	-	985,257
Current Executive					
Sue van der Merwe	75,678	-	19,751	-	95,429
Former Executives					
Neale O'Connell	294,562	-	57,357	-	351,919
Brendan Parnell	-	-	-	-	-
Mandy Ross	30,075	-	29,925	-	60,000
Total	**15,750,564**	**-**	**347,744**	**-**	**16,098,308**

(i) Includes voluntary on-market transactions.

This report has been signed in accordance with a resolution of Directors.

David Attenborough
Director

24 September 2018

Financial report - 30 June 2018

Contents

Tatts Group Limited
Consolidated income statement
For the year ended 30 June 2018

	Notes	2018 $m	2017 $m
Revenue from continuing operations		**2,866.6**	2,768.3
Statutory outgoings			
Government share		**(1,365.1)**	(1,290.7)
Venue share/commission		**(410.8)**	(407.3)
Product and program fees		**(186.2)**	(199.3)
Other income	2	**6.9**	10.1
Other expenses			
Employee expenses		**(169.0)**	(172.3)
Operating fees and direct costs		**(54.5)**	(51.2)
Telecommunications and technology		**(43.2)**	(41.5)
Marketing and promotions		**(81.3)**	(68.7)
Information services		**(18.0)**	(20.8)
Property expenses		**(48.2)**	(24.5)
Other expenses		**(59.4)**	(36.4)
Merger costs		**(42.3)**	(33.4)
Impairment	2	**(149.0)**	-
Depreciation and amortisation		**(85.0)**	(78.2)
Profit before interest and income tax		**161.5**	354.1
Interest income		**0.4**	2.0
Finance costs	2	**(34.2)**	(48.4)
Profit before income tax		**127.7**	307.7
Income tax expense	3	**(91.5)**	(86.5)
Profit from continuing operations		**36.2**	221.2
Loss from discontinued operation	18	**-**	(0.7)
Profit attributable to owners of Tatts Group Limited		**36.2**	220.5

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Tatts Group Limited
Consolidated statement of comprehensive income
For the year ended 30 June 2018

	2018 $m	2017 $m
Profit for the year	**36.2**	220.5
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of available-for-sale financial assets	**0.1**	(0.1)
Changes in the value of cross currency interest rate swaps	**0.3**	(1.5)
Changes in the value of interest rate swaps	**1.3**	4.4
Income tax relating to these items	**(0.5)**	(0.8)
Items that will not be reclassified to profit or loss		
Actuarial gains/(losses) on retirement benefit obligation	**0.5**	4.8
Income tax relating to these items	**-**	(1.1)
Other comprehensive income for the year, net of tax	**1.7**	5.7
Total comprehensive income attributable to the owners of Tatts Group Limited	**37.9**	226.2

Tatts Group Limited
Consolidated balance sheet
As at 30 June 2018

	Notes	2018 $m	2017 $m
ASSETS			
Current assets			
Cash and cash equivalents	4	**282.0**	241.4
Trade and other receivables	5	**45.6**	47.6
Inventories		**1.9**	1.9
Derivative financial instruments	17	**11.4**	18.3
Other current assets	7	**56.9**	55.8
Prepayments		**21.3**	20.3
Total current assets		**419.1**	385.3
Non-current assets			
Investment in an associate	19	**14.7**	15.7
Available-for-sale financial assets	15	**20.8**	20.4
Property, plant and equipment	8	**155.9**	157.1
Held-to-maturity investments	15	**55.0**	55.0
Derivative financial instruments	17	**55.8**	56.3
Intangible assets	9	**4,649.3**	4,458.7
Other non-current assets	7	**0.4**	144.3
Prepayments		**1.3**	0.4
Total non-current assets		**4,953.2**	4,907.9
Total assets		**5,372.3**	5,293.2
LIABILITIES			
Current liabilities			
Trade and other payables	6	**615.7**	574.7
Interest bearing liabilities	16	**15.5**	313.1
Derivative financial instruments	17	**0.8**	-
Tax liabilities		**-**	20.1
Provisions	10	**32.2**	31.5
Other current liabilities	7	**56.9**	55.8
Amounts payable to related companies	16	**806.1**	-
Total current liabilities		**1,527.2**	995.2
Non-current liabilities			
Trade and other payables	6	**261.8**	207.0
Interest bearing liabilities	16	**420.7**	847.2
Deferred tax liabilities	3	**251.9**	270.3
Derivative financial instruments	17	**0.2**	2.3
Provisions	10	**23.6**	3.3
Employee benefit obligations	11	**9.2**	10.1
Total non-current liabilities		**967.4**	1,340.2
Total liabilities		**2,494.6**	2,335.4
Net assets		**2,877.7**	2,957.8
EQUITY			
Contributed equity	12	**3,106.3**	2,869.5
Other reserves		**(0.8)**	0.3
Retained earnings / (accumulated losses)		**(227.8)**	88.0
Total equity		**2,877.7**	2,957.8

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

Tatts Group Limited
Consolidated statement of changes in equity
For the year ended 30 June 2018

	Notes	Share capital $m	Other reserves $m	Retained earnings / (accum losses) $m	Total equity $m
		Attributable to owners of Tatts Group Limited			
Balance at 1 July 2016		2,854.4	(2.2)	120.5	2,972.7
Profit for the year		-	-	220.5	220.5
Other comprehensive income		-	2.0	3.7	5.7
Total comprehensive income for the year		-	2.0	224.2	226.2
Transactions with owners in their capacity as owners:					
Dividend Reinvestment Plan issues		13.2	-	-	13.2
Dividends provided for or paid	13	-	-	(256.7)	(256.7)
Employee performance rights		1.9	0.5	-	2.4
		15.1	0.5	(256.7)	(241.1)
Balance at 30 June 2017		2,869.5	0.3	88.0	2,957.8
Balance at 1 July 2017		**2,869.5**	**0.3**	**88.0**	**2,957.8**
Profit for the year		-	-	36.2	36.2
Other comprehensive income		-	1.2	0.5	1.7
Total comprehensive income for the year		**-**	**1.2**	**36.7**	**37.9**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	13	-	-	(352.5)	(352.5)
Employee performance rights		1.8	(2.3)	-	(0.5)
Issue of ordinary shares	12	235.0	-	-	235.0
		236.8	(2.3)	(352.5)	(118.0)
Balance at 30 June 2018		**3,106.3**	**(0.8)**	**(227.8)**	**2,877.7**

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

Tatts Group Limited
Consolidated statement of cash flows
For the year ended 30 June 2018

	Notes	2018 $m	2017 $m
Cash flows from operating activities			
Receipts from customers (inclusive of GST) net of prizes paid/cash returns to customers		**2,981.6**	2,812.4
Payments to suppliers and employees (inclusive of GST)		**(582.2)**	(433.8)
Payments to Government		**(1,294.6)**	(1,293.6)
Payments to venues/commission		**(410.8)**	(407.3)
Payments for product and program fees		**(187.1)**	(199.6)
		506.9	478.1
Interest received		**1.2**	1.8
Interest paid		**(28.7)**	(43.8)
Income taxes paid		**(59.2)**	(13.6)
Net cash inflow from operating activities	4	**420.2**	422.5
Cash flows from investing activities			
Payments for property, plant and equipment		**(40.6)**	(35.8)
Payments for intangibles		**(170.6)**	(69.8)
Payments for held-to-maturity investments		**-**	(19.8)
Proceeds from sale of assets		**0.2**	23.5
Payments for available-for-sale assets		**(0.3)**	(0.6)
Proceeds/(payment) from associate		**2.3**	(15.7)
Payment for shares (unlisted)		**(0.2)**	(0.2)
Payments to Government for future monitoring rights		**(68.3)**	(68.3)
Net loans advanced from related entities		**728.3**	-
Net cash inflow (outflow) from investing activities		**450.8**	(186.7)
Cash flows from financing activities			
Proceeds from issues of shares		**235.0**	-
Dividends paid net of Dividend Reinvestment Plan		**(352.5)**	(243.5)
Net (repayments)/proceeds from borrowings		**(728.4)**	55.0
Net cash (outflow) from financing activities		**(845.9)**	(188.5)
Net increase in cash and cash equivalents		**25.1**	47.3
Cash and cash equivalents at the beginning of the financial year		**241.4**	194.1
Cash and cash equivalents at end of year		**266.5**	241.4

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

About this report

Tatts Group Limited (the Company) is a company limited by shares and since December 2017 it is a wholly owned subsidiary of Tabcorp Holdings Limited. The Company is incorporated and domiciled in Australia. The Financial Report of the Company for the year ended 30 June 2018 comprises the Company and its subsidiaries (the Group) and the Group's interest in associates. The Group is a for-profit entity.

The financial report was authorised for issue by the Directors on 24 September 2018.

