Tatts Group Limited

ABN 19 108 686 040

Interim Financial Report for the Half-Year 31 December 2016

Tatts Group Limited
ABN 19 108 686 040

ASX Half-Year information - 31 December 2016

RESULTS FOR ANNOUNCEMENT TO THE MARKET

TATTS GROUP LIMITED HALF-YEAR REPORT

FOR HALF-YEAR ENDED 31 December 2016

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

1. Half-Year Report for the half-year ended 31 December 2016 (Appendix 4D)
2. Directors' Report and Interim Financial Report for the half-year ended 31 December 2016

DIVIDEND

The Directors have determined a fully franked interim dividend of 9.5 cents per share, to be paid on 3 April 2017. The record date for the purpose of determining entitlements is 7 March 2017. There is no foreign sourced income attributed to the dividend.

On 19 October 2016 the Company announced it had entered into an agreement with Tabcorp Holdings Limited to combine the two companies via a Tatts Scheme of Arrangement (Merger Implementation Deed). Under the terms of the Merger Implementation Deed, the Company has agreed to suspend the operation of its dividend reinvestment plan (DRP). Accordingly the Company's DRP has been suspended and will not operate for this interim dividend.

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

A. Tucker

Anne Tucker
General Counsel and Company Secretary
16 February 2017

Tatts Group Limited
Half-Year Report
31 December 2016

Appendix 4D information
ABN 19 108 686 040
Half-Year ended 31 December 2016
(Previous corresponding period)
Half-Year ended 31 December 2015

Results for Announcement to the Market

From ordinary activities	Period to 31 December 2016 $'000		Period to 31 December 2015 $'000	% change
Revenue from ordinary activities	**1,419,558**		1,530,025	(7.2)%
Profit from ordinary activities for the period attributable to members	**122,759**		147,007	(16.5)%
Net profit after tax for the period attributable to members	**122,759**		147,007	(16.5)%

From continuing activities				
Revenue from ordinary activities excluding discontinued operations	**1,419,558**		1,530,025	(7.2)%
Net profit after tax for the period attributable to members excluding discontinued operations	**123,454**		145,537	(15.2)%

On 24 June 2016 the Group sold its 100% interest in Talarius. The effective date of sale is 19 March 2016. The comparatives have been restated to reflect Talarius as a discontinued operation.

Distributions

Dividend/distributions	Amount per security (cents)	Franked amount per security (cents)	Amount $'000	Date Paid/Payable
Current year to 31 December 2016				
Interim dividend (per share)	9.5	9.5	139,509	3 April 2017
Prior year to 30 June 2016				
Final dividend (per share)	8.0	8.0	117,162	4 October 2016
Interim dividend (per share)	9.5	9.5	139,130	31 March 2016

Record date for determining entitlement to the interim dividend is 7 March 2017.

Explanation of revenue

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

Explanation of profit from ordinary activities after tax

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

Explanation of dividends

The interim dividend of 9.5 cents per share (2016: 9.5 cents per share) represents a payout ratio of 113.6% (2016: 94.6%)

	31 December 2016	31 December 2015
Net tangible asset backing (per share)	**($1.00)**	($1.10)

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

Controlled entities acquired or disposed of

Nil.

Additional dividend/distributions information

The Directors have announced an interim dividend of 9.5 cents per share to be paid on 3 April 2017.
The Company's DRP was suspended on 16 February 2017 and will not operate for the interim dividend.

Anne Tucker
Company Secretary

Brisbane

16 February 2017

Tatts Group Limited
ABN 19 108 686 040
Directors' Report and Interim Financial Report
31 December 2016

Contents

This Interim Financial Report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2016 and any public announcements made by Tatts Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

Your Directors present their report on the consolidated entity (**Group**) consisting of Tatts Group Limited (**Company**) and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

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

Harry Boon
Robbie Cooke
Lyndsey Cattermole AM
Brian Jamieson
Julien Playoust
Kevin Seymour AM
Dr. David Watson

Principal activities

Review of operations

Revenue from continuing activities was down 7.2% to $1.42 billion, whilst net profit after tax from continuing activities was down 15.2% to $123.5 million.

