

## INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2018

Please find attached the Interim Financial Report for Tatts Group Limited (**Tatts**) in respect of the half year period ended 31 December 2018.

On 22 December 2017, Tabcorp Holdings 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 the 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 the half year financial results of its sole shareholder, Tabcorp, were released on 13 February 2019.



Chris Murphy  
Company Secretary

**Tatts Group Limited  
and controlled entities**

**ABN 19 108 686 040**

**INTERIM FINANCIAL REPORT**

**For the half year ended  
31 December 2018**

## Contents

Directors' Report	1
Tabcorp-Tatts combination	1
Directors	1
Principal activities	1
Review of operations	1
Changes in the state of affairs	2
Rounding of amounts	2
Auditor's independence declaration	3
 Financial Report	 4
Consolidated income statement	4
Consolidated balance sheet	5
Consolidated statement of changes in equity	6
Consolidated statement of cash flows	7
Notes to the consolidated financial statements	8
Directors' declaration	14
Independent auditor's review report	15

## Directors' Report

The Directors of Tatts Group Limited (Company or Tatts) present their report for the consolidated entity consisting of the Company and its subsidiaries (Tatts Group) in respect of the half year ended 31 December 2018.

### Tabcorp-Tatts combination

The Company became a wholly owned subsidiary of Tabcorp Holdings Limited (Tabcorp) on 22 December 2017 (during the prior period) when all of the Company's ordinary shares were acquired by Tabcorp pursuant to a Scheme of Arrangement between the Company and its shareholders. Tabcorp is the sole shareholder and ultimate parent entity of the Company. The Company has debt securities known as Tatts Bonds which are listed on the ASX under the code TTSHA and have a Maturity Date of 5 July 2019.

### Directors

The Directors of the Company in office during the half year and up to the date of this report are David Attenborough, Damien Johnston and Michael Scott.

### Principal activities

The principal activities of the Tatts Group during the half year comprised the provision of gambling and entertainment services. The Tatts Group's principal activities remain unchanged from the previous financial year to 30 June 2018, except as disclosed elsewhere in this Directors' Report.

### Review of operations

The financial results of the Tatts Group for the half year ended 31 December 2018 relate to the Tatts Group's operations, which comprise its three businesses of Lotteries, Wagering and Gaming Services.

The financial performance of the Tatts Group for the half year ended 31 December 2018 and comparison to the prior half year period is shown in the table below.

#### Summary financial performance

For the half year ended 31 December	2018 \$m	2017 \$m	Change %
Revenue	1,675.6	1,480.6	13.2
Other revenue	3.1	1.8	72.2
Taxes, levies, commissions and fees	(1,160.8)	(1,012.1)	14.7
Operating expenses	(226.1)	(225.4)	0.3
Merger costs	-	(36.4)	n/a
Impairment	(32.0)	-	>100
Depreciation and amortisation	(51.1)	(40.1)	27.4
Profit before interest and income tax	208.7	168.4	23.9
Profit before income tax	196.9	146.9	34.0
Net profit after tax	124.2	102.3	21.6

Revenue was \$1,675.6 million up 13.2% on the prior corresponding period (pcp) for the following reasons:

- Lotteries revenue was \$1,292.8 million, up 19.6% on the pcp supported by game initiatives and ongoing investment in digital. The result was also helped by favourable jackpots. The new Powerball game was launched in April 2018, creating bigger and more frequent jackpots. Digital sales accounted for 21.5% of total lottery sales. There are now more than 2.98 million active registered players.
- Wagering turnover was \$1,859.0 million, down 7.4% on the pcp, including digital turnover of \$639.3 million, down 2.5% on the pcp, and retail turnover of \$955.1 million, down 10.0% on the pcp. Wagering revenue was \$289.1 million for the period, down 7.2% on the pcp, including fixed odds revenue of \$130.8 million, down 7.1% on the pcp, and tote revenue of \$145.7

million, down 7.5% on the pc. As part of the broader Tabcorp-Tatts integration program, UBET is transitioning to the TAB brand. This result is evidence of a business in pre-transition to the full TAB offering, which will see more products and services introduced to align the customer experience.