The consolidated financial statements on which this financial report is based is a general purpose financial report which:

• has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards as issued by the Australian Accounting Standards Board and other mandatory financial reporting requirements in Australia;

• complies with International Financial Reporting Standards as issued by the International Accounting Standards Board;

• is presented in Australian dollars with dollar amounts rounded to the nearest hundred thousand unless specifically stated to be otherwise, in accordance with Australian Securities and Investments Commission's Instrument (rounding in Financial/Directors' Reports) Instrument 2016/191; and

• is prepared on the historical cost basis, except for derivative financial instruments, retirement benefit obligation plan assets and available for sale financial assets that have been measured at fair value.

The accounting policies have been applied consistently throughout the Group for the purposes of this Financial Report.

Going concern

The Group is in a working capital deficient position at 30 June 2018. 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 provide sufficient funds to continue operations should a need arise. Accordingly, the financials are prepared on a going concern basis.

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 these assets and liabilities recognised in the financial statements are described in the following notes:

Note 3 Tax
Note 9 Intangible asset
Note 10 Provisions
Note 15 Financial assets
Note 17 Financial risk management
Note 22 Contingent liabilities

Contents of the notes to the consolidated financial statements

Key numbers

1 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).

There has been no regular reporting of the Tatts Group results at a stand-alone disaggregated segment level to the current CODM. Therefore the Tatts Group is deemed to be one segment.

2 Revenue and expenses

Recognition and measurement

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

Wagering revenue

Wagering 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.

Lotteries revenue

Revenue is recognised as the gross subscriptions received for lotteries less prizes payable when the official draw for each game is completed. Subscriptions received during the year for games which will be drawn in the next financial period, are deferred and recognised as revenue in the next financial period. Revenue from lottery card subscriptions is recognised over the life of the subscription. Management fees recognised in relation to the Master Agent Agreement associated with the operation of SA Lotteries are recognised in sales revenue.

Gaming services revenue

Revenue is recognised once the service has been rendered or the goods have been delivered to the buyer.

Interest revenue

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

Finance costs

Finance costs are recognised as an expense when incurred.

Operating lease rentals

Operating lease rentals are recognised in the income statement on a straight line basis over the lease term. Lease incentives received are recognised as a liability and are released to the income statement on a straight line basis over the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Other revenue

Dividend revenue is recognised when the right to receive a dividend is established.

	2018	2017
	$m	$m
From continuing operations		
Other revenue		
Rental and sub-lease rental income	**0.1**	0.1
Interest on unpaid prizes and prize reserves	**4.3**	3.1
Other revenue	**4.2**	2.2
	8.6	5.4

Other income

	2018	2017
	$m	$m
Net gain/(loss) on disposal of property, plant and equipment	**(0.1)**	8.1
Fair value gains/(losses) on financial assets at fair value through profit or loss	**7.0**	2.0
	6.9	10.1

2 Revenue and expenses (continued)

Expenses (continued)

	2018 $m	2017 $m
Other items		
Minimum lease payments expense relating to operating leases	**15.9**	8.9
Defined contribution superannuation expense	**13.8**	14.7
	29.7	23.6

Impairment expense

	2018 $m	2017 $m
Brands [i]	**46.7**	-
Leasehold improvements [i]	**5.3**	-
Goodwill [ii]	**97.0**	-
	149.0	-

[i] Comprises impairment of the Wagering brand and associated assets due to the intention to adopt Tabcorp Group brands.
[ii] Impairment of Wagering goodwill following alignment of methodology and assumptions with the Tabcorp Group.

	2018 $m	2017 $m
Finance costs		
Interest and finance charges paid/payable	**(32.1)**	46.3
Other	**(2.1)**	2.1
Finance costs expensed	**(34.2)**	48.4

3 Tax

On the acquisition of Tatts Group Limited by Tabcorp Holdings Limited the Tatts Group Limited 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 Consolidated Accounting* to determine any adjustments to the tax bases of assets and liabilities applying on tax consolidation. This assessment has been updated as a result of the purchase price accounting being finalised.

Recognition and measurement

Income tax
Comprises current and deferred income tax. Income tax is recognised in the income statement except when 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. The 2018 tax payable to the tax authority is recognised in the balance sheet of the Tax Consolidated Group head entity.

Deferred tax
This is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes. The temporary differences 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 are not provided for. 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.

Income tax expense

	2018 $m	2017 $m
Current tax	**112.8**	96.6
Deferred tax	**(18.9)**	3.8
Adjustments for current tax of prior periods	**(2.4)**	(14.2)
	91.5	86.2
Income tax expense/(benefit) is attributable to:		
Profit from continuing operations	**91.5**	86.5
Profit from discontinued operations	**-**	(0.3)
	91.5	86.2

3 Tax (continued)

Reconciliation of income tax expense to prima facie tax payable

	2018 $m	2017 $m
Profit from continuing operations before income tax expense	**127.7**	307.7
Loss from discontinuing operations before income tax expense	**-**	(1.0)
	127.7	306.7
Tax at the Australian tax rate of 30.0% (2017 - 30.0%)	**38.3**	92.0
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Depreciation and amortisation	**2.0**	1.2
Impairment of goodwill	**29.1**	-
Acquisition adjustments	**23.1**	-
Non-assessable income	**(0.4)**	-
Non-deductible items	**0.2**	0.9
Sundry items	**0.2**	-
	92.5	94.1
Under/(over) provision in prior years in deferred tax	**(2.4)**	6.3
Under/(over) provision in prior years in current tax	**1.4**	(14.2)
Income tax expense	**91.5**	86.2

Tax expense (income) relating to items of other comprehensive income

	2018 $m	2017 $m
Cash flow hedges	**(0.5)**	(0.8)
Other	**-**	(1.1)
	(0.5)	(1.9)

Deferred tax assets

	2018 $m	2017 $m
The balance comprises temporary differences attributable to:		
Employee benefits	**12.1**	14.5
Depreciation	**6.7**	13.4
Provisions	**7.0**	-
Cash flow hedges	**0.2**	0.7
Other	**14.0**	13.2
	40.0	41.8
Set-off of deferred tax liabilities pursuant to set-off provisions	**(40.0)**	(41.8)
Net deferred tax assets	**-**	-

3 Tax (continued)

Deferred tax assets (continued)

Movements	Employee benefits $m	Depreciation $m	Provisions $m	Listed securities $m	Cash flow hedge $m	Other $m	Total $m
At 1 July 2016	12.8	14.1	0.1	-	1.6	9.6	38.2
(Charged)/credited							
- to the income statement	2.8	(0.7)	(0.1)	-	-	3.6	5.6
- to other comprehensive income	(1.1)	-	-	-	(0.9)	-	(2.0)
Closing balance at 30 June 2017	14.5	13.4	-	-	0.7	13.2	41.8

	Employee benefits $m	Depreciation $m	Provisions $m	Listed securities $m	Cash flow hedge $m	Other $m	**Total $m**
At 1 July 2017	14.5	13.4	-	-	0.7	13.2	**41.8**
(Charged)/credited							
- to the income statement	(2.4)	(6.7)	7.0	-	-	0.8	**(1.3)**
- to other comprehensive income	-	-	-	-	(0.5)	-	**(0.5)**
Closing balance at 30 June 2018	12.1	6.7	7.0	-	0.2	14.0	**40.0**

Deferred tax liabilities

	2018 $m	2017 $m
The balance comprises temporary differences attributable to:		
Depreciation	**9.9**	2.3
Intangibles	**274.3**	239.7
Unclaimed dividends	**4.8**	4.9
Other/MAX NSW monitoring rights	**2.9**	65.2
	291.9	312.1
Set-off of deferred tax liabilities pursuant to set-off provisions	**(40.0)**	(41.8)
Net deferred tax liabilities	**251.9**	270.3

Movements	Depreciation $m	Intangible assets $m	Unclaimed dividends $m	Other $m	Total $m
Closing balance at 1 July 2016	2.8	231.6	4.8	63.4	302.6
Charged/(credited)					
Charged/(credited) to the income statement	(0.5)	8.1	0.1	1.8	9.5
Closing balance at 30 June 2017	2.3	239.7	4.9	65.2	312.1

	Depreciation $m	Intangibles assets $m	Unclaimed dividends $m	Other $m	**Total $m**
At 1 July 2017	2.3	239.7	4.9	65.2	**312.1**
Charged/(credited)					
Charged/(credited) to the income statement	7.6	34.6	(0.1)	(62.3)	**(20.2)**
Closing balance at 30 June 2018	9.9	274.3	4.8	2.9	**291.9**

4 Cash and cash equivalents

Recognition and measurement

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and short term deposits with original maturities of 3 months or less and bank overdrafts (refer note 16). Cash includes prize reserves.

	2018	2017
	$m	$m
Cash at bank and in-hand	**211.5**	141.4
Short term deposits	**70.5**	100.0
	282.0	241.4
Bank overdraft	**(15.5)**	-
	266.5	241.4

At 30 June 2017 an amount of $15.4 million was presented as receivables. This amount on further investigation represented cash amounts held by third parties on behalf of Tatts. Tatts has now determined that these amounts are better presented as cash to reflect their underlying nature and substance. As a result of this, amounts shown as trade receivables and cash have been decreased and increased by this amount respectively at 30 June 2017. The cash flow from operations for this period has also increased by this amount.

