ANNUAL REPORT 2014

TattsGroup

Tatts Group Limited
ABN 19 108 686 040

TattsGroup
PROFIT BEFORE TAX
UP 7.8%
$326.6 MILLION
Record
LOTTERIES EARNINGS
$271.5 MILLION
Tatts
SA Lotteries
TattsGroup
LONG TERM
DIVERSIFIED LICENCES
LOTTERIES – Licences and Authorisations
NT 2032
TAS 2015
SA 2052
VIC 2018
NSW 2050
QLD 2072
0 20 40 60
Years remaining

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HARRY BOON

CHAIRMAN'S LETTER

"THE 2014 FINANCIAL YEAR WAS A LANDMARK YEAR FOR TATTS WITH TWO DEFINING SUCCESSES THAT HAVE THE POTENTIAL TO FUNDAMENTALLY SECURE THE GROUP FOR THE FUTURE".

QUEENSLAND WAGERING LICENCE

First, we concluded a lengthy and productive negotiation that has delivered long-term exclusive licences for our Queensland sports and race wagering franchise.

The new deal provides us with the exclusive right to operate race and sports wagering in retail outlets in Queensland until 30 June 2044. Additionally it sees the term of Tatts' sports wagering licence extend by 61 years to coincide with our race wagering licence - with both licences set to expire on 30 June 2098. Importantly the new arrangements also provide the racing industry in Queensland with a significantly enhanced funding model.

Most significantly, this process has resulted in more competitive commercial terms - better positioning Tatts to fight-back against out-of-state competitors who have leveraged more favourable tax regimes in their home jurisdictions. In the past, this imbalance has inhibited our marketing, promotional and product offering. This handicap is removed from FY15, nicely lining up with the rebranding and repositioning project undertaken in the year, and due to be revealed upon launch of our new 'state of the art' wagering website.

POKIES COMPENSATION LITIGATION

The second defining event, occurring virtually simultaneously with the conclusion of the Queensland negotiations, was the win in our long running action seeking to enforce our contractual rights following expiry of our Victorian Gaming Operator's Licence. The Victorian Supreme Court awarded us compensation totaling $451.2 million together with interest of $89.3 million and costs.

Whilst payment of the judgement sum has been received from the State of Victoria, it will not be recognised as income in our accounts until the action is finally concluded after appeals. At present, the funds have been used to reduce debt. If ultimately successful, the Board will consider appropriate capital management alternatives in the best interests of shareholders.

CHAIRMAN'S LETTER

OPERATIONAL PERFORMANCE

Meanwhile, our operations continued with strong underlying business performance. We delivered a healthy 7.8% lift in profit before tax on a continuing operations basis, with a pre-tax result of $326.6 million (FY13: $303.1 million).

Slightly perversely this before-tax uplift was not reflected in our after-tax performance, which saw the Group deliver a 0.3% lower net profit after tax (**NPAT**) from continuing operations of $226.6 million (FY13: $227.4 million). This was entirely due to the one-off lift in last year from the $16.2 million tax benefit arising from the previous Golden Casket transaction. Except for this once-off tax benefit last year, our year-on-year NPAT growth would have been an impressive 7.3%.

Our statutory NPAT (which includes the performance of our now discontinued pokies business in Victoria) was $200.4 million compared with $247.3 million in the prior year. This 19.0% reduction is the direct consequence of an illogical charge for a health benefit levy imposed by the Victorian Treasurer, for the final 46 days of our pokies business - which was more than twice the EBIT we earned in those 46 days. This difficult to understand levy is discussed in more detail in the Managing Director's Report.

DELIVERING FOR INDUSTRY, THE COMMUNITY AND GOVERNMENT

Tatts has a long and proud history of contribution to the communities in which we operate. In the 2014 financial year we contributed strongly to the racing industry with payments totalling $179.1 million in the form of product and program fees, and race information fees.

We also paid a total of $1.15 billion to state governments (excluding corporate taxes), with the most significant of these contributions being:

- Queensland - $279.3 million
- New South Wales - $322.2 million
- Victoria - $409.3 million

We continued our support of the Royal Children's Hospital Foundation, the Mater Children's' Hospital and various rural children health services – a contribution of $1.5 million in the year, which takes our total contribution to these important children's health services to $10.5 million.

In New South Wales we were the celebration sponsor for the Sydney Opera House's 40th anniversary. This saw our NSW Lotteries business make a major financial contribution over a 12 month period supporting the Opera House's renewal. There was a pleasing symmetry in this sponsorship as this Australian icon was originally constructed from the proceeds of lottery draws.

STRONG RETURNS TO SHAREHOLDERS

As has been consistently the case, your Board has maintained its commitment to a high dividend payout ratio with the payment of a final dividend of 5.5 cents. This takes the total dividend paid in respect of 2014 financial year to 13.5 cents representing 96% payout of our statutory profits. We have continued the dividend reinvestment plan this year, again offering shareholders a 1.5% discount.

Total shareholder return (**TSR**) for FY14 from a combination of dividends and share price growth has been 11.8% in spite of being impacted by the uncertainty around our wagering exclusivity in Queensland. It is pleasing to see that the market reacted positively to our late June announcement of the new wagering framework, with our TSR up a further 8.9% bringing the total TSR for the 12 months to the end of July 2014 to 19.5%.