- Gaming Services revenue was \$87.2m, down \$0.1m on the pc.

Net profit after tax from continuing operations for 1H FY19 was up 21.6% to \$124.2 million, with the prior comparative period impacted by merger costs in relation of the Tabcorp-Tatts combination of \$36.4 million and current period impairment of \$32.0 million.

Total equity as at 31 December 2018 was \$2,802.9 million, down 2.6% from \$2,877.7 million at 30 June 2018.

During the half year period to 31 December 2018, a dividend of \$200.0 million was paid on 23 October 2018 to Tabcorp, the Company's sole shareholder.

### **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.

### **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.

### **Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 3. This auditor's independence declaration forms part of the Directors' Report.

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



David Attenborough  
Director

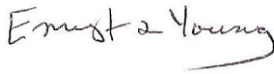
8 March 2019  
Melbourne

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

As lead auditor for the review of the half-year financial report of Tatts Group Limited for the half-year ended 31 December 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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



Ernst & Young



Brad Tozer  
Partner  
8 March 2019

**Tatts Group Limited**  
**Half-Year Report**  
**Consolidated income statement**  
**Period ended 31 December 2018**

	Notes	Dec 2018 \$m	Dec 2017 \$m
<b>Revenue</b>	2	<b>1,675.6</b>	1,480.6
Other income		3.1	1.8
Government share		(835.1)	(702.1)
Venue share/commission		(242.3)	(213.9)
Product/program fees		(83.4)	(96.1)
Employee expenses		(69.4)	(89.4)
Operating fees and direct costs		(30.8)	(28.0)
Telecommunications and technology		(36.3)	(21.8)
Marketing and promotions		(35.0)	(41.5)
Information services		(7.8)	(9.6)
Property expenses		(14.0)	(17.7)
Merger costs		-	(36.4)
Impairment	2	(32.0)	-
Other expenses		(32.8)	(17.4)
Depreciation and amortisation		(51.1)	(40.1)
<b>Profit before interest and income tax</b>		<b>208.7</b>	168.4
Interest income		0.1	0.3
Finance costs		(11.9)	(21.8)
<b>Profit before income tax</b>		<b>196.9</b>	146.9
Income tax expense		(72.7)	(44.6)
<b>Net profit after tax</b>		<b>124.2</b>	102.3
<b>Profit is attributable to:</b>			
<b>Owner of Tatts Group Limited</b>		<b>124.2</b>	102.3
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the value of cross currency interest rate swaps		1.4	(0.4)
Changes in the value of interest rate swaps		0.5	0.1
Exchange differences on translation of foreign operations		(0.1)	0.1
Income tax relating to these items		(0.7)	0.1
<i>Items that will not be reclassified to profit or loss</i>			
Net loss on equity instruments at fair value through other comprehensive income		(0.1)	-
<b>Other comprehensive income for the period net of tax</b>		<b>1.0</b>	(0.1)
<b>Total comprehensive income for the period</b>		<b>125.2</b>	102.2