Reconciliation of profit from ordinary activities after income tax to net cash inflow from operating activities

	2018	2017
	$m	$m
Profit for the year	**36.2**	220.5
Non cash flows in operating profit		
Depreciation and amortisation	**85.0**	78.2
Amortisation of borrowing costs	**3.4**	2.4
(Profit) on sale of fixed assets	**-**	(8.1)
Employee share option	**(0.5)**	2.3
Bad and doubtful debts	**-**	0.2
Retirement benefit obligation	**0.5**	0.6
Fair value (gains) on financial assets at fair value through profit or loss	**(7.0)**	(2.0)
Impairment / write off of assets	**149.0**	-
Share of profit from associate	**(1.4)**	-
Impairment of operating assets	**1.5**	-
Income tax expense via inter-company	**66.7**	-
Change in operating assets and liabilities, net of effects from purchase of controlled entities		
(Increase)/decrease in trade and other receivables	**2.0**	17.1
(Increase)/decrease in inventories	**-**	0.5
(Increase)/decrease in other operating assets	**(2.1)**	(4.6)
(Decrease)/increase in trade and other payables	**104.8**	40.5
(Decrease)/increase in current tax liabilities	**(20.1)**	70.1
(Decrease)/increase in deferred tax	**(18.8)**	3.7
(Decrease)/increase in provisions	**21.0**	1.1
Net cash inflow from operating activities	**420.2**	422.5

5 Trade and other receivables

Recognition and measurement

Trade debtors are recognised and carried at original invoice amount less an allowance for any uncollectible amount. Collectability is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for the impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment loss is recognised in profit and loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

Current	**2018** **$m**	2017 $m
Trade receivables		
Trade receivables	**22.6**	20.5
Other receivables	**23.0**	27.1
	45.6	47.6

Impaired trade and other receivables

At 30 June 2018, there were no material receivables past due and deemed to be irrecoverable which have not been impaired or individual balances specifically past due but not impaired. Collateral is not normally obtained for balances owing.

6 Trade and other payables

Recognition and measurement

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Prizes payable to the lottery major prize winners for some games are payable over periods exceeding 12 months. The portion of this liability which is payable more than 12 months post balance date is reported as a non-current liability.

	2018 $m	2017 $m
Current		
Trade payables	**515.1**	480.3
Other payables and accruals	**100.6**	94.4
	615.7	574.7
Non-Current		
Other payables	**261.8**	207.0

Non-current includes prizes payable to the lottery major prize winners and instalment payable for the Queensland wagering licence.

7 Other assets and liabilities

	2018 $m	2017 $m
Current assets		
SA Lotteries monies held in trust	**56.9**	55.8
Total current assets	**56.9**	55.8
Non-current assets		
Advance payment of MAX NSW monitoring rights	**-**	142.6
Other	**0.4**	1.7
Total non-current assets	**0.4**	144.3
Current liabilities		
SA Lotteries monies held in trust	**56.9**	55.8
Total other current-liabilities	**56.9**	55.8

Advance Payment of MAX NSW Monitoring Rights

On 15 March 2016 the NSW Government issued rights to the Group to operate a Central Monitoring System (CMS). The new monitoring rights commenced on 1 December 2017. In the current year the payment has been reflected as an intangible asset - licences.

8 Property, plant and equipment

Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The asset's residual values and useful lives are reviewed annually and adjusted prospectively, if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Plant and equipment under development is not depreciated. Depreciation will commence on completion of the development when the assets are available for use. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. Finance costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other finance costs are expensed.

Depreciation methods and useful lives

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their useful lives as follows:

- Buildings 25 - 40 years
- Freehold improvements 25 - 40 years
- Plant and equipment 3 - 10 years
- Leasehold improvements 7 years

	Freehold Land $m	**Buildings $m**	**Freehold improvements $m**	**Leasehold improvements $m**	**Plant and equipment $m**	**Assets under development $m**	**Total $m**
Year ended 30 June 2018							
Opening net book amount	22.1	26.9	7.7	21.5	66.9	12.0	157.1
Additions	-	-	-	-	-	39.8	39.8
Disposals	-	-	-	-	(0.3)	-	(0.3)
Transfers	-	-	0.3	18.9	21.9	(40.9)	0.2
Depreciation charge	-	(1.7)	(1.7)	(5.8)	(26.4)	-	(35.6)
Impairment charge	-	-	-	(5.3)	-	-	(5.3)
Carrying amount at 30 June 2018	**22.1**	**25.2**	**6.3**	**29.3**	**62.1**	**10.9**	**155.9**
At 30 June 2018							
Cost	22.1	43.7	21.4	61.6	338.6	10.9	498.3
Accumulated depreciation	-	(18.5)	(15.1)	(32.3)	(276.5)	-	(342.4)
Net book amount	**22.1**	**25.2**	**6.3**	**29.3**	**62.1**	**10.9**	**155.9**
Year ended 30 June 2017							
Opening net book amount	22.1	28.5	9.2	13.3	59.8	23.9	156.8
Additions	-	-	-	-	-	35.5	35.5
Transfers	-	-	0.3	12.6	34.5	(47.4)	-
Depreciation charge	-	(1.6)	(1.8)	(4.4)	(27.4)	-	(35.2)
Carrying amount at 30 June 2017	22.1	26.9	7.7	21.5	66.9	12.0	157.1
At 30 June 2017							
Cost	22.1	43.7	24.2	56.3	425.5	12.0	583.8
Accumulated depreciation	-	(16.8)	(16.5)	(34.8)	(358.6)	-	(426.7)
Net book amount	22.1	26.9	7.7	21.5	66.9	12.0	157.1

9 Intangible assets

Recognition and measurement

Goodwill

Goodwill arising in a business combination represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired and liabilities assumed. All business combinations are accounted for by applying the acquisition method. Goodwill is not amortised, and is stated at cost less any accumulated impairment losses. Any impairment losses recognised against goodwill cannot be reversed.

Licences

Licences that have a finite useful life are carried at cost less accumulated amortisation and impairment losses. Amortisation is on a straight line basis over useful life.

The expected useful lives used for licences and rights are as follows:

Race wagering licence - Qld	92 years	Expires 2098
Sports wagering licence - Qld	84 years	Expires 2098
Totalisator licence - NT	20 years	Expires 2035
Sports bookmaker licence - NT	20 years	Expires 2035
Major betting operations licence - SA	94 years	Expires 2100
Gaming machine monitoring operator's licence - Qld	10 years	Expires 2027
Monitoring provider's licence - NT	5 years	Expires 2021
Centralised monitoring system licence - NSW	15 years	Expires 2032
Inter-club linked gaming system licence - NSW	13 years	Expires 2019
Inter-hotel linked gaming system licence - NSW	13 years	Expires 2019
Radio licences - Qld	5 years	Expires 2019
Lotteries licence - Vic	10 years	Expires 2028 (**)
Lotteries licence - NSW	40 years	Expires 2050
Race and sports wagering licence - Tas	50 years	Expires 2062(*)

(*) The race and sports wagering licence in Tasmania has an option to be extended for a further 49 years.
(**) The new Victorian lottery licence commences 1 July 2018 on expiry of the current licence on 30 June 2018.

The carrying value of licences and rights is reviewed annually and any balance representing future benefits for which realisation is considered to be no longer probable is written off.

Brand

Brands with a finite useful life are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the brands over their estimated useful lives.

The expected useful lives used for brands are as follows:

Lotteries Brand - Qld	65 years	Expires 2072

Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.

IT development and software

Costs incurred in developing products or systems that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project.

Capitalised software is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the software over its estimated useful life of 2 to 6 years.

Lotteries operator agreements

The cost associated with the lotteries operator agreement are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the agreement over the agreement term.

Golden Casket	65 years	Expires 2072
Tatts NT	20 years	Expires 2032
Tatts Lotteries SA	40 years	Expires 2052

9 Intangible assets (continued)

Recognition and measurement (continued)

Lotteries operator agreements (continued)

	Goodwill $m	Licences $m	Brands $m	Software $m	Other $m	WIP $m	Total $m
Year ended 30 June 2018							
Opening net book amount	3,475.5	563.6	96.3	49.1	247.2	27.0	4,458.7
Additions	-	335.9	-	43.5	-	4.3	383.7
Amortisation	-	(26.5)	(0.9)	(16.2)	(5.8)	-	(49.4)
Impairment charge	(97.0)	-	(46.7)	-	-	-	(143.7)
Carrying amount at 30 June 2018	**3,378.5**	**873.0**	**48.7**	**76.4**	**241.4**	**31.3**	**4,649.3**
.							
At 30 June 2018							
Cost	3,378.5	1,042.8	57.2	296.3	285.9	31.3	5,092.0
Accumulated amortisation	-	(169.8)	(8.5)	(219.9)	(44.5)	-	(442.7)
Net book amount	**3,378.5**	**873.0**	**48.7**	**76.4**	**241.4**	**31.3**	**4,649.3**
Year ended 30 June 2017							
Opening net book amount	3,475.5	580.8	97.2	53.9	253.0	1.5	4,461.9
Additions	-	2.4	-	11.8	-	25.5	39.7
Amortisation	-	(19.6)	(0.9)	(16.6)	(5.8)	-	(42.9)
Carrying amount at 30 June 2017	3,475.5	563.6	96.3	49.1	247.2	27.0	4,458.7
At 30 June 2017							
Cost	3,475.5	707.2	105.4	267.0	285.9	27.0	4,868.0
Accumulated amortisation	-	(143.6)	(9.1)	(217.9)	(38.7)	-	(409.3)
Net book amount	3,475.5	563.6	96.3	49.1	247.2	27.0	4,458.7

Estimated impairment of goodwill, licences and brands

The Group tests annually whether goodwill, licences and brands have suffered any impairment. These calculations require the use of assumptions. These key assumptions apply for the impairment testing for all of the Group's indefinite life intangible assets. The impairment calculations are prepared on both a value-in-use basis and fair value less costs to sell basis.