Statutory net profit after tax decreased by 16.5% to $122.8 million. Earnings per share from continuing activities and statutory profit was 8.4 cents, down 16.0% on continuing operations and down 16.8% on statutory profit.

The decline in net profit is due mainly to the lower run in lotteries jackpots experienced in this half resulting in lower lotteries revenue together with softer wagering revenue on a decline in turnover.

Although revenue has declined, expenses (before merger costs of $10.4 million) were well controlled showing a decrease of 6.6% ($82.9 million). The lower expenses reflect:

- lower lottery tax and venue commission in line with the lower lotteries revenue;
- a decrease of 24.6% in expenses in MAXtech due to the cancellation/non-renewal of unprofitable contracts.

These reduced expenses were partially offset by increases in:

- digital marketing spend reflecting the need to remain competitive in wagering and lotteries;
- marketing costs associated with the launch of 'the Lott' brand;
- telecommunication costs to improve our retail fixed price offering; and
- merger costs of $10.4 million recognised to date.

Also, other income includes a gain on sale ($5.4 million) resulting from the disposal of a parcel of land held at Newstead, Brisbane. The use of the available capital losses against the taxable gain had a positive impact on the effective tax rate which dropped to 27.9% from last year's rate of 30.5%.

The Directors have again maintained a strong dividend payout ratio of 113.6%, declaring an interim dividend of 9.5 cents per share totalling $139.5 million payable on 3 April 2017.

Review of operations (continued)

Lotteries
Earnings before interest and tax (**EBIT**) declined by 10.7% to $147.1 million on revenues that were down 8.2% to $1.02 billion after cycling over the exceptional Powerball and Oz Lotto jackpot sequence in H1 FY16. There were 15 jackpots at or above $15 million this half compared with 24 for these games during the same period last year. The fewer jackpots in Powerball and Oz Lotto produced total first division jackpot pools (at or above $15 million) of $345 million (at an average of $23.0 million per jackpot) compared with $730 million (at an average of $30.4 million per jackpot) for the same period last year. The lower jackpot run resulted in revenue of $349.1 million generated from Powerball and Oz Lotto compared to $471.0 million in the prior period - a decline of 25.9% for these two games.

The inclusion of the New Year's Eve Saturday Mega draw in this half partially compensated for the lower jackpots as the comparable Mega draw in FY16 was in the second half FY16 results.

Wagering
Earnings from the wagering division were softer with revenue down 2.5% to $317.8 million reflecting the loss of an additional 174 races across all racing codes due to bad weather (a 34.9% increase in lost races over the prior comparative period). The lower revenue and continued investment in the wagering business resulted in EBIT being down 15.2% to $57.9 million. The wagering landscape continues to be highly competitive, however Tatts is seeing positive signs in this business with win-rates increasing to 15.6% from 15.2% in the prior comparative period and fixed price sports revenue increasing 22.5% on improved win-rates and overall fixed price revenue increasing 8.4% on increased turnover and improved win-rates. The repositioned UBET brand continues to deliver improved turnover in Tatts' retail network. 280 wagering outlets have been upgraded to the new UBET format and outperformed their non-refurbished peer group in surrounding locales by 6.5%.

Gaming - MAX (previously Maxgaming)
Revenue was up 1.5% to $60.5 million, benefiting from the new NSW monitoring price increase and continued introduction of value-adding products and services. EBIT for the period reached $26.6 million, up 0.3%. The EBIT margin decreased slightly to 44.0% from 44.5% in the prior period as a result of the investment in the new MAX monitoring system in NSW.