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

**Tatts Group Limited**  
**Half-Year Report**  
**Consolidated balance sheet**  
**As at 31 December 2018**

	Notes	Dec 2018 \$m	June 2018 \$m
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		329.4	282.0
Trade and other receivables		78.1	45.6
Inventories		2.2	1.9
Derivative financial instruments	4	3.3	11.4
Other current assets		60.2	56.9
Prepayments		26.6	21.3
<b>Total current assets</b>		<b>499.8</b>	<b>419.1</b>
<b>Non-current assets</b>			
Investment in an associate		23.8	14.7
Other financial assets	3	112.2	75.8
Property, plant and equipment		180.6	155.9
Derivative financial instruments	4	67.7	55.8
Intangible assets		4,567.0	4,649.3
Other non-current assets		0.4	0.4
Prepayments		0.5	1.3
<b>Total non-current assets</b>		<b>4,952.2</b>	<b>4,953.2</b>
<b>Total assets</b>		<b>5,452.0</b>	<b>5,372.3</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		646.5	615.7
Interest bearing liabilities	7	191.6	15.5
Derivative financial instruments	4	1.1	0.8
Provisions		14.8	32.2
Other current liabilities		60.2	56.9
Amounts payable to related companies	7	941.8	806.1
<b>Total current liabilities</b>		<b>1,856.0</b>	<b>1,527.2</b>
<b>Non-current liabilities</b>			
Trade and other payables		276.9	261.8
Interest bearing liabilities	7	240.9	420.7
Deferred tax liabilities		251.4	251.9
Derivative financial instruments	4	-	0.2
Provisions		15.2	23.6
Employee benefit obligations		8.7	9.2
<b>Total non-current liabilities</b>		<b>793.1</b>	<b>967.4</b>
<b>Total liabilities</b>		<b>2,649.1</b>	<b>2,494.6</b>
<b>Net assets</b>		<b>2,802.9</b>	<b>2,877.7</b>
<b>EQUITY</b>			
Contributed equity		3,106.3	3,106.3
Other reserves		0.2	(0.8)
Retained earnings/(accumulated losses)		(303.6)	(227.8)
<b>Total equity</b>		<b>2,802.9</b>	<b>2,877.7</b>

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



Tatts Group Limited  
Half-Year Report  
Consolidated statement of changes in equity  
Period ended 31 December 2018

Attributable to the owner of Tatts Group Limited				
Notes	Share capital \$m	Other reserves \$m	Retained earnings/ (accumulated losses)	Total \$m
			\$m	
<b>Balance at 1 July 2017</b>	<b>2,869.5</b>	<b>0.3</b>	<b>88.0</b>	<b>2,957.8</b>
Profit for the period	-	-	102.3	102.3
Other comprehensive income	-	(0.1)	-	(0.1)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(0.1)</b>	<b>102.3</b>	<b>102.2</b>
<b>Transactions with owners in their capacity as owners:</b>				
Dividends provided for or paid	-	-	(352.5)	(352.5)
Employee performance rights	1.8	(2.3)	-	(0.5)
Issue of ordinary shares	235.0	-	-	235.0
	<b>236.8</b>	<b>(2.3)</b>	<b>(352.5)</b>	<b>(118.0)</b>
<b>Balance at 31 December 2017</b>	<b>3,106.3</b>	<b>(2.1)</b>	<b>(162.2)</b>	<b>2,942.0</b>
<b>Balance at 1 July 2018</b>	<b>3,106.3</b>	<b>(0.8)</b>	<b>(227.8)</b>	<b>2,877.7</b>
Profit for the period	-	-	124.2	124.2
Other comprehensive income	-	1.0	-	1.0
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>1.0</b>	<b>124.2</b>	<b>125.2</b>
<b>Transactions with owners in their capacity as owners:</b>				
Dividends provided for or paid	-	-	(200.0)	(200.0)
<b>Balance at 31 December 2018</b>	<b>3,106.3</b>	<b>0.2</b>	<b>(303.6)</b>	<b>2,802.9</b>

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

**Tatts Group Limited**  
**Half-Year Report**  
**Consolidated statement of cash flows**  
**Period ended 31 December 2018**