Impairment tests for goodwill

Goodwill is allocated to the Group’s cash-generating units (CGU) expected to benefit from the synergies of those business combinations. The carrying amount of goodwill is allocated to the following Groups of CGU's.

	2018 $m	2017 $m
Lotteries	**1,511.0**	1,511.0
Wagering	**1,357.2**	1,454.2
MAX	**510.3**	510.3
Total	**3,378.5**	3,475.5

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 management approved business plans for a four year period and extrapolated using growth rates ranging from 2.0% to 3.5% (2017: 2.0% to 3.0%). These were adjusted for expected synergistic benefits arising from the merger with Tabcorp, and were extrapolated using growth rates. These cash flows are then discounted using a relevant long term post tax discount rate ranging between 7.5% and 8.4% (2017: pre-tax discount rate ranging from 7.8% to 11.7%). This is considered to be level 3 in the fair value hierarchy, based on non-market observable input (refer to note 17 for explanation of the valuation hierarchy).

The key estimates and assumptions used to determine the fair value less costs of disposal of a CGU are based on management’s current expectations after considering past experience and external information, and are considered to be reasonably achievable. However, given the impairment recognised in the Wagering CGU during the current financial year, any adverse changes in any of these key estimates and assumptions used in calculating the recoverable amount may result in additional impairment in the Wagering CGU. Terminal growth rate used is in line with the forecast long term underlying growth rate in Consumer Price Index.

10 Provisions

Recognition and measurement

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been 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.

Employee benefits (short term)
These 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.

Employee benefits (long term)
The Group's net obligation 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. Re-measurements are recognised in the income statement in the period in which they arise. This excludes pension plans.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

	2018	2017
	$m	$m
Current		
Employee benefits	**30.1**	31.5
Premises	**1.1**	-
Other	**1.0**	-
	32.2	31.5
Non-current		
Employee benefits - long service leave	**2.6**	3.3
Premises	**15.0**	-
Other	**6.0**	-
	23.6	3.3

Premises provisions comprise:
- lease rental and lease incentives amortised on a straight-line basis over the term of the lease
-surplus lease space provisions

11 Retirement benefit obligations

The Group has a defined benefit superannuation plan; the New South Wales Lotteries Corporation Pty Limited defined benefit plan. The plans are governed by the employment laws of Australia and the Group contributes to the plans at rates based on actuarial advice.

Recognition and measurement

Defined benefit plans are recognised in the balance sheet as the difference between the present value of the estimated future benefits that will be payable to plan members and the fair value of the plan's assets. An annual adjustment is made to recognise all movements in the carrying amount of the plan in the income statement, except for the portion of the movement that is attributable to actuarial gains and losses, which are recognised directly in equity. Actuarial gains and losses represent the difference between previous actuarial assumptions of future outcomes and the actual outcome, in addition to the effect of changes in actuarial assumptions.

Reconciliation of the net defined benefit liability/(asset)

	Fair Value of plan assets $m	**Present value of defined benefit obligation $m**	**Net defined benefit plan (liabilities) $m**
Balance at 30 June 2017	14.8	(24.9)	(10.1)
Actuarial gains/(losses)	0.5	-	0.5
Benefits paid	(0.9)	0.9	-
Other	1.6	(1.2)	0.4
Balance at 30 June 2018	**16.0**	**(25.2)**	**(9.2)**

	2018 $m	2017 $m
Net defined balance at the start of the year	**10.1**	14.3
Current service cost	**0.1**	0.1
Net interest on the net defined benefit liability	**0.4**	0.5
Actual return on Fund assets less interest income	**(0.5)**	(0.8)
Actuarial (gains)/losses arising from changes in demographic assumptions	**0.1**	-
Actuarial gains/(losses) arising from changes in financial assumptions	**0.2**	(3.0)
Actuarial gains/(losses) arising from liability experience	**(0.3)**	(0.4)
Employer contributions	**(0.9)**	(0.6)
Net defined benefit liability at end of year	**9.2**	10.1

Fair value of fund assets

The defined benefit fund assets are invested by SAS Trustee Corporation with independent fund managers and have a diversified asset mix. The percentage invested in each asset class is as follows:

As at	**30 June 2018 %**
Debt instruments	10.5
Australian fixed interest	5.3
International fixed interest	3.3
Australian equities	22.2
International equities	26.1
Property	8.9
Alternatives	23.7
	100.0

Capital

12 Contributed equity issued

Recognition and measurement

Ordinary shares are authorised, fully paid and are classified as equity.

Incremental costs directly attributable to the issue of new shares or options/rights are shown in equity as a deduction, net of tax, from the proceeds.

Movements in ordinary share capital

Date	Details	Number of shares	Issue price	$m
1 July 2016	Opening balance	1,464,523,643		2,854.4
4 October 2016	Dividends reinvestment plan issues	3,492,549	$3.77	13.2
8 November 2016	Performance rights issue	353,289	$3.99	1.4
8 November 2016	Performance rights issue	150,000	$3.25	0.5
30 June 2017	Closing balance	1,468,519,481		2,869.5
	Opening balance	**1,468,519,481**		**2,869.5**
16 October 2017	Performance rights issue	461,283	$4.01	1.8
12 December 2017	Ordinary shares - fully paid	49,578,060	$4.74	235.0
	Closing balance	**1,518,558,824**		**3,106.3**

13 Dividends

Ordinary shares

	2018 $m	2017 $m
Final dividend of 8.0 cents per share paid on 3 October 2017 (2017: 8.0 cents paid on 4 October 2016)	**117.5**	117.2
Interim dividend of 9.5 cents per share paid on 3 April 2017	**-**	139.5
Special dividend of 16.0 cents per share paid on 19 December 2017	**235.0**	-
	352.5	256.7

Dividends are paid per fully paid share. All dividends paid are fully franked based on tax paid at the rate of 30%.

14 Share-based payments

Recognition and measurement

Share-based compensation benefits were provided to certain employees who had greater potential impact on share price and long-term value generation as part of any annual incentive awarded to them in the form of rights exercisable in 12 months from grant date into restricted shares, provided the employee remains employed with the Group. All plans were closed out during the year. Please refer to the remuneration report for further details.

Rights granted under the incentive plans

Set out below are summaries of the performance options and rights in respect of the 2018 financial year:

	Expiry date	Balance at start of the year Number	Granted during and in respect of the year Number	Exercised during the year Number	Lapsed/ forfeited during the year Number	Balance at end of year Number	Exercisable at end of year Number
2018							
Grant Date							
Performance rights							
7 Oct 2016	1 November 2017	224,562	-	(220,572)	(3,990)	-	-
8 Nov 2016	1 November 2017	240,711	-	(240,711)	-	-	-
12 April 2017	1 September 2019	352,830	-	-	(352,830)	-	-
Total		818,103	-	(461,283)	(356,820)	-	-

The Board cancelled all of the 2017 Long Term Performance Rights on issue in consideration for a cash payment to each eligible holder.

	Expiry date	Balance at start of the year Number	Granted during and in respect of the year Number	Exercised during the year Number	Lapsed/ forfeited during the year Number	Balance at end of the year Number	Exercisable at end of year Number
2017							
Grant date							
Performance rights							
3 Nov 2015	1 November 2016	503,289	-	(503,289)	-	-	-
7 Oct 2016	1 November 2017	-	227,155	-	(2,593)	224,562	-
8 Nov 2016	1 November 2017	-	240,711	-	-	240,711	-
12 April 2017	1 September 2019	-	352,830	-	-	352,830	-
Total		503,289	820,696	(503,289)	(2,593)	818,103	-

The weighted average share price at the date of the exercise of rights exercised during the year ended 2017 was $4.00.

The weighted average remaining contractual life of exercisable rights outstanding at 30 June 2017 was 1.13 years.

Financial Management

15 Financial assets

Recognition and measurement

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

After initial measurement available-for-sale financial assets are subsequently carried at fair value.