OUR TEAM

During the year, we announced Bob Bentley's retirement from the Board. Bob had been a member of the Tatts Board (and UNiTAB before that) since July 1999. We thank him for his extensive contribution to our business over the 15 years he served and wish him well in his retirement.

We had the pleasure of welcoming Dr David Watson to the Board's ranks. David has an outstanding CV and intends to stand for election at the 2014 Annual General Meeting.

Our management team is highly skilled, exceptionally engaged and passionate about our business. They have put in an enormous effort that has driven our success in the year. I take this opportunity to sincerely thank the entire Tatts team for their efforts as we look forward to a standout 2015!

LOOKING FORWARD

We have an exciting pipeline of product and business initiatives for delivery in FY15. A number of these projects have been in incubation through FY14 and are focused on our digital future. Coupled with this, significant effort has been invested in preparation for repositioning our wagering retail network, and the first public stage of this work will be revealed later in the financial year.

In a world where data is king, our extensive customer base traversing lottery and wagering consumers brings tremendous opportunity. A key area of focus in FY15 is seeking to optimise our CRM (customer relationship management) systems to leverage this advantage. This is a unique opportunity that arises from our multi-product offering.

We also remain active in identifying acquisition opportunities that can offer the business a step-up in scale, geography and/or product range within our wagering, lottery and gaming fields of competence. Our well demonstrated disciplined approach remains – we will only pursue those opportunities that deliver commercially attractive and strategic outcomes which combine with, or benefit from, our established operating capabilities.

I look forward to welcoming you to the Tatts Group Annual General Meeting on Wednesday 29 October 2014 at the iconic Brisbane City Hall or, alternatively listen online via www.**tattsgroup**.com.

Harry Boon
Chairman

ROBBIE COOKE

MANAGING DIRECTOR'S REPORT

MANAGING DIRECTOR'S REPORT
OPERATING AND FINANCIAL REVIEW

FY14 WAS A GREAT YEAR FOR TATTS WITH THE TEAM DELIVERING STRONG LIKE-FOR-LIKE FINANCIAL PERFORMANCE FROM OUR CONTINUING OPERATIONS, WHILST MAKING SIGNIFICANT PROGRESS IN THE BUSINESS TRANSFORMATION INITIATIVES WE SET IN MOTION LAST YEAR.

Delivering a 7.8% lift in before tax profits (on a continuing operations basis), securing our Queensland wagering franchise and the win in our long running Victorian pokies compensation action were particular highlights of the year. Our outlook for FY15 is positive with a pleasing start to the new financial year.

I provide a 'snapshot' overview of the year below, before taking a closer look at our performance at a Group level and then delving into the more noteworthy events arising in the year. This is followed by a deeper analysis of each of our three operational areas highlighting the key achievements of each in FY14. My closing comments then touch upon our outlook.

I look forward to providing you with further insights into our year at our upcoming Annual General Meeting.

IN A SNAPSHOT – THE YEAR IN OVERVIEW

Outperforming the Group's 2013 result was never going to be an easy task given the exceptional run of lotto jackpots in that year, coupled with the FY14 'ramp-up' in investment in our wagering operation - an essential step to repositioning our business for future success. So, against that backdrop, I am pleased with the result achieved in the reporting period, which saw the positive combination of record lotteries earnings, cost control and lower interest rates drive our performance.

The disappointing aspect of the year was to have an event outside our control cruel these positive outcomes. I am referring to the unfavourable decision in our challenge to the Victorian Treasurer's decision to impose a $42.6 million health benefit levy upon our now discontinued Victorian pokies business. The levy was in respect of our Victorian pokies operations in FY13 and exceeded the $29 million in EBITDA generated in that year – an outcome that defies logic. This impost savaged our statutory result and saw our reported net profit after tax for FY14 fall to $200.4 million (FY13: $247.3 million).

MANAGING DIRECTOR'S REPORT
OPERATING AND FINANCIAL REVIEW

By looking through this aleatory act to provide a better sense of the underlying position of the Group, regard should be had to the year-on-year performance of our continuing operations. By excluding the residual impact of our discontinued pokies operation and other one-off impacts, the strength of our continuing operations is revealed. Specifically:

- in FY13 our pokies business positively contributed ($19.9 million after tax) for a 46-day 'run down' period;
- in FY14 that business negatively impacted profits (by $26.2 million after tax) primarily due to the loss arising from the imposition of the health benefit levy.

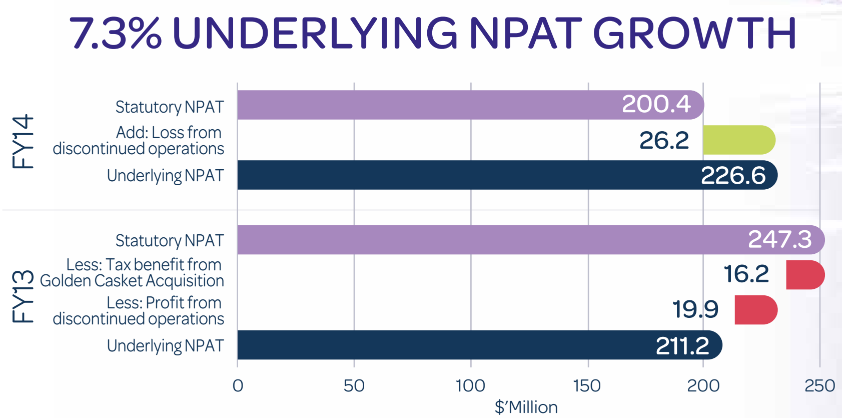
If these discontinued items are removed, along with the one-off $16.2 million benefit in FY13 from the Golden Casket tax settlement, FY14 net profit after tax was $226.6 million (from continuing operations) representing a 7.3% lift on the prior year comparative namely $211.2[1] million.