	Notes	Dec 2018 \$m	Dec 2017 \$m
<b>Cash flows from operating activities</b>			
Net cash receipts in the course of operations		1,732.4	1,514.9
Payments to suppliers and employees (inclusive of GST)		(313.2)	(275.3)
Payments to Government		(727.7)	(682.9)
Payments to venues/commission		(242.3)	(213.9)
Payments for product and program fees		(87.1)	(94.1)
		<u>362.1</u>	<u>248.7</u>
Interest received		-	0.9
Interest paid		(10.8)	(17.7)
Income taxes paid		-	(56.5)
<b>Net cash inflow from operating activities</b>		<u>351.3</u>	<u>175.4</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment and intangibles		(25.1)	(56.8)
Payments to Government for future monitoring rights		-	(68.3)
Payments for shares (unlisted)		-	(0.2)
Net loans advanced from related entities		(231.0)	835.0
Payment for financial assets		(36.2)	(0.2)
Proceeds from sale of shares in an associate		12.1	-
Payment for exercise of call option		(8.2)	-
<b>Net cash (outflow) inflow from investing activities</b>		<u>(288.4)</u>	<u>709.5</u>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares		-	235.0
Net (repayments)/proceeds from borrowings		-	(725.8)
Dividends paid net of Dividend Reinvestment Plan	6	-	(352.5)
<b>Net cash (outflow) from financing activities</b>		<u>-</u>	<u>(843.3)</u>
<b>Net increase in cash and cash equivalents</b>		<u>62.9</u>	<u>41.6</u>
Cash and cash equivalents at the beginning of the period		266.5	228.8
Effects of exchange rate changes on cash and cash equivalents		-	0.1
<b>Cash and cash equivalents at end of Half-Year</b>		<u>329.4</u>	<u>270.5</u>

*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 domiciled in Australia. The general purpose condensed consolidated half year financial report of the Company for the six months ended 31 December 2018 (half year financial report) comprises the Company and its subsidiaries (the Group) and the Group's interest in associates.

The half year financial report was authorised for issue by the Directors on 8 March 2019 and has been prepared in accordance with AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001 (Cth)*.

This half year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Tatts Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth)*.

The accounting policies used are consistent with those applied in the 30 June 2018 financial report, except for the adoption of new standards effective as of 1 July 2018. The Group applies, for the first time, AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*.

Adoption of AASB 9 impacted how the Group classifies certain financial instruments. Assets previously classified as held to maturity investments are now classified as debt instruments at amortised cost and assets previously classified as available for sale financial assets are now classified as equity instruments at fair value through other comprehensive income (FVOCI). Comparative information has been restated. There were no changes to the measurement of the Group's financial assets except that changes in the fair value of equity instruments at FVOCI are no longer permitted to be reclassified to profit or loss upon derecognition. There were no changes in the classification or measurement of the Group financial liabilities.

AASB 15 establishes a framework for determining whether, how much and when revenue from contracts with customers is recognised. The core principle is that revenue must be recognised when control of the goods or services is transferred to the customer, at the transaction price. The Group's accounting policies in relation to revenue (refer to note 2) have been aligned to the new standard.

## **Going concern**

The Group is in a working capital deficient position at 31 December 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 not require repayment of the \$835 million loan without giving minimum of 12 months notice and further more it will provide sufficient funds to continue operations should a need arise. Accordingly, the financials are prepared on a going concern basis.

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

## 2 Revenue and expenses

### Recognition and measurement

Revenue from contracts with customers is recognised when control of the goods or services is transferred to customers at an amount that reflects the consideration the Group expects to be entitled to in exchange for those goods or services. The following specific criteria must also be met before revenue is recognised:

#### 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.

#### 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.

The Group operates loyalty programmes enabling customers to accumulate award credits for wagering spend. A portion of the spend is allocated to the loyalty points awarded to customers on relative stand-alone selling price and recognised as a contract liability until the points are redeemed. Revenue from award credits is recognised when the award is redeemed or expires.