Financial assets include the following classes of financial assets:

	2018 **$m**	2017 $m
Non-current assets		
Managed fund investment - at fair value	**20.8**	20.4
Total available-for-sale financial assets	**20.8**	20.4
Investment - term deposits	**55.0**	55.0
Total held-to-maturity investments	**55.0**	55.0

16 Borrowings

Interest bearing liabilities

	2018 $m	2017 $m
Current		
Unsecured		
Bank overdraft	**15.5**	-
Bank loans	**-**	239.9
Loan notes (US Private Placement)	**-**	73.2
Total current interest bearing liabilities	**15.5**	313.1
Non-current		
Unsecured		
Loan notes (US Private Placement)	**229.3**	226.0
Tatts Bonds - July 2019	**191.4**	193.4
Bank loans	**-**	427.8
Total non-current interest bearing liabilities	**420.7**	847.2

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

Other borrowings

	2018 $m	2017 $m
Current		
Unsecured		
Amounts payable to related companies	**806.1**	-
Total current other borrowings	**806.1**	**-**

During the period, Tabcorp Finance Pty Ltd (formerly Tabcorp Investment No.4 Pty Ltd) provided a non-interest bearing loan to Tatts Group to facilitate the repayment of the Syndicated Facility. A letter has been provided by Tabcorp Finance Pty Ltd that it will not require repayment 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.

	Opening $m	Cash flow $m	FX movement $m	FV changes $m	Other $m	Closing $m
Interest bearing liability						
Current	**(313.1)**	295.5	17.6	-	(15.5)	**(15.5)**
Non-current	**(847.2)**	432.9	(3.4)	-	(3.0)	**(420.7)**
Inter-company loan - current	**-**	(728.3)	-	-	(77.8)	**(806.1)**
Cross currency interest rate swaps						
Current	**16.3**	-	-	(13.9)	-	**2.4**
Non-current	**56.3**	-	-	(0.5)	-	**55.8**
Total	**(1,087.7)**	0.1	14.2	(14.4)	(96.3)	**(1,184.1)**

17 Financial risk management

The main risks arising from the Group's financial instruments are discussed below. Financial risk management is carried out by a central treasury department.

Derivative financial instruments

Derivative financial instruments are recognised initially at cost, and subsequently stated at fair value. The method of recognising any re-measurement gain or loss depends on the nature of the item being hedged. For the purposes of hedge accounting, hedges are classified as either cash flow or fair value hedges.

Cash flow hedges are used to hedge the exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction. Hedge effectiveness is measured by comparing the change in the fair value of the hedged item and the hedging instrument respectively each quarter. Any differences represents ineffectiveness. The effective portion of any gain or loss on the hedging instrument is recognised directly in equity, with any ineffective portion recognised in the income statement. For hedged items relating to financial assets or liabilities, amounts recognised in equity are reclassified into the income statement when the hedged transaction affects the income statement. When the hedged item is the cost of a non-financial asset or liability, the amounts recognised in equity are transferred into the initial cost or other carrying amount of the non-financial asset or liability.

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 are used to hedge 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.

Equity derivative is a financial asset at fair value through profit or loss. Gains and losses arising from changes in the fair value are recognised directly in the income statement within other income.

Derivatives are only used for economic hedging purposes and not as trading or speculative instruments. The Group has the following derivative financial instruments:

	2018 $m	2017 $m
Current assets		
Cash flow hedges - Cross currency interest rate swaps (US Private Placement)	**2.4**	16.3
Equity Derivative	**9.0**	2.0
Total current derivative financial instrument assets	**11.4**	18.3
Non-current assets		
Cash flow hedges - Cross currency interest rate swaps (US Private Placement)	**55.8**	56.3
	55.8	56.3
Current liabilities		
Cash flow hedges - interest rate swap contracts	**0.8**	-
	0.8	-
Non-current liabilities		
Cash flow hedges - interest rate swap contracts	**0.2**	2.3
	0.2	2.3

Interest rate swap - cash flow hedges

The Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and pay interest at fixed rates. Swaps currently in place are timed to match each interest rate payment as it falls due. The contracts require settlement of interest receivable or payable every 1, 3 or 6 months, and are settled on a net basis. Variable interest rates range between 1.71% and 2.04% (2017: 1.67% and 1.79%) while the fixed interest rates average AUD 3.38% (2017: AUD 2.71%).

17 Financial risk management (continued)

Derivative financial instruments (continued)

Interest rate swap - cash flow hedges (continued)

The gain or loss from remeasuring the hedging instruments at fair value is recognised in the statement of comprehensive income and deferred in equity in the hedging reserve to the extent that the hedge is effective.

Cross currency interest rate swap contracts/Loan notes (US Private Placement) - cash flow hedges

The gain or loss from remeasuring the loan notes at fair value is recognised in the statement of comprehensive income and deferred in the hedging reserve to the extent that the hedge is effective.

Market risk

Foreign exchange risk

The Group's primary currency exposure is to US dollars as a result of issuing US private placement debt. In order to hedge this exposure, the Group has entered into cross currency swaps to fix the exchange rate on the USD debt until maturity. The Group agrees to pay a fixed USD amount in exchange for an agreed AUD amount with swap counterparties, and to re-exchange this again at maturity. These swaps are designated to hedge the principal and interest obligations of the US private placement debt.

The Group's material exposure to foreign currency risk at the end of the reporting period, was as follows:

	30 June 2018 USD $m	30 June 2017 USD $m
Cross currency interest rate swap - receivable	**(170.0)**	(225.0)
Loan notes (US Private Placement)	**170.0**	225.0
Total	**-**	-

Market risk sensitivity analysis

The Group’s exposure to foreign exchange movements is not material.

Cash flow and fair value interest rate risk

Interest rate risk is the risk that the Group will suffer a financial or economic opportunity loss due to an unfavourable change in interest rates. The Group’s interest rate risk arises from the Group’s variable interest rate bearing assets and liabilities.

Interest rate risk exposure

Cash at bank is bearing floating interest rates between zero and 1.47% (2017: zero and 1.70%).

Fixed and floating rate interest securities are bearing interest rates with a weighted average of 2.75% (2017: 2.66%).

As at the end of the period, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	2018			2017		
	Available facility $m	**Balance drawn down $m**	**% of total loans**	Available facility $m	Balance drawn down $m	% of total loans
Bank overdrafts and bank loans	**100.0**	**15.5**	**3.6**	1,200.0	670.0	57.9
Loan Notes (US Private Placement)	**229.6**	**229.6**	**52.4**	292.6	292.6	25.3
Bonds	**192.0**	**192.0**	**44.0**	194.7	194.7	16.8
Bilateral facility	**-**	**-**		100.0	-	
Interest rate swaps (notional principal amount)	**-**	**(150.0)**		-	(250.0)	
Net exposure to cash flow interest rate risk	**521.6**	**287.1**		1,787.3	907.3	

All other financial assets and liabilities are either non-interest bearing or not subject to interest rate risk or exposures to such risk are not material.

17 Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

Cash flow and fair value interest rate risk sensitivity analysis

At 30 June 2018, if interest rates had increased/decreased by 100 basis points (2017: 100 basis points) from the year-end rates with all other variables held constant, the post-tax profit for the year and equity for the Group would have been $0.7 million lower/higher and $0.9 million higher/lower respectively (2017: $4.9 million lower/higher and $4.0 million higher/$4.1 million lower respectively).

Credit risk

Credit risk is the risk that the Group will suffer a financial loss due to the inability of a counterparty to meet its financial and/or contractual obligations. Treasury activities generate credit risk arising primarily from investments, and the use of derivative instruments. Credit risk relating to other instruments is not material.

Liquidity risk

Liquidity risk is the risk that the Group may not be able to meet its obligations with respect to financial liabilities. Prudent liquidity risk management requires maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Group Treasury manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and liabilities, and maintaining appropriate committed funding lines in anticipation of future requirements.

Contractual maturities of financial liabilities At 30 June 2018	Less than 6 months $m	6 to 12 months $m	1 to 2 years $m	2 to 5 years $m	More than 5 years $m	Total contrac-tual cash flows(4) $m	Carrying value $m
Non-derivatives							
Amounts payable to related companies	-	-	-	-	806.1	806.1	806.1
Trade and other payables (1)	572.8	79.5	51.2	71.6	102.4	877.6	868.8
Tatts Bonds (2)	5.8	5.8	192.1	-	-	203.6	195.0
Loan Notes (USPP) (3)	1.2	1.2	172.8	-	-	175.2	236.8
Total non-derivatives	**579.8**	**86.5**	**416.1**	**71.6**	**908.5**	**2,062.5**	**2,106.7**
Derivatives							
Net settled (interest rate swaps)	**-**	**-**	**1.0**	**-**	**-**	**1.0**	**1.0**

At 30 June 2017	Less than 6 months $m	6 to 12 months $m	1 to 2 years $m	2 to 5 years $m	More than 5 years $m	Total contrac-tual cash flows (4) $m	Carrying value $m
Non-derivatives							
Trade and other payables (1)	553.6	89.3	17.8	56.6	81.0	798.3	795.0
Bank loans (2)	255.3	9.2	451.6	-	-	716.1	670.0
Tatts Bonds (2)	4.7	4.6	9.5	197.1	-	215.9	194.7
Loan Notes (USPP) (3)	78.8	5.7	11.4	238.1	-	334.0	292.6
Total non-derivatives	892.4	108.8	490.3	491.8	81.0	2,064.3	1,952.3
Derivatives							
Net settled (interest rate swaps)	-	-	1.2	1.1	-	2.3	2.3