Our results at a statutory and continuing operations level are summarised in the chart found in figure 1.

I believe with the operational initiatives delivered in the year, together with those currently in train, the results from our continuing businesses provide a very solid foundation upon which to build our performance in future years. Being just over 12 months into our transformation program, excellent progress has been made in delivering the suite of initiatives we identified as critical to Tatts' ongoing success. These include:

- Completion of the integration of SA Lotteries including the finalisation of our network-wide lottery terminal replacement program.
- The launch of our new Tatts.com App.
- For the first time the establishment of racing industry sponsorships in Queensland.
- Our digital focus delivering an impressive lift in online sales penetration both for lotteries up 7.8% now representing 9.4% of lotteries sales[2] (FY13: 8.2%), and wagering up 14.3% now representing 22.9% of wagering sales (FY13: 20.2%).
- The imminent launch of our new wagering brand and retail image.
- The establishment of a significantly expanded fixed-price betting team now operating 24/7.

Figure 1.
RESULTS SUMMARY



[1] FY13 NPAT (from continuing operations) $227.4 million less $16.2 million representing the after tax impact of Golden Casket tax settlement.

[2] Excluding SA Lotteries

- The creation of a wagering marketing team and the appointment of a leading advertising agency.
- The formation of online search, analytics and CRM teams working across lotteries and wagering.
- A new 'state of the art' wagering website nearing completion for launch.

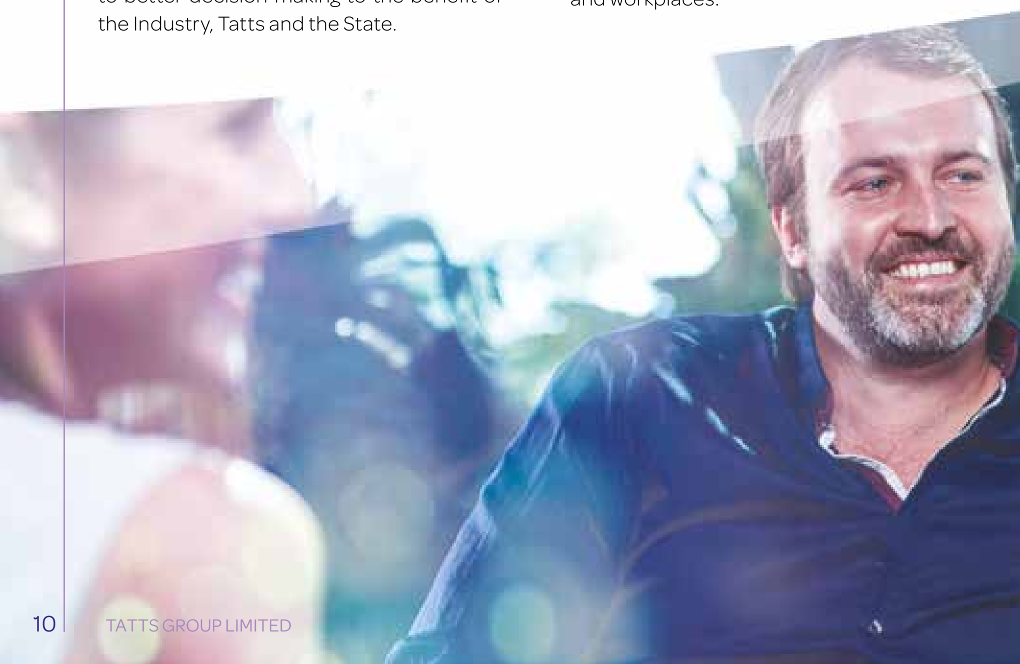
These initiatives were achieved while simultaneously securing our Queensland wagering franchise. This involved negotiating long-term exclusive sport and racing wagering licences with optimised operating structures better positioning Tatts in what is a highly competitive space. Significantly the new arrangements provide for lower wagering tax outcomes and retain race field fee offset rights, enabling Tatts for the first time to fight-back against the 'swarm' of competitors aggressively targeting Queenslanders, siphoning revenue away from both the Queensland racing industry and State coffers.

Importantly the agreements reached with the Queensland Government and Racing Queensland enshrine a positive, collegiate and partnering approach which should lead to better decision making to the benefit of the Industry, Tatts and the State.

The Victorian Supreme Court heard our long running pokies compensation claim in the year. Pleasingly we were successful in this action and the Court ordered the State to pay Tatts $451.2 million together with interest of $89.3 million and costs. The State has made payment of the judgement sum, whilst filing an appeal with the Victorian Court of Appeal. Funds received from the State in relation to the judgement will be retained pending the outcome of the appeal.

Looking back on the year and conscious that we are still in the early phase of our transformational journey, I can say that the Tatts team has embraced the changes necessary to drive our business success with a huge amount of energy and engagement. I continue to be inspired by the enthusiasm and commitment of the team to see Tatts achieve its vision of becoming the world's best gambling group:

- with world leading brands, innovation and technology;
- that is loved by customers, partners and the community;
- powered by amazing people, products and workplaces.