#### Gaming Services revenue

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

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Dec 2018 \$m	Dec 2017 \$m
<b>Business unit</b>		
Lotteries	1,292.8	1,080.9
Wagering	289.1	311.4
Gaming Services	87.2	87.3
<b>Total revenue from contracts with customers</b>	<b>1,669.1</b>	<b>1,479.6</b>
Other	6.5	1.0
<b>Total revenue</b>	<b>1,675.6</b>	<b>1,480.6</b>
<b>Impairment expense</b>		
Goodwill (i)	32.0	-
<b>Total</b>	<b>32.0</b>	<b>-</b>

(i) Impairment of Wagering goodwill resulting from changes to forecast cash flow assumptions, due to current performance being below expectations. For further details of impairment testing, refer to note 8.

### 3 Other financial assets

AASB 9 requires that, subsequent to initial recognition, an entity recognises its financial assets at amortised cost or fair value, depending on the entity's business model for managing the financial assets and the contractual characteristics of the financial assets. Following the adoption of AASB 9, the Group classifies its financial assets as follows:

	Dec 2018 \$m	June 2018 \$m
<b>Equity instruments at fair value through other comprehensive income</b>		
Unlisted investment - managed fund	21.0	20.8
<b>Debt instruments at amortised cost</b>		
Investment - term deposits	91.2	55.0
	<b>112.2</b>	<b>75.8</b>

**Equity instruments at fair value through other comprehensive income** are equity instruments which the Group intends to hold for the foreseeable future, and for which an irrevocable election to classify as such upon transition to AASB 9 has been made.

After initial measurement, they are subsequently carried at fair value (refer to note 5). Changes in the fair value are recognised in other comprehensive income and accumulated in a reserve within equity. No subsequent recycling of gains or losses to profit or loss is permitted.

**Debt instruments at amortised cost** are financial assets held in order to collect contractual cash flows that solely represent payments of principal and interest. They are carried at amortised cost.

### 4 Derivative financial instruments

The Group holds the following derivatives, all at fair value based on level 2 observable inputs (refer to note 5):

	Dec 2018 \$m	June 2018 \$m
<b>Current assets</b>		
Cross currency swaps	3.3	2.4
Equity derivative	-	9.0
	<b>3.3</b>	<b>11.4</b>
<b>Non current assets</b>		
Cross currency swaps	67.7	55.8
	<b>67.7</b>	<b>55.8</b>
<b>Current liabilities</b>		
Interest rate swaps	1.1	0.8
	<b>1.1</b>	<b>0.8</b>
<b>Non Current liabilities</b>		
Interest rate swaps	-	0.2
	<b>-</b>	<b>0.2</b>

## 5 Fair value measurement

The fair value of financial assets and financial liabilities is 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.

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

	Carrying amount		Fair value	
	Dec 2018 \$m	June 2018 \$m	Dec 2018 \$m	June 2018 \$m
<b>Financial assets</b>				
Investment in an associate	23.8	14.7	52.1	33.0
	<b>23.8</b>	<b>14.7</b>	<b>52.1</b>	<b>33.0</b>
<b>Financial liabilities</b>				
US private placement	241.2	229.3	249.0	236.8
Tatts Bonds	192.0	191.4	192.8	196.2
	<b>433.2</b>	<b>420.7</b>	<b>441.8</b>	<b>433.0</b>

The fair value of the Group's financial instruments is estimated as follows:

### *Investment in an associate*

Fair value is determined using quoted market price (level 1 in fair value hierarchy).

### *US private placement*

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

### *Tatts Bonds*

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

### *Cross currency and interest rate swaps*

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

### *Equity instruments at fair value through other comprehensive income*

Fair value is calculated by reference to market prices prevailing at balance date (level 2 in fair value hierarchy).

### *Equity derivative*

Fair value was calculated using the Black Scholes Discrete model (level 2 in fair value hierarchy).

There have been no significant transfers between level 1 and level 2 during the half year ended 31 December 2018.

## 6 Dividends

### Ordinary shares

	Dec 2018 \$m	Dec 2017 \$m
Final dividend for the year ended 30 June 2018 paid on 23 October 2018 (2017: 8.0 cents per share paid on 3 October 2017)	200.0	117.5
2017: Special dividend of 16.0 cents per share paid on 19 December 2017	-	235.0
	<u>200.0</u>	<u>352.5</u>

Dividends during the current period were paid via an inter-company account.