1 Non-interest bearing
2 Floating interest rate
3 Fixed interest rate
4 Excludes the impact of financial derivatives

Financing arrangements

The Group's existing debt facilities and their maturities at the end of the reporting period were as follows:

17 Financial risk management (continued)

Liquidity risk (continued)

Financing arrangements (continued)

			Utilised		Facility Limit	
			2018	2017	**2018**	2017
	Security	Maturity	**$m**	$m	**$m**	$m
Bank overdraft	Unsecured	-	**15.5**	-	-	-
Bilateral Facility	Unsecured	*	**-**	-	**100.0**	100.0
Syndicated Facility	Unsecured	*	**-**	135.0	**-**	250.0
Syndicated Facility	Unsecured	*	-	-	**-**	350.0
Syndicated Facility	Unsecured	*	**-**	295.0	**-**	300.0
Syndicated Facility	Unsecured	*	**-**	240.0	**-**	300.0
USPP	Unsecured	Dec-2017	**-**	71.5	**-**	71.5
USPP	Unsecured	Dec-2020	**229.6**	221.1	**229.6**	221.1
Tatts Bonds	Unsecured	Jul-2019	**192.0**	194.7	**192.0**	194.7

* These were repaid on merger between Tatts and Tabcorp Holdings Limited
This table excludes the impact of any derivatives at the end of each reporting period.

No financial covenants apply to the Tatts Bonds. The Group complied with all debt covenants imposed on it under its debt facilities during the period.

Key Financial Disclosures for Tatts Bonds

In accordance with the requirements of clause 13.2 of the Trust Deed, the following Key Financial Disclosures are made:

- Tatts Bonds rank equally among themselves and at least equally with all other senior and unsecured creditors of the Group, other than those obligations mandatorily preferred by law;
- the Group has not materially breached any loan covenants or any debt obligations (whether or not relating to Tatts Bonds) during the period covered by this report; and
- the key financial ratios for the Group at 30 June 2018 calculated in accordance with section 713B of the Corporations Act are:

Interest Coverage Ratio (1) $= \dfrac{\text{EBITDA}}{\text{Net Interest Expense}} = 7.3$ times

Gearing Ratio $= \dfrac{\text{Total Liabilities}}{\text{Total Equity}} = 86.7\%$

Working Capital Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}} = 27.4\%$

(1) calculated on EBITDA on continuing operations

A description of these ratios and how they are calculated is included in section 2.3(b) of the Tatts Bonds Prospectus.

Fair value of financial assets and liabilities

Fair value measurements

The fair value of financial assets and financial liabilities are estimated for recognition, measurement and disclosure purposes at each balance date.
Various methods are available to estimate the fair value of a financial instrument, and comprise:

- Level 1 - Calculated using quoted prices in active markets
- Level 2 - 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 - estimated using inputs for the asset or liability that are not based on observable market data.

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.

17 Financial risk management (continued)

On-Balance sheet (continued)

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.

Off-Balance sheet

The Company and certain controlled subsidiaries have potential financial liabilities which may arise from certain contingencies disclosed in Note 22. No material losses are anticipated in respect of any of those contingencies.

Derivative financial instruments

For forward foreign exchange contracts, 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 for contracts with similar remaining maturity profiles.

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.

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.

For the equity derivative fair value is calculated using the Black Scholes Discrete model. Any changes in the option value each period will be recognised through profit or loss.

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes.

Recognised fair value measurements

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2018.

30 June 2018	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Financial assets at fair value through profit or loss				
Cross currency interest rate swaps	**-**	**58.2**	**-**	**58.2**
Equity derivative: Call option	**-**	**9.0**	**-**	**9.0**
Total financial assets	**-**	**67.2**	**-**	**67.2**
Financial Liabilities				
Interest rate swap contracts	**-**	**1.0**	**-**	**1.0**
Total financial liabilities	**-**	**1.0**	**-**	**1.0**

30 June 2017	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Financial assets at fair value through profit or loss				
Cross currency interest rate swaps	-	72.5	-	72.5
Available-for-sale- financial assets	-	20.4	-	20.4
Equity derivative: Call option	-	2.0	-	2.0
Total financial assets	-	94.9	-	94.9
Financial liabilities				
Interest rate swap contracts	-	2.3	-	2.3
Total financial liabilities	-	2.3	-	2.3

There were no transfers between Levels during the period.

Group structure

18 Discontinued operations

Recognition and measurement

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. The results of discontinued operations are presented separately in the income statement.

Tatts Pokies

Description

On 15 August 2012 the gaming operator's licence held by the Company expired. This gaming operator's licence enabled Tatts Pokies to own and operate gaming machines in venues within the State of Victoria. The expiry of this licence means that Tatts Pokies no longer generates earnings and cash flows from the activities which were conducted under this licence. As part of the transition to the new gaming machine monitoring licence holder, the Group provided monitoring services and support through to 15 February 2013.

The Group entered into agreements with third parties to sell its gaming machines classified as plant and equipment with the effective date of sale of these machines being the date when the gaming operator's licence expired on 15 August 2012. As a result of the sale agreements, the Group changed the depreciation estimate of the gaming machines to a zero depreciation rate from 31 March 2011 as the sale value of the gaming machines exceeded their written down book value. The remainder of the gaming assets classified under plant and equipment relating to the gaming operator's licence continued to be depreciated at existing rates up to the expiry of the licence on 15 August 2012.

On 2 March 2016 the High Court of Australia upheld the State of Victoria's appeal in relation to the matter of the State of Victoria v Tatts Group Limited (M83 of 2015). Consequently on 3 March 2016, Tatts repaid the State $540.5 million plus our estimate of interest of $26.6 million. Tatts is also required to pay the State's costs of the appeal and its costs of the proceedings in the Victorian Supreme Court of Appeal. This amount and the interest have been agreed. The final interest and legal costs are included in discontinued operations in the prior period.

Financial performance and cash flow information

	2017 $m
Expenses	(1.0)
Income tax benefit/(expense)	0.3
Loss after income tax of discontinued operation	(0.7)

Net cash inflow/(outflow) from operating activities	(1.0)
Net cash inflow from investing activities	-
Net cash outflow from financing activities	-
Net cash (decrease)/increase generated by discontinued operations	(1.0)

19 Investments in controlled entities and associate

Name of entity	Country of incorporation	Equity holding 2018 %	Equity holding 2017 %
Ubet Qld Limited (1) (2)	Australia	100	100
Ubet Enterprises Pty Ltd	Australia	100	100
Ubet NT Pty Ltd (1) (2)	Australia	100	100
Ubet Radio Pty Ltd (2)	Australia	100	100
Ubet SA Pty Ltd (1) (2)	Australia	100	100
TAB Queensland Pty Ltd	Australia	100	100
Ubet Tas Pty Ltd (1) (2)	Australia	100	100
Agility Interactive Pty Ltd	Australia	100	100
Tasradio Pty Ltd (2)	Australia	100	100
Maxgaming Holdings Pty Ltd (1) (2)	Australia	100	100
Maxgaming NSW Pty Ltd (1) (2)	Australia	100	100
Maxgaming Qld Pty Ltd (1) (2)	Australia	100	100
Maxgaming Vic Pty Ltd	Australia	100	100
Bytecraft Systems Pty Ltd (1) (3) (2)	Australia	100	100
Bytecraft Systems (NSW) Pty Ltd (1) (2)	Australia	100	100
Bytecraft Systems (NZ) Limited	New Zealand	100	100
EGM Tech Pty Ltd	Australia	100	100
Reaftin Pty Ltd (1) (2)	Australia	100	100
Bytecraft Systems Pty Ltd (1) (3) (2)	Australia	100	100
Tattersall's Holdings Pty Ltd (1) (2)	Australia	100	100
Tatts Online Pty Ltd	Australia	100	100
Tattersall's Sweeps Pty Ltd (1) (2)	Australia	100	100
Tattersall's Gaming Pty Ltd (1)	Australia	100	100
Tattersall's Club Keno Pty Ltd	Australia	100	100
tatts.com Pty Ltd	Australia	100	100
New South Wales Lotteries Corporation Pty Limited (1) (2)	Australia	100	100
Tatts Employment Co (NSW) Pty Ltd	Australia	100	100
George Adams Pty Ltd (2)	Australia	100	100
Tattersall's Australia Pty Ltd	Australia	100	100
Tatts NT Lotteries Pty Ltd (1) (2)	Australia	100	100
Golden Casket Lottery Corporation Limited (1) (2)	Australia	100	100
Tattersall's Investments (South Africa) (Pty) Limited	South Africa	100	100
Wintech Investments Pty Ltd (1)	Australia	100	100
Tattersall's Gaming Systems (NSW) Pty Ltd	Australia	100	100
Tatts Lotteries SA Pty Ltd (1) (2)	Australia	100	100
Thelott Enterprises Pty Ltd	Australia	100	100
Tatts Employment Share Plan Pty Ltd	Australia	100	100
TattsTech Pty Ltd (2)	Australia	100	100
50-50 Software Pty Ltd (2)	Australia	100	100
Talarius Holdings Limited	United Kingdom	100	100
Jumbo Interactive Ltd (4)	Australia	12	13

(1) These subsidiaries have, where applicable, been granted relief from the necessity to prepare financial statements in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission (Refer to Note 20 for further information).
(2) Tatts Group Limited and the identified entities above are part of the Tabcorp Holdings Limited deed of cross guarantee.
Each party of the deed guarantee the debts of the others.
(3) Owned 50% by Tatts Group Limited and 50% by Reaftin Pty Ltd. 100% equity holding within the Group.
(4) Shares acquired in associate.