Gaming - MAXtech (previously Bytecraft)
Revenue decreased 23.4% to $39.6 million after the business exited or did not renew a number of unprofitable contracts. The exit/non-renewal of these contracts resulted in an EBITDA margin improvement to 7.2% ($2.9 million) and EBIT of $1.2 million.

Discontinued Operations

Legal Proceedings

Expiry of gaming operator's licence

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 benefit have not yet been agreed.

Talarius

On 24 June 2016 the Group sold its 100% interest in Talarius. The prior period results include the contribution from Talarius as a discontinued operation.

Review of operations (continued)

Balance sheet

After the repayment of the $540.5 million pokies compensation proceeds to the State of Victoria in March 2016 plus our estimate of interest of $26.6 million, the payment of the Queensland wagering licence instalment, and the payment of two instalments of the New South Wales monitoring rights partially offset by the sale proceeds from Talarius, net debt increased to $1.13 billion at 31 December 2016 from $523.7 million at 31 December 2015. Although net debt increased significantly, through favourable loan book repricing in September 2015, positive outcomes on our interest rate management, and continued strong cash generation from operations, we limited the increase in finance costs net of interest income to only $5.0 million (net finance costs of $24.0 million from $19.0 million in the prior comparative period).

Directors have again maintained a strong dividend payout ratio, supported through continued strong cash flow generation by the Group. Total capital expenditure for the period was $31.9 million. Depreciation and amortisation of $39.8 million includes $12.3 million of amortisation of licences and rights to operate.

Merger

The proposed merger with Tabcorp Holdings Limited is progressing in line with terms and conditions set out in the Merger Implementation Deed. Costs to date are $10.4 million. If the merger were to complete in the second-half of the financial year total costs would be approximately $60 million. Merger costs to date included advisory fees, staff retention costs, advisory costs and general costs associated with the preparation of the scheme booklet.

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 7 for the half-year ended 31 December 2016.

Rounding of amounts to nearest thousand dollars

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

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

Harry Boon	Robbie Cooke
Chairman	Managing Director and CEO

Brisbane
16 February 2017

Auditor's Independence Declaration

As lead auditor for the review of Tatts Group Limited for the half-year ended 31 December 2016, I declare that 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 period.

Steven Bosiljevac
Partner
PricewaterhouseCoopers

Brisbane
16 February 2017

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	Notes	**Dec 2016 $'000**	Dec 2015 $'000
Revenue from continuing operations		**1,419,558**	1,530,025
Statutory outgoings			
Government share		**(655,857)**	(709,120)
Venue share/commission		**(208,107)**	(230,081)
Product/program fees		**(107,180)**	(107,103)
Other income		**5,486**	162
Expenses			
Employee expenses		**(85,833)**	(91,571)
Operating fees and direct costs		**(27,539)**	(32,165)
Telecommunications and technology		**(20,246)**	(18,564)
Marketing and promotions		**(33,131)**	(31,745)
Information services		**(10,645)**	(10,019)
Property expenses		**(12,273)**	(12,006)
Restructuring expenses		**(938)**	(1,736)
Merger costs		**(10,359)**	(2,127)
Other expenses		**(17,873)**	(18,375)
Profit before interest, income tax, depreciation and amortisation		**235,063**	265,575
Depreciation and amortisation		**(39,842)**	(37,323)
Interest income		**388**	2,912
Finance costs		**(24,432)**	(21,886)
Profit before income tax		**171,177**	209,278
Income tax expense		**(47,723)**	(63,741)
Profit from continuing operations		**123,454**	145,537
(Loss)/Profit from discontinued operations	5	**(695)**	1,470
Profit attributable to owners of Tatts Group Limited		**122,759**	147,007
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share		**8.4**	10.0
Diluted earnings per share		**8.4**	9.9
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share		**8.4**	10.1
Diluted earnings per share		**8.4**	10.0