FINANCIAL PERFORMANCE

We generated $2.87 billion in revenue from our continuing activities in the year down 2.8% on FY13. Both our lotteries and wagering businesses experienced softer revenue outcomes in the reporting period. Our lotteries operation was impacted by fewer 1st division jackpots (at or above the $15 million threshold) and also experienced a lower average jackpot value compared with the prior year. Our wagering business continued to be challenged by out-of-state operators benefiting from more favourable fiscal arrangements in their home markets.

Group continuing operations' EBITDA of $498.4 million for the year was up 1.7% on FY13. This arose (in part) from the differing revenue structure in place under the "Master Agent" arrangements for SA Lotteries for a full 12 months. The impact of the SA Lotteries results on our lotteries business is described in more detail below. A pleasing contribution to our EBITDA outcome was the strong performance by Talarius, which achieved an impressive 76.6% increase in EBITDA to $13.6 million.

Continuing operations' EBIT of $414.5 million was delivered in the reporting period, up 2.1% on FY13.

Profit before tax from continuing operations was $326.6 million up 7.8% on FY13 ($303.1 million).

After tax profits from continuing operations for the Group declined 0.3% to $226.6 million, noting that our FY13 result of $227.4 million included a one-off $16.2 million tax benefit from the Golden Casket acquisition. Excluding this one-off benefit, like-for-like after tax profit in FY14 increased by 7.3%.

Group after tax profits on a statutory basis declined 19.0% to $200.4 million. This includes the $26.2 million impact of our discontinued pokies operation primarily relating to the health benefit levy charge in FY14. The prior year also included a profit in discontinued operation of $19.9 million relating to the cessation of Tatts pokies operation and revenue from the transition of monitoring operations.

FINANCIAL POSITION

Our financial position strengthened considerably on receipt of $540.5 million from the State of Victoria following our success in the pokies compensation case. This was partially offset by the adverse health benefit levy decision that compelled the payment of $42.6 million together with interest of $1.7 million to the State in early July. Unsurprisingly this cash inflow materially improved all Group credit metrics. The funds received will be used to repay debt as it matures. As the amount received in the compensation case is subject to appeal, our planning is focused upon being positioned to deal with the full range of possible final scenarios.

The strong cash generative nature of our business underpins ongoing improvement in the Group's credit metrics. Our capital management planning seeks to ensure ongoing access to funds to support the business' strategies whilst rewarding shareholders where possible. Despite not maintaining a public credit rating we target balance sheet metrics consistent with an investment grade rating. Throughout FY14 we have undertaken capital management activities that have positioned the Group well, delivering value to shareholders through lower costs and improved flexibility.

As at 30 June 2014, the Group had committed debt facilities totalling $1,913.2 million, of which $1,351.0 million was utilised. When netted against the Group's cash holdings (excluding prize reserves) Group net debt amounted to $767.8 million. Even without the receipt of $540.5 million, net debt is comfortably serviceable considering the Group's cash flow and profitability. For the period ended 30 June 2014 Group net debt to EBITDA was 1.67 times, while interest cover was 5.10 times. Prior to the compensation receipt, the Group's net debt to EBITDA ratio would have been 2.83 times which includes the impact of the provision of the health benefit levy.

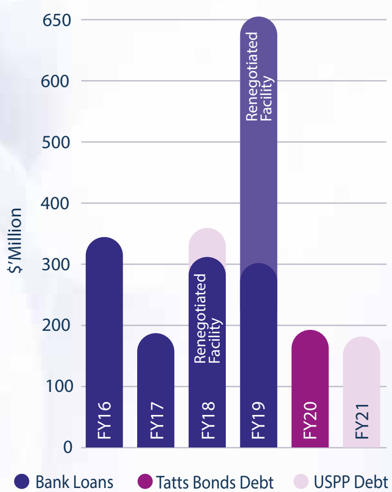
During the reporting period we successfully renegotiated and extended two debt tranches totalling $650 million. Renegotiation and restructuring of these debt facilities has resulted in an increase in the duration of the facilities and a decrease in our ongoing funding costs. Importantly, the Group does not face any further refinancing until the second half of FY16, which provides a stable funding platform.

Financing costs in the current financial year were $89.8 million, representing a significant reduction from the prior year's $106.7 million.

Our investment in our network continued, with capital expenditure reaching $60.7 million (FY13: $60.1m). In addition we have invested $14.3 million in the proposed move to our new Group head-quarters in Brisbane. The rollout of lottery terminals in South Australia was completed and a refresh of wagering terminals has commenced and will continue in FY15. Capital expenditure in FY15 is expected to increase to approximately $80 million with this rollout program and the start of our wagering retail rebranding and re-imaging project.

The Board is mindful of the Group's extremely strong cash position. It is recognised however that there are a number of potential scenarios on conclusion of the compensation case – which will most likely result in either a repayment to the State of Victoria or, if Tatts is successful, capital management activity which may include a special dividend, a share buyback or some other form of corporate activity.