19 Investments in controlled entities and associate (continued)

Investment in associate

An associate is an entity over which the Group has significant influence but not control or joint control. Significant influence is the power to participate in the financial and operating decisions of the investee. Investments in associates are accounted for using the equity method.

Summarised financial information of associate

	2018	2017
	$m	$m
Jumbo Interactive Ltd	**14.7**	15.7

The Group owns 6,609,686 fully paid ordinary shares acquired at $2.37 per share on 12 May 2017.

The above associate was incorporated in Australia. The Group does not have representation on the Board of Directors, although it does have the option to have representation. The Group does not participate in the significant financial and operating decisions but has arrangements in place with the associate which are material to its operational and financial performance. The Group has therefore determined that it has significant influence over this entity.

At balance date, the Group also owned options over a further 3,474,492 ordinary shares at a strike price of $2.37 which had a maturity date of 13 July 2018. Subsequent to year end the options were exercised, and the Group disposed of 2.85 million shares at a profit before tax impact of $3.1 million.

Subsidiaries

Subsidiaries are entities controlled by the Company. 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 subsidiaries are included in the consolidated financial report from date control commences until the date control ceases.

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of the exchange prevailing at balance 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.

Elimination

Intercompany transactions, balances and any unrealised gains and losses arising from intergroup transactions, are eliminated in preparing the consolidated financial statements.

Investments

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.

20 Deed of cross guarantee

As at 1 July 2017, Tatts Group Limited, Tattersall's Holdings Pty Ltd, Tattersall's Gaming Pty Ltd, Tattersall's Sweeps Pty Ltd, Reaftin Pty Ltd, Wintech Investments Pty Ltd, Bytecraft Systems Pty Ltd, Ubet Qld Limited, Ubet SA Pty Ltd, Maxgaming Holdings Pty Ltd, Maxgaming NSW Pty Ltd, Maxgaming Qld Pty Ltd, Golden Casket Lottery Corporation Limited, New South Wales Lotteries Corporation Pty Limited, Ubet Tas Pty Ltd, Tatts Lotteries SA Pty Ltd, Bytecraft Systems NSW Pty Ltd, Tatts NT Lotteries Pty Ltd and Ubet NT Pty Ltd were party to a Deed of Cross Guarantee (Deed) dated 1 May 2009, under which each company guarantees the debts of the others in the event of the winding up of any of those companies in the circumstances contained in the Deed.

By entering into the current Deed, the wholly owned entities have been relieved under ASIC Class Order 98/1418 from certain requirements including preparing and lodging a financial report and Directors' Report.

Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

The above companies represent a 'Closed Group' for the purposes of the Class Order and they also represent the 'Extended Closed Group'. Set out below is a consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings for the year ended 30 June 2018 of the Closed Group consisting of the companies listed above.

	2018 $m	2017 $m
Consolidated income statement		
Revenue from continuing operations	**2,844.4**	2,798.3
Statutory outgoings		
Government share	**(1,365.1)**	(1,290.7)
Venue share/commission	**(410.8)**	(407.3)
Product/program fees	**(186.2)**	(199.3)
Other income	**-**	2.7
Other expenses from ordinary activities		
Employee expenses	**(161.6)**	(168.1)
Operating fees and direct costs	**(54.2)**	(50.9)
Telecommunications and technology	**(42.5)**	(40.7)
Marketing and promotions	**(81.1)**	(68.6)
Information services	**(22.1)**	(25.2)
Property expenses	**(46.7)**	(23.0)
Restructuring costs	**(0.1)**	(0.7)
Merger costs	**(42.3)**	(33.4)
Other expenses	**(49.9)**	(34.9)
Impairment/assets written off	**(149.0)**	-
Depreciation and amortisation expense	**(83.8)**	(77.1)
Profit before interest, income tax, depreciation, amortisation and impairment	**149.0**	381.1
Interest income	**0.4**	2.0
Finance costs	**(34.2)**	(48.4)
Profit before income tax	**115.2**	334.7
Income tax expense	**(80.0)**	(79.9)
Profit for the year from continuing operations	**35.2**	254.8
Loss from discontinued operation	**-**	(0.7)
Profit for the year to the Closed Group	**35.2**	254.1
Profit for the year	**35.2**	254.1
Items that may be reclassified to profit or loss		
Changes in the fair value of available-for-sale financial assets	**0.2**	(0.1)
Changes in the fair value of cash flow hedges	**0.3**	(1.5)
Changes in the value of interest rate swaps	**1.3**	4.4
Income tax relating to these items	**(0.5)**	(0.9)
Other comprehensive income for the year, net of tax	**1.3**	1.9
Total comprehensive income for the year	**36.5**	256.0
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**132.7**	135.3
Net profit for the year	**35.2**	254.1
Dividends (Note 13)	**(352.5)**	(256.7)
Retained earnings at the end of the financial year	**(184.6)**	132.7

20 Deed of cross guarantee (continued)

Consolidated balance sheet

Set out below is a consolidated balance sheet as at 30 June 2018 of the Closed Group consisting of the companies listed.

	2018 $m	2017 $m
ASSETS		
Current assets		
Cash and cash equivalents	**279.0**	281.5
Trade and other receivables	**61.1**	80.9
Inventories	**1.9**	1.9
Total current assets	**342.0**	364.3
Non-current assets		
Trade and other receivables	**1.3**	143.0
Available-for-sale financial assets	**20.8**	20.4
Other financial assets	**3.8**	3.9
Property, plant and equipment	**136.2**	141.2
Derivative financial instruments	**57.4**	72.6
Intangible assets	**4,644.5**	4,454.8
Held-to-maturity investments	**55.0**	55.0
Total non-current assets	**4,919.0**	4,890.9
Total assets	**5,261.0**	5,255.2
LIABILITIES		
Current liabilities		
Trade and other payables	**1,348.5**	518.8
Derivative financial instruments	**0.8**	-
Current tax liabilities	**6.0**	20.2
Provisions	**19.6**	17.8
Interest bearing liabilities	**15.5**	313.1
Other current liabilities	**-**	55.8
Total current liabilities	**1,390.4**	925.7
Non-current liabilities		
Trade and other payables	**261.8**	207.0
Interest bearing liabilities	**419.8**	847.2
Provisions	**23.6**	3.2
Derivative financial instruments	**0.2**	2.3
Deferred tax liabilities	**246.6**	271.5
Total non-current liabilities	**952.0**	1,331.2
Total liabilities	**2,342.4**	2,256.9
Net assets	**2,918.6**	2,998.3
EQUITY		
Contributed equity	**3,106.3**	2,869.5
Reserves	**(3.1)**	(3.9)
Retained earnings	**(184.6)**	132.7
Total equity	**2,918.6**	2,998.3

21 Parent entity financial information

Recognition and measurement

The financial information for the Parent Entity, Tatts Group Limited has been prepared on the same basis as the consolidated financial statements.

Tax consolidation legislation

Tatts Group Limited and its wholly owned Australian controlled entities are part of the Tabcorp Holdings Limited Australian Tax Consolidated Group as of 22 December 2018. See tax note 3 for further details. The tax consolidated group as taxed as a single entity. 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 Tabcorp Holdings Limited (the Head Company) default on its tax payment obligations. At balance date, the possibility of default is remote.

Members of the tax consolidation group have entered into a tax funding agreement which requires each member of the tax consolidation group 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. These amounts are recognised as either an increase or decrease in the subsidiaries' inter-company accounts with the Head Company. Deferred taxes are recognised separately by each member of the tax consolidation group.

Summary financial information

The individual financial statements for the Parent Entity show the following aggregate amounts:

	2018	2017
	$m	$m
Balance sheet		
Current assets	**1,941.1**	1,615.6
Total assets	**3,974.7**	4,208.4
Current liabilities	**815.0**	343.6
Total liabilities	**1,240.2**	1,193.4
Shareholders' equity		
Issued capital	**4,205.8**	3,968.9
Reserves		
Hedge reserve	**(0.6)**	(1.6)
Share-based payments	**-**	2.3
Retained earnings	**(1,470.7)**	(954.6)
Total equity	**2,734.5**	3,015.0
(Loss)/Profit for the year	**(163.5)**	290.6
Total comprehensive income	**(162.4)**	292.7

Guarantees entered into by the Parent Entity

The Parent Entity has not provided any financial guarantees in respect of bank overdrafts or loans to subsidiaries as at 30 June 2018 or 30 June 2017.