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

	Dec 2016 $'000	Dec 2015 $'000
Profit for the Half-Year	**122,759**	147,007
Other comprehensive income		
Items that may be reclassified to profit or loss		
Changes in the fair value of available-for-sale financial assets	**(154)**	(158)
Changes in the value of net investment hedges	**-**	745
Changes in the value of cross currency interest rate swaps	**316**	1,420
Changes in the value of interest rate swaps	**4,169**	743
Exchange differences on translation of foreign operations	**(7)**	(553)
Changes in the value of forward foreign exchange contracts	**-**	(114)
Income tax relating to these items	**(1,299)**	(567)
Other comprehensive income for the Half-Year, net of tax	**3,025**	1,516
Total comprehensive income for the Half-Year	**125,784**	148,523
Total comprehensive income for the half-year attributable to owners of Tatts Group Limited arises from:		
Continuing operations	**126,479**	147,053
Discontinued operations	**(695)**	1,470
	125,784	148,523

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

	Notes	**Dec 2016 $'000**	June 2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**214,509**	194,064
Held-to-maturity investments		**6,240**	-
Trade and other receivables		**159,317**	81,994
Inventories		**2,201**	2,324
Derivative financial instruments		**21,588**	-
Assets classified as held for sale		**3,001**	14,957
Current tax receivables		**60,153**	50,023
Other current assets	7	**58,935**	49,353
Total current assets		**525,944**	392,715
Non-current assets			
Trade and other receivables		**573**	924
Available-for-sale financial assets		**20,117**	19,884
Held-to-maturity investments		**29,000**	35,240
Property, plant and equipment		**147,987**	156,706
Derivative financial instruments		**74,019**	94,872
Intangible assets		**4,459,021**	4,461,832
Deferred tax assets		**2**	1
Other non-current assets		**141,362**	71,199
Total non-current assets		**4,872,081**	4,840,658
Total assets		**5,398,025**	5,233,373
LIABILITIES			
Current liabilities			
Trade and other payables		**665,236**	593,964
Interest bearing liabilities	6	**378,093**	-
Derivative financial instruments		**185**	751
Provisions		**17,627**	17,742
Other current liabilities	7	**58,935**	49,353
Total current liabilities		**1,120,076**	661,810
Non-current liabilities			
Trade and other payables		**195,200**	187,371
Interest bearing liabilities	6	**797,276**	1,123,723
Deferred tax liabilities		**269,517**	264,551
Derivative financial instruments		**2,370**	5,973
Provisions		**3,228**	2,896
Employee benefit obligations		**13,958**	14,323
Total non-current liabilities		**1,281,549**	1,598,837
Total liabilities		**2,401,625**	2,260,647
Net assets		**2,996,400**	2,972,726
EQUITY			
Contributed equity	8	**2,869,480**	2,854,416
Other reserves		**859**	(2,154)
Retained earnings		**126,061**	120,464
Total equity		**2,996,400**	2,972,726

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

	Notes	Attributable to owners of Tatts Group Limited Share capital $'000	Other reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2015		2,841,366	(9,978)	139,684	2,971,072
Profit for the period		-	-	147,007	147,007
Other comprehensive income		-	1,516	-	1,516
Total comprehensive income for the period		**-**	**1,516**	**147,007**	**148,523**
Transactions with owners in their capacity as owners:					
Dividend Reinvestment Plan issues	8	11,268	-	-	11,268
Dividends provided for or paid		-	-	(109,561)	(109,561)
Employee performance rights		1,782	(251)	-	1,531
		13,050	(251)	(109,561)	(96,762)
Balance at 31 December 2015		**2,854,416**	**(8,713)**	**177,130**	**3,022,833**
Balance at 1 July 2016		2,854,416	(2,154)	120,464	2,972,726
Profit for the period		-	-	122,759	122,759
Other comprehensive income		-	3,025	-	3,025
Total comprehensive income for the period		**-**	**3,025**	**122,759**	**125,784**
Transactions with owners in their capacity as owners:					
Dividend Reinvestment Plan issues	8	13,167	-	-	13,167
Dividends provided for or paid	4	-	-	(117,162)	(117,162)
Employee performance rights		1,897	(12)	-	1,885
		15,064	(12)	(117,162)	(102,110)
Balance at 31 December 2016		**2,869,480**	**859**	**126,061**	**2,996,400**