Figure 2.
DEBT FACILITY MATURITY PROFILE



ACHIEVEMENTS AND CHALLENGES – FY14 NOTABLE EVENTS

There were a number of Group achievements and challenges in FY14 that warrant more detailed mention:

Queensland Wagering Licences

On 27 June 2014, we reached in-principle agreement with the Queensland Government and Racing Queensland establishing a new framework for the conduct of race and sports wagering in the State. The new arrangements (which are subject to legislative amendments) provide a 61-year extension to the term of our sports wagering licence – bringing it into line with our race wagering licence (both licences to expire on 30 June 2098). Importantly, retail exclusivity was secured for a further 30 years under each licence (until 30 June 2044 as shown in figure 3). In consideration Tatts agreed to pay the State a licence fee of $150 million payable in four equal instalments over a 9-year period.

Prior to these new arrangements being introduced, out-of-state betting operators, benefiting from more favourable tax regimes, had an unfair fiscal advantage enabling them to aggressively target Queensland customers. This structural imbalance caused 'leakage' of significant revenues from the Queensland Government, the Queensland racing industry and Tatts. This imbalance has been reduced with the introduction of the new wagering framework effective from 1 July 2014, which sees our wagering tax rates:

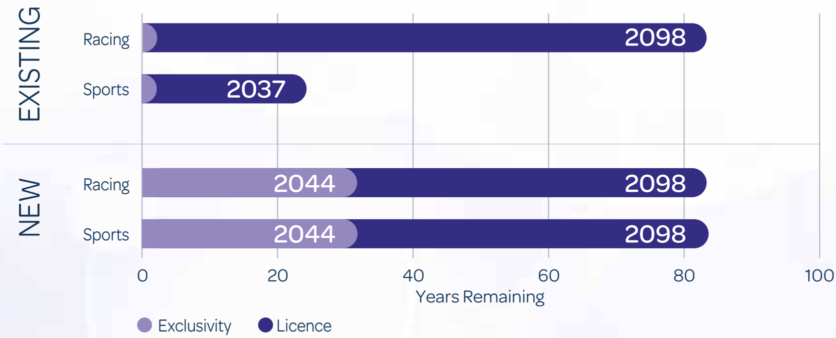
- for pari-mutuel betting reduce from a GST inclusive 20% to 14% of commissions;
- for fixed-price betting reduce from a GST inclusive 20% to 10% of gross revenue.

These new tax rates more fairly position our wagering franchise to fight-back against the predatory out-of-state interlopers.

The new arrangements see the continuation of Tatts variable product fee payments to Racing Queensland (39% of gross wagering revenue) together with a new fixed product fee of $15 million per annum (indexed to 80% of CPI). In addition we will pay a 2.5% share of fixed-price sports betting revenue generated from Queensland 'bricks and mortar' retail outlets, capped at $5 million per annum (indexed). We have also provided certain commitments to marketing activities and network expansion (including self-service betting terminals). The deal enshrines Tatts' betting partner exclusivity for on-course advertising.

In reaching this landmark agreement, Tatts and Racing Queensland agreed to discontinue all legal action with respect to the treatment of race field fees in the past. The new arrangements see the retention by Tatts of the right to offset interstate race field fees from product fees going forward. This is fundamentally important to the profitability of our wagering operations and its criticality is highlighted by recent increases in race field fees in some Australian jurisdictions.

Figure 3.
NEW QUEENSLAND WAGERING LICENCE FRAMEWORK



A very exciting aspect of the new licencing framework is the agreement with Racing Queensland to create 50/50 joint ventures on a number of initiatives that will generate additional revenue for the racing industry. The conduct of virtual racing in retail outlets is expected to be the first opportunity pursued.

Victorian compensation claim

On 26 June 2014 the Supreme Court of Victoria found in favour of Tatts in the proceedings commenced against the State of Victoria for compensation on the expiry of our Gaming Operator's Licence which occurred on 15 August 2012. The Court ordered the State to pay Tatts compensation in the amount of $451.2 million together with interest fixed at $89.3 million, and costs. These monies (excluding costs) have now been received by Tatts.

This decision of the Supreme Court simply upholds an agreement entered into with the State in 1995. This agreement led to the State receiving substantial additional licence fees from Tatts for the conduct of its pokies business, on the basis that the State would pay compensation if a new Gaming Operator's Licence were granted to anyone other than Tatts on the expiry of its licence.The State has lodged an appeal in the Victorian Court of Appeal seeking to have the decision of the Supreme Court set aside. We will defend the appeal and retain the judgement sum received from the State until, and in accordance with, the outcome of the appeal. The total amount received by Tatts, assuming no reversal of the decision at first instance, will be subject to applicable tax once the matter has been finally resolved.

Victorian Health Benefit Levy

On 6 May 2013, the Victorian Treasurer determined to impose a $42.6 million health benefit levy on Tatts for its pokies operations conducted in FY13. The levy imposed being well in excess of the $29 million in EBITDA generated by Tatts in the 46 days this business operated in FY13. Tatts challenged the Treasurer's determination in the Supreme Court of Victoria.

On 24 June 2013, the Victorian Supreme Court set aside the Victorian Treasurer's determination. However the Treasurer successfully appealed this decision in the Victorian Court of Appeal. As such, we were required to pay the Treasurer a levy of $42.6 million plus interest of $1.7 million, which is the main component of the discontinued operations after-tax charge of $26.2 million to our FY14 statutory results.

We have lodged an application in the High Court of Australia seeking special leave to appeal the decision of the Victorian Court of Appeal.