There are cross guarantees given by the Parent Entity and its nominated subsidiaries as described in Note 20.

Contingent liabilities of the Parent Entity

The Parent Entity did not have any contingent liabilities as at 30 June 2018 or 30 June 2017.

Contractual commitments for the acquisition of property, plant or equipment

The Parent Entity did not have any contractual commitments for the acquisition of property, plant and equipment as at 30 June 2018 or 30 June 2017.

Unrecognised items

22 Contingent liabilities

The Group had contingent liabilities at 30 June 2018 in respect of:

Bank guarantees

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

23 Commitments for expenditure

Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2018 $m	2017 $m
Property, plant and equipment - payable:		
Within 1 year	**5.1**	17.3
	5.1	17.3

Operating lease commitments

The Group leases motor vehicles and various buildings under non-cancellable operating leases. The leases have varying terms and renewal rights. On renewal, the terms of the leases are to be negotiated.

	2018 $m	2017 $m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within 1 year	**20.6**	22.5
Later than 1 year but not later than 5 years	**51.2**	49.7
Later than 5 years	**91.1**	74.9
Commitments not recognised in the financial statements	**162.9**	147.1

Other information

24 Related party transactions

Parent entities

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

Controlled entities

Interests in controlled entities are set out in Note 19.

Directors and Key Management Personnel

Detailed remuneration disclosures are provided in the Remuneration Report.

Transactions with other related parties

Tabcorp Finance Pty Ltd provided loans to Tatts Group. The loan is non-interest bearing.

25 Remuneration of auditors

During the year the Tatts Group's auditors changed from PwC (PricewaterhouseCoopers) to EY (Ernst & Young) to be consistent with Tabcorp Holdings Limited the ultimate parent entity.

In 2018 the EY audit fees are bore and disclosed by the ultimate parent entity.

	2018 $'000	2017 $'000
Amounts paid to PwC		
Audit and review of financial statements of the Group and subsidiaries	**46.6**	877.9
Other assurance services		
Regulatory audit and other assurance services in relations to the Group	**555.1**	1,043.8
Total remuneration for audit and other assurance services	**601.7**	1,921.7
Amounts paid to EY		
Other services - IT related and engaged pre-merger	**401.7**	-
Total	**401.7**	-

In 2018 the EY audit fees were borne and disclosed by the ultimate parent entity.

Subject to maintaining their independence it is the Group’s policy to employ auditors on assignments additional to their statutory audit duties where their expertise and experience with the Group are important. The major assignment in 2017 has been the due diligence services provided by PwC in relation to the merger process.

26 Other significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out throughout this report and below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Tatts Group Limited and its subsidiaries. Tatts Group Limited (the Company or the Parent Entity) and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

Ultimate parent

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

Prior year restatements

The consolidated financial statements provide comparative information in respect of the previous period. Certain prior year comparatives have been restated to ensure the Group's classification of items in the financial statements is in line with the ultimate parent entity; Tabcorp Holdings Limited.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

New accounting standards or International Financial Reporting Standards issued by not yet effective

The following new and amended accounting standards and interpretations have been recently issued by the Australian Accounting Standards Board but not yet effective, are considered relevant to the Group. They are available for early adoption but have not been applied by the Group in this Financial Report.

AASB9 Financial Instruments

AASB 9 includes revised guidance on classification and measurement of financial instruments and new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. The standard is applicable to the Group from 1 July 2018. The Group has undertaken an assessment of the potential impact of this standard and no material impacts have been identified.

AASB 15 Revenue from contracts with customers

The standard is applicable to the Group from 1 July 2018. It establishes a framework for determining whether, how much and when the revenue is recognised. The core principle is that revenue must be recognised when the goods or services are transferred to the customer at the transaction price.

Based on impact assessments undertaken, the Group's financial performance is not expected to be materially impacted by the new standard.

AASB 16 Leases

The standard is applicable to the Group from 1 July 2019. It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Depreciation of the asset and interest on the liability will be recognised.

This standard will materially impact the Group's financial position at transition and in future years, as the Group's operating leases are recognised on balance sheet. At the present time the standard is not expected to materially impact the Group's financial performance. Rental expense currently recognised in the statement of financial performance will be replaced with depreciation and interest.

Initial assessment activities have been undertaken on the Group's current leases, however the impact of the standard will depend on the leases in place on transition. Detailed review of contracts, financial reporting impacts and system requirements will continue.

27 Events occurring after the reporting period

Other than disclosed elsewhere in this report, no other matters or circumstances have arisen since the end of the financial year that may significantly affect the Group's operations, the results of those operations or the state of affairs of the Group.

Directors' declaration

In the Directors' opinion:

(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 2018 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 comply with International Financial Reporting Standards; 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. The Company has received a letter of support from Tabcorp Finance Pty Ltd.

This declaration has been made after receiving the declarations required to be made in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

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 the Deed of Cross Guarantee 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.

David Attenborough
Director

Damien Johnston
Director

Melbourne
24 September 2018

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Tatts Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 30 June 2018, the consolidated income statement, consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is 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 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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1. Impairment Assessment of licence intangibles, brand, other intangibles and goodwill

Why Significant	How our audit addressed the key audit matter
The Group has licence intangibles $873 million, brand of $48.7 million, other intangibles of $349.1 million and goodwill of $3,378.5 million. An impairment assessment is performed on an annual basis or when there is a trigger to assess whether the carrying value of these assets and the related non-current assets exceed their recoverable amounts. Due to the size of the assets involved and the extent of judgement required in performing the impairment assessment, this was considered to be a key audit matter. Our focus was considering whether or not an impairment charge relating to these assets was required. This involves assessing the judgements inherent in the cash flow forecast and testing key assumptions supporting the impairment model such as forecast business growth rates, discount rates, licence tenure and terminal value assumptions. At 30 June 2018, the Group has recognised an impairment charge of $97m against goodwill with a carrying amount of $3,378.5 million and an impairment charge of $46.7 million against brands with a carrying amount of $48.7 million. Refer to Note 9 Intangible assets.	▶ We evaluated the Group's future cash flow forecasts supporting the impairment assessments for goodwill, licence, intangibles, other intangibles and property, plant and equipment. ▶ We evaluated the appropriateness of the key assumptions in the forecasts. We performed sensitivity analyses around the key assumptions to ascertain the extent of change in those assumptions that would either individually or collectively result in an impairment charge. ▶ We assessed the discount rates applied by comparing them to the cost of capital for the Group. ▶ We involved our valuation specialists to assess whether the methodology applied is in accordance with Australian Accounting Standards and evaluated key assumptions including licence end dates and terminal values, long term growth rates, discount rates, capital expenditure and working capital requirements applied in the impairment model. ▶ We performed market capitalisation and earnings multiples cross checks in comparison with other comparable business to corroborate the impairment testing models. ▶ We assessed the adequacy of the disclosures included in Note 9 Intangible assets.

2. Reliance on automated processes and controls related to revenue

Why Significant	How our audit addressed the key audit matter
The Group's financial reporting processes are heavily reliant on IT systems with automated processes and controls over the capturing, valuing and recording of Wagering and Lotteries transactions, fees and charges. Given the significance of these processes and controls to the accounting records and financial reporting process, the understanding and testing of these IT systems, and the related processes and controls was a key audit matter.	▶ With the involvement of our IT specialists we assessed the effectiveness of the control environment and transaction processing controls relevant to the recording of revenue transactions.

3. Significant Items

Why Significant	How our audit addressed the key audit matter
The financial report includes expenses of $42.3 million that are disclosed as significant items in the Consolidated income statement. This amount includes employee retention, redundancy and advisor costs associated with the combination with Tabcorp Holdings Limited. This was considered a key audit matter given the individual judgements inherent in calculating the items which comprise this amount, and the appropriateness of their disclosure as a significant item.	▶ We agreed a sample of costs to supporting documentation and cash payments. ▶ We considered the presentation of the significant item in the financial report.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Tatts Group Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Ernst & Young

Brad Tozer
Partner
Brisbane
24 September 2018

Ernst & Young

David Shewring
Partner
Melbourne
24 September 2018

Company directory

Registered office

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Website: www.tattsgroup.com

Tatts Bonds investor registry services

Link Market Services Limited
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Melbourne, VIC 3000, Australia
Telephone: 1300 665 661 (local call cost within Australia)
Telephone: 02 8280 7418
Website: www.linkmarketservices.com.au

Corporate information

The Company is a company limited by shares that is incorporated and domiciled in Australia.

Stock exchange listing

The Company has listed debt securities known as Tatts Bonds which are quoted on the ASX under the code TTSHA.

Parent company

Tatts is a wholly owned subsidiary of Tabcorp. Tabcorp ordinary shares are listed on the ASX under the code TAH. Information about Tabcorp can be found on its website www.tabcorp.com.au.

Currency

References to currency are in Australian dollars unless otherwise stated.