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

	Notes	**Dec 2016 $'000**	Dec 2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST) net of prizes paid/cash returns to customers		**1,460,026**	1,618,444
Payments to suppliers and employees (inclusive of GST)		**(247,266)**	(292,425)
Payments to Government		**(623,415)**	(700,753)
Payments to venues/commission		**(208,107)**	(230,081)
Payments for product and program fees		**(105,002)**	(106,433)
		276,236	288,752
Other revenue		**6**	9
Interest received		**687**	3,057
Interest paid		**(22,132)**	(22,863)
Income taxes paid		**(54,589)**	(64,570)
Net cash inflow from operating activities		**200,208**	204,385
Cash flows from investing activities			
Payments for property, plant and equipment		**(9,611)**	(16,409)
Payments for intangibles		**(48,762)**	(15,598)
Payments to Government for future monitoring rights		**(68,333)**	-
Proceeds from sale of assets held for sale		**1,330**	-
Proceeds/(payments) from sale of available-for-sale assets		**(387)**	(397)
Net cash (outflow) from investing activities		**(125,763)**	(32,404)
Cash flows from financing activities			
Proceeds from borrowings		**50,000**	-
Dividends paid net of Dividend Reinvestment Plan	4	**(103,997)**	(98,293)
Net cash (outflow) from financing activities		**(53,997)**	(98,293)
Net increase in cash and cash equivalents		**20,448**	73,688
Cash and cash equivalents at the beginning of the financial year		**194,064**	421,638
Effects of exchange rate changes on cash and cash equivalents		**(3)**	(300)
Cash and cash equivalents at end of Half-Year		**214,509**	495,026

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

1 Summary of significant accounting policies

(a) Basis of preparation

This general purpose Interim Financial Report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This Interim Financial Report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2016 and any public announcements made by Tatts Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

(b) New and amended standards adopted by the Group

There are no accounting standards applicable for the first time for the 31 December 2016 Half-Year Report.

2 Fair value measurements

(a) Fair value of financial assets and liabilities

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

(i) On-Balance Sheet

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

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

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

(ii) Off-Balance Sheet

The Company and certain controlled subsidiaries have potential financial liabilities which may arise from certain contingencies disclosed in Note 9. No material losses are anticipated in respect of any of those contingencies.

2 Fair value measurements (continued)

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

(iii) Derivative financial instruments

For forward foreign exchange contracts, the fair value is to be taken to 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, adjusted for relevant credit risk.

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

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

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

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

(b) Fair value hierarchy

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

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

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

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

(i) Recognised fair value measurements

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2016.

At 31 December 2016	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Recurring fair value measurements				
Financial assets				
Cross currency interest rate swaps	**-**	**95,606**	**-**	**95,606**
Available-for-sale financial assets	**-**	**20,117**	**-**	**20,117**
Total financial assets	**-**	**115,723**	**-**	**115,723**
Financial liabilities				
Interest rate swap contracts	**-**	**2,555**	**-**	**2,555**
Total financial liabilities	**-**	**2,555**	**-**	**2,555**

2 Fair value measurements (continued)

(b) Fair value hierarchy (continued)

(i) Recognised fair value measurements (continued)

At 30 June 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Financial assets				
Cross currency interest rate swaps	-	94,872	-	94,872
Available-for-sale financial assets	-	19,884	-	19,884
Total financial assets	-	114,756	-	114,756
Financial liabilities				
Interest rate swap contracts	-	6,724	-	6,724
Total financial liabilities	-	6,724	-	6,724

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

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

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2016.