Brisbane Racing Club

Racegoers at Queensland's metropolitan thoroughbred racecourses will benefit from a significantly enhanced on-course betting experience following a strategic partnership forged between Tatts and the Brisbane Racing Club in FY14.

We established a joint venture arrangement to provide the on-course wagering operations at Eagle Farm and Doomben racecourses. The multi-million dollar investment by Tatts allows on-course customers greater access to fixed-price and betting information via new technology and increased numbers of self-service terminals. The installation now completed at Doomben has seen a significant uplift in on-course betting compared with that achieved under previous arrangements.

The joint venture agreement is a bonus for the Brisbane racing community with Tatts and the Brisbane Racing Club to share equally in the net result of the operations, which had previously been outsourced to a third party at a cost to the Brisbane Racing Club.

Tatts also became a more active partner of the Brisbane Racing Club through the 2014 Channel Seven Brisbane Racing Carnival. This saw us sponsor the Group 1 J.J. Atkins race on June 7 and feature as part of the 7 Network national broadcast of AAMI Stradbroke Day, providing live market updates, expert commentary and charity bets.

Be **amazing**

Have **fun**

Play as a **team**

THINKING DIFFERENTLY – ORGANISATIONAL VALUES

Create positive **change**

Do it **with heart**

Own it

THINKING DIFFERENTLY – ORGANISATIONAL RENEWAL

In FY13 we commenced a renewal program at Tatts designed to re-examine some of our accepted ways of operating and to challenge, rethink and refresh – all aimed at better positioning our business for future success. I am pleased to report back to you on the progress of a number of the portfolio of initiatives we have in train.

Bench strength

A number of gaps in resourcing and skills were revealed in our organisational "bench" review in FY13. To address these gaps, we have significantly expanded each of our digital, online marketing, and bookmaker teams whilst also expanding our wagering marketing team in our Brisbane HQ.

We have further expanded our customer relationship management (**CRM**) team and consolidated it at a Group level to operate across both our wagering and lotteries businesses. This team now operates upon a world leading CRM system to enable it to tactically market to our extensive customer base (discussed further below).

We have also continued to refine our technology and digital teams' resourcing and structure to better position us for responding to our dynamic environment.

The new team members have already made a significant contribution to the Group as can be seen in our online offering, new marketing material, and partnerships with the racing industry.

Wagering brand and retail re-positioning

This strategically significant project started in March 2013 is close to fulfilment. A new wagering brand has been secured, a new retail presentation has been developed and is close to finalisation, our wagering marketing team has been recruited and an intensive process undertaken to select our advertising agency to bring our new brand to market. This initiative will see our wagering business present a seamless, engaging and market leading wagering offering which will work across all our points of distribution.

Product improvement and innovation

Our re-energised focus on product innovation and improvement has seen some exciting new products and features introduced to our customers in the year. On the lotteries front, this has included:

- The launch of Monday Lotto in Queensland on 21 October 2013.
- The roll out of multi-jurisdictional instant scratch-its games across all our jurisdictions (excluding South Australia and Victoria) on 10 March 2014.
- An online feature (Autoplay) enabling customers to set perpetual lotto entries launched on 17 January 2014.
- The release of our new SA Lotteries website on 11 December 2013.

MANAGING DIRECTOR'S REPORT
OPERATING AND FINANCIAL REVIEW

- A successful trial to prove the opportunity to grow our lottery sales by the introduction of a new retail channel. This trial involved selling lotto tickets through a selected sample of convenience fuel outlets in Victoria and successfully demonstrated the potential to grow the category.

On a wagering front, the year saw a number of new products and consumer innovations including:

- The launch of a 24/7 online fixed-price betting service.
- A significant expansion to our fixed-price racing offers to include a comprehensive range of greyhound and harness racing.
- The introduction of new bet types including Double Trio and Total Trio.
- New promotional activities introduced such as 'TattsBet Tipping', 'TattsBet Twist' and feature race packs.

As mentioned we have also implemented a new market leading CRM system across our lotteries and wagering operations. This system is already yielding positive results through targeted communications that deliver our customers more relevant marketing materials in a more timely manner. On average we now email over 2.5 million lottery and wagering customers per month and generate sales in excess of $1.4 million per month from these email campaigns. It is still early days for our CRM team, however the results to date are encouraging.

For FY15, we have a pipeline of product initiatives including:

- Our 50/50 joint venture with Queensland Racing for the roll out of virtual racing in Queensland.
- Development of a new generation of wagering self-service terminals that accept cash and have ticket-in-ticket-out functionality.
- The launch of a new draw-based lottery game.
- The introduction of a new loyalty program to drive retention and usage.

Online demand generation

We have made great strides in the significant marketing area of SEM (search engine marketing) and SEO (search engine optimisation). In FY14, we set ourselves the target of being ranked in the number one position for all lottery keywords on Google for both SEO and SEM categories and we consistently achieved that target over FY14.

Whilst we have increased our wagering online marketing spend, the ramp-up has not been as pronounced. We are tempering our spend to coincide with the launch of our new brand and website.

Industry partnerships

Our focus on industry partnerships yielded us a great result in FY14 with the announcement of the new race and sports wagering licence framework in Queensland. As outlined earlier, this new framework will see a significant investment in racing in Queensland over and above payment of the product fees and wagering taxes explained earlier. As also mentioned we have formed an oncourse partnership with the Brisbane Racing Club.