## 7 Borrowings

### Interest bearing liabilities

#### Current

##### Unsecured

Tatts Bonds	191.6	-
Bank overdraft	-	15.5
<b>Total current interest bearing liabilities</b>	<u>191.6</u>	<u>15.5</u>

#### Non-current

##### Unsecured

Loan notes (US Private Placement)	240.9	229.3
Tatts Bonds	-	191.4
<b>Total non-current interest bearing liabilities</b>	<u>240.9</u>	<u>420.7</u>

### Other borrowings

#### Current

##### Unsecured

Amounts payable to related companies	941.8	806.1
<b>Total current other borrowings</b>	<u>941.8</u>	<u>806.1</u>

During the prior period, Tabcorp Finance Pty Ltd (formerly Tabcorp Investments No. 4 Pty Ltd) provided \$835 million to Tatts Group Limited to facilitate the repayment of the Syndicated Facility. The loan is non-interest bearing and a letter has been provided by Tabcorp Finance Pty Ltd that it will not require repayment without giving a minimum of 12 months notice.

The Tabcorp Holdings Limited Group charges the Group for the provision of employee, management and technical services. These costs are at arm's length and total \$32.2 million for the period.

## **8 Impairment testing of non-current assets**

The Group has the same Cash Generating Units as were reported at 30 June 2018. An impairment test was undertaken of the Wagering Group of CGUs at 31 December 2018, and it was determined that an impairment charge was required, refer to note 2.

The recoverable amount of these CGUs were determined based on fair value less cost of disposal, calculated using discounted cash flows. The cash flow forecasts are principally based upon management forecasts. These were adjusted for expected synergistic benefits arising from the merger with Tabcorp, and were extrapolated using a growth rate of 2.5% (2017: 2.5%). These cash flows are then discounted using a relevant long term post tax discount rate of 8.4% (2017: 9.2%).

Given the impairment recognised in the Wagering CGUs in the current period 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 CGUs.

## **9 Events occurring after the reporting period**

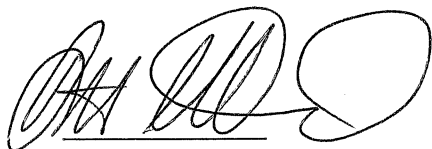
No matters or circumstances have arisen since the end of the half year, that may significantly affect the Group's operations, the results of those operations or the state of affairs of the Group.



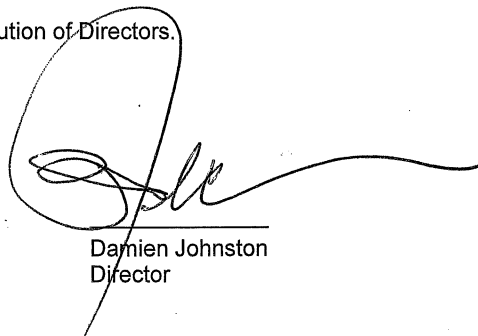
**In the opinion of the Directors of Tatts Group Limited:**

- (a) the financial statements and notes are in accordance with the *Corporations Act 2001 (Cth)*, including:
  - (i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standards and the *Corporations Regulations 2001 (Cth)*; and
- (b) 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 is made in accordance with a resolution of Directors.



David Attenborough  
Director



Damien Johnston  
Director

Melbourne  
8 March 2019

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

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the accompanying half-year financial report of Tatts Group Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2018, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### Directors' Responsibility for the Half-Year Financial Report

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

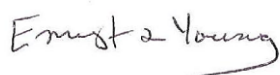
#### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

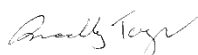
A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards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

#### Independence

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



Ernst & Young  
Melbourne



Brad Tozer  
Partner  
8 March 2019



David Shewring  
Partner