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

(i) Recurring and non-recurring fair value measurements

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

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

Specific valuation techniques used to value financial instruments include:

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

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

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

3 Segment information

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Managing Director/Chief Executive Officer.

3 Segment information (continued)

Segment information provided to the Managing Director/Chief Executive Officer

The segment information provided to the Managing Director/Chief Executive Officer for the reportable segments for the half-year ended 31 December 2016 is as follows:

Half-Year Dec 2016	**Lotteries**	**Wagering**	**MAX (iv)**	**MAXtech (v)**	**Unallocated (i)**	**Intersegment eliminations (ii)**	**Total Continuing Operations**	**Discontinued Operations (Note 5) (iii)**	**Consolidated**
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Total segment revenue and other income	1,018,105	317,830	60,509	39,616	5,448	(16,464)	1,425,044	-	1,425,044
EBITDA	159,840	67,528	32,984	2,870	(28,159)	-	235,063	(1,000)	234,063
Depreciation and amortisation	(12,761)	(9,627)	(6,379)	(1,692)	(9,383)	-	(39,842)	-	(39,842)
EBIT	**147,079**	**57,901**	**26,605**	**1,178**	**(37,542)**	**-**	**195,221**	**(1,000)**	**194,221**

Half-Year Dec 2015	**Lotteries**	**Wagering**	**MAX (iv)**	**MAXtech (v)**	**Unallocated (i)**	**Intersegment eliminations (ii)**	**Total Continuing Operations**	**Discontinued Operations (Note 5) (iii)**	**Consolidated**
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Total segment revenue and other income	1,109,119	325,963	59,629	51,750	31	(16,305)	1,530,187	77,062	1,607,249
EBITDA	177,636	76,900	32,490	3,037	(24,488)	-	265,575	10,007	275,582
Depreciation and amortisation	(12,918)	(8,583)	(5,970)	(1,044)	(8,808)	-	(37,323)	(5,665)	(42,988)
EBIT	**164,718**	**68,317**	**26,520**	**1,993**	**(33,296)**	**-**	**228,252**	**4,342**	**232,594**

3 Segment information (continued)

Segment information provided to the Managing Director/Chief Executive Officer (continued)

(i) Included in unallocated revenue is gains on sale of property held for sale of $5.4 million. EBITDA includes Merger costs to date of $10.4 million.
(ii) Inter-segment eliminations against revenue primarily comprises of MAXtech revenue.
(iii) Tatts Pokies segment ceased gaming machine operations on 15 August 2012 and costs are included in discontinued operations. The comparatives have been restated to reflect Talarius as a discontinued operation.
(iv) Maxgaming segment has been renamed MAX in the current period.
(v) Bytecraft segment has been renamed MAXtech in the current period.

Other segment information

Adjusted EBIT

A reconciliation of adjusted EBIT to operating profit before income tax is provided as follows:

	Half-Year Dec 2016 $'000	Half-Year Dec 2015 $'000
Adjusted EBIT from continuing operations	**195,221**	228,252
Interest income	**388**	2,912
Finance costs	**(24,432)**	(21,886)
Profit before income tax from continuing operations	**171,177**	209,278

4 Dividends

(a) Ordinary shares

	2016 $'000	2015 $'000
Final dividend for the year ended 30 June 2016 of 8.0 cents per share paid on 4 October 2016 (2015: 7.5 cents paid on 5 October 2015)	**117,162**	109,561

Dividends not recognised at the end of the reporting period

In addition to the above dividends, since the end of the half-year the Directors have determined an interim dividend of 9.5 cents per fully paid ordinary share (2016: 9.5 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 3 April 2017 out of the retained profits at 31 December 2016, but not recognised as a liability at the end of the half-year, is $139.5 million (2016: $139.1 million).