State of the art online platforms

Online is clearly a key distribution channel for both our lotteries and wagering operations. We have invested heavily in FY14 in both the resourcing and up-skilling our digital team. We have doubled our online resources and expansion of the digital team will be a continuing feature given the importance of this channel to our future. Our initiatives are gaining traction, which has seen our lotteries online sales lift from 8.2%[1] a year ago to 9.4%[1] today, whilst our wagering online sales have jumped from 20.2% a year ago to 22.9% today.

Since the launch of the Tatts.com App in September 2013 it has been downloaded on circa. 332,000 devices (FY13: 109,500). Our lotteries websites handle circa. 2.5 million visits per month, while our wagering websites handle circa. 0.5 million visits per month.

FY15 will see the release of our new responsive design wagering website and continuous development of our lotteries websites and Apps.

Group HQ

After the announcement in FY13 of our intended relocation to a new HQ in Brisbane, I can report that this initiative is progressing well. We are currently awaiting development approval, which is expected in early FY15, for the new building, and the expected occupation date stands at 2017.

[1] Excluding SA Lotteries

REVIEW OF OPERATIONS

GROUP	FY14 ($'m)	FY13 ($'m)		Change (%)
Total revenue and other income	**2,868.3**	**2,950.4**	V	**2.8%**
State government share	(1,289.9)	(1,376.4)	V	6.3%
Venue share/commission	(413.1)	(414.2)	V	0.3%
Product and program fees	(187.2)	(191.5)	V	2.3%
Other expenses	(479.7)	(478.1)	Λ	0.3%
Total expenses	**(2,369.9)**	**(2,460.2)**	V	**3.7%**
EBITDA	**498.4**	**490.2**	Λ	**1.7%**
Depreciation and amortisation	(83.9)	(84.1)	V	0.2%
EBIT	**414.5**	**406.1**	Λ	**2.1%**
Interest income	1.9	3.7	V	47.9%
Finance costs	(89.8)	(106.7)	V	15.8%
Profit before tax	**326.6**	**303.1**	Λ	**7.8%**
Income tax	(100.0)	(75.7)	Λ	32.1%
Net profit after tax (continuing operations)	**226.6**	**227.4**	V	**0.3%**
(Loss)/profit from discontinued operations	(26.2)	19.9	V	231.4%
Net profit after tax (statutory)	**200.4**	**247.3**	V	**19.0%**

SEGMENT ANALYSIS

	FY14 ($'m)	FY13 ($'m)		Change (%)
Lotteries				
Revenue	1,922.8	2,008.6	V	4.3%
EBITDA	296.6	294.6	Λ	0.7%
EBIT	271.5	269.5	Λ	0.8%
Wagering				
Revenue	642.3	655.7	V	2.0%
EBITDA	160.8	173.9	V	7.6%
EBIT	144.1	155.6	V	7.4%

Gaming	FY14 ($'m)	FY13 ($'m)		Change (%)
Revenue				
- Maxgaming	114.2	113.2	Λ	0.9%
- Bytecraft	106.9	116.0	V	7.8%
- Talarius	103.6	78.0	Λ	32.8%
EBITDA				
- Maxgaming	63.1	63.1	Λ	0.1%
- Bytecraft	(0.4)	(1.0)	Λ	63.8%
- Talarius	13.6	7.7	Λ	76.6%
EBIT				
- Maxgaming	49.7	48.1	Λ	3.3%
- Bytecraft	(2.5)	(3.0)	Λ	18.4%
- Talarius	4.1	(1.0)	Λ	506.8%

TATTS IS A LEADING PROVIDER OF WIDE-AREA NETWORKED GAMBLING SERVICES IN AUSTRALIA AND THE UNITED KINGDOM.

Our operations primarily comprise lotteries, wagering and gaming businesses servicing customers through a diversified network of retail, online, mobile and direct distribution channels. We also conduct gaming machine monitoring, technical maintenance and network support services. Tatts typically achieves consistent and reliable revenue from these businesses by utilising technology solutions that deliver high volumes of low average value transactions through our widely dispersed distribution network. Our operations span every state and territory in Australia, and extend into the United Kingdom.

The achievements of each of our businesses and the operational performance throughout FY14 are examined in more detail in the following pages.

TO CELEBRATE THE OPERA HOUSE'S 40TH ANNIVERSARY WE CREATED A THEMED INSTANT SCRATCH – ITS TICKET AND CONTRIBUTED $1 FROM EVERY SATURDAY LOTTO TICKET SOLD ($1 MILLION) FOR A MONTH.

LOTTERIES

Highlights:

- 9.4% of sales online (FY13: 8.2%)[1].
- Launch of Monday Lotto in Queensland.
- Successful trial of new convenience fuel retail channel.
- Tatts.com lotteries App live in all markets and downloaded on circa. 332,000 devices.
- Tatts' proprietary lottery system rolled-out in all operations.
- Introduction of multi-jurisdictional instant scratch-its tickets.
- Record 238 players made millionaires in the year.
- 36 jackpots draws at or above $15 million with combined 1st division jackpot pools topping $925 million.
- $998.4 million paid to state governments and territories in lotteries taxes.

Review of operations

Cycling over the outstanding performance achieved in FY13 was always going to pose a challenge for our lotteries team. FY13 benefited from an exceptional run of 39 jackpots at or above $15 million – including the Australian record $112 million Oz Lotto jackpot on Melbourne Cup day 2012.