5 Discontinued Operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. On 15 August 2012 the gaming operator's licence issued to Tatts Pokies expired resulting in this segment ceasing gaming machines operations and on the 24 June 2016 gaming operations in the United Kingdom were disposed of. Only 2015 comparatives have been restated to reflect Talarius as a discontinued operation. The results of discontinued operations are presented separately in the income statement.

Total group discontinued operations

	Dec 2016 $'000	Dec 2015 $'000
Revenue	**-**	77,062
Expenses	**(1,000)**	(67,055)
Profit before income tax	**(1,000)**	10,007
Depreciation	**-**	(5,665)
Interest income	**-**	21
Finance costs	**-**	(1,600)
Income tax benefit/(expense)	**305**	(1,293)
Profit after income tax of discontinued operations	**(695)**	1,470

(a) Expiry of gaming operator's licence

On 3 March 2016, the Company paid back $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.

	Dec 2016 $'000	Dec 2015 $'000
Expenses	**(1,000)**	(976)
Income tax benefit	**305**	116
(Loss)/Profit after income tax of discontinued operation	**(695)**	(860)

5 Discontinued Operations (continued)

(b) Talarius

On 24 June 2016 the Group sold its 100% interest in Talarius. The results include the contribution from Talarius as a discontinued operation up until 19 March 2016 (being the effective date of sale).

	Dec 2016 $'000	Dec 2015 $'000
Revenue	**-**	77,062
Expense	**-**	(66,079)
(Loss)/Profit before income tax	**-**	10,983
Depreciation	**-**	(5,665)
Interest income	**-**	21
Finance costs	**-**	(1,600)
Income tax expense	**-**	(1,409)
(Loss)/Profit after income tax of discontinued operation	**-**	2,330

6 Interest bearing liabilities

	Dec 2016 $'000	June 2016 $'000
Current		
Unsecured		
Bank loans	**300,148**	-
Loan notes (US Private Placement)	**77,945**	-
Total current interest bearing liabilities	**378,093**	-

	Dec 2016 $'000	June 2016 $'000
Non-current		
Unsecured		
Bank loans	**362,179**	611,053
Tatts Bonds	**193,102**	192,788
Loan notes (US Private Placement)	**241,995**	319,882
Total unsecured non-current borrowings	**797,276**	1,123,723

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

7 Other current liabilities

	Dec 2016 $'000	June 2016 $'000
SA Lotteries monies held in trust	**58,935**	49,353

8 Contributed equity issued

Share capital

	Dec 2016 Shares	Dec 2015 Shares	Dec 2016 $'000	Dec 2015 $'000
Issue of ordinary shares during the half-year				
Performance rights issues	**503,289**	533,336	**1,897**	1,782
Dividend Reinvestment Plan issues	**3,492,549**	3,183,005	**13,167**	11,268
	3,995,838	3,716,341	**15,064**	13,050

9 Contingent liabilities

Contingent liabilities

The Group had contingent liabilities at 31 December 2016 in respect of:

Bank Guarantees

Guarantees in respect of bank facilities drawn down but not included in the accounts of the Group are $83.6 million (June 2016: $140.3 million).

10 Events occurring after the reporting period

In the opinion of the Directors there have been no material matters or circumstances which have arisen between 31 December 2016 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

In the Directors' opinion:

(a) the Interim Financial Report and notes set out on pages 8 to 20 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year on that date; and

(b) there are reasonable grounds to believe that Tatts Group Limited will be able to pay its debts as and when they become due and payable.

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

Harry Boon	Robbie Cooke
Chairman	Managing Director and CEO

Brisbane
16 February 2017

Independent auditor's review report to the members of Tatts Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Tatts Group Limited (the company), which comprises the consolidated balance sheet as at 31 December 2016, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Tatts Group Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

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 Australian 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, we have become aware of any matter that makes us 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 consolidated entity's financial position as at 31 December 2016 and its 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 Tatts Group Limited, 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*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Tatts Group Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Steven Bosiljevac
Partner

Brisbane
16 February 2017