Against that backdrop, our team delivered a very credible performance in the year but was not able to duplicate the sales momentum generated by the Oz Lotto $112 million record and the jackpot sequence leading up to it. So unsurprisingly our result for FY14 was softer with revenues down 4.3% to $1,922.8 million (FY13: $2,008.6 million). This result was delivered from 36 jackpots (FY13: 39) at or above $15 million carrying 1st division jackpots totalling $925 million (FY13: $1,130 million).

OZ Lotto/Powerball	FY14	FY13
Number of jackpots ($15 million and above)	36	39
Average 1st division jackpot ($15 million and above)	$25.7 m	$29.0 m

Monday and Wednesday Lotto was successfully expanded in the year with the introduction of Monday Lotto in Queensland in October 2013. This initiative delivered a 7.8% sales increase for this product (excluding SA Lotteries).

After a slow start, Instant Scratch-Its sales grew by 2.4% in the second half of FY14. The year also saw the successful launch of multi-jurisdictional instant games through NSW Lotteries and Golden Casket (Queensland).

These multi-jurisdictional games benefit from a quicker game turnover, driving higher sales through more frequency in jackpot offerings. We are looking to expand the jurisdictional reach of these instant games in FY15.

The NSW Lotteries draw lottery game, Lucky Lotteries, again had a strong year finishing 28.4% up on FY13 with 24 more draws, including a $30 million jackpot run for the $5 game that was won in November 2013.

Notwithstanding the decline in revenue of 4.3%, our lotteries operation delivered growth in EBITDA of 0.7% to $296.6 (FY13: $294.6 million) and EBIT of 0.8% to $271.5 (FY13: $269.5 million) with the benefit of a full 12-month contribution from SA Lotteries. This seemingly incongruous outcome arises (in part) from the differing revenue structure in place under the Master Agent arrangements for SA Lotteries. Under these arrangements and as a consequence of Tatts being the master agent, our South Australian revenue comprises a specified commission percentage together with the commission due to our selling agents (correspondingly no liabilities are carried with respect to lotteries tax and associated GST). This contrasts with Tatts' lotteries operations in all other jurisdictions where our revenue comprises the subscription price less prizes (and in those instances Tatts is liable for lotteries tax, GST and agent commission). If the revenue treatment in South Australia were consistent with our other jurisdictions, revenue for the period would be down by 2.4% (not 4.3%).

[1] Excluding SA Lotteries

In April 2014 we successfully transitioned the legacy third party SA Lotteries system to our proprietary 'TattsTech' system. This transition included Keno, which was a new development feature for 'TattsTech'. Purchased in December 2012 for $427 million, SA Lotteries has performed to our expectations with game performance mirroring operations in our other jurisdictions.

Our commitment to our retail agents is best demonstrated by the increase again this year in overall agents commission, which increased $1.4 million (0.4%) on the prior year. Our retail agents remain our most important distribution channel generating 90.6% of all our sales.

As part of our ongoing program of driving product and retailing innovation, in the year we undertook three key initiatives:

- We conducted a trial to test the opportunity to grow our lottery sales by the introduction of a new retail channel. This trial involved selling lotto tickets through a selected sample of convenience fuel outlets in Victoria and successfully proved the concept and the potential to grow the category.
- We introduced Autoplay, a new and convenient way for our customers to purchase their games online though a 'set and forget' mechanism. This feature allows online customers to set perpetual online lottery entries based on their pre-set preferences (i.e. a recurring entry in a particular game or an entry only when the jackpot reaches a set level). Autoplay has been well received.
- We also introduced the new Tatts.com App in the year, which has already been downloaded on circa. 332,000 devices.

WAGERING

Highlights

- 22.9% of all wagering sales online (FY13: 20.2%).
- Queensland race and sports wagering framework secured.
- Ability to fight-back against out-of-state operators with lower tax environment in Queensland.
- Wagering marketing team recruited.
- Queensland on-course sponsorship deals in place promoting brand.
- Fixed-price offer 24/7 with significantly expanded bookmaker team.
- Fixed-price sales reach $1,315.6 million up 19.1%.
- Joint venture opportunities with Queensland Racing including virtual racing and other potential innovative product lines.
- 239 self-service terminals deployed – new generation unit with cash handling capability in development.
- $238.2 million paid to state governments and territories and the racing industry.

Review of operations

FY14 was a watershed year for our wagering operation. Following almost a year of negotiations, on 27 June 2014 we successfully established a new wagering framework for our Queensland business.

This has not only secured a critical part of our wagering operation but, significantly, provides a lower tax environment that for the first time positions us to more effectively compete. Coupled with this, the new Queensland arrangements enshrine our right to offset race field fees against product fees payable. Importantly the new structure provides the racing industry in Queensland a significantly enhanced funding model and certainty.

As discussed earlier, securing our retail presence in Queensland and establishing a new operating framework is only the start of the transformation being implemented in our wagering operation. We are well on track in addressing the under investment in our brand, online capability, retail image and product range. These initiatives supported by the new tax regime will enable us to fight-back against the predatory out-of-state betting operators who for too long have had an almost unfettered frolic harvesting revenues out of the State.

The reality for Tatts' wagering team in FY14 was that they fought through a tough year. Revenue declined by 2.0% to $642.3 million down from $655.7 million in FY13 caused by significant competition from the out-of-state operators and a softer retail environment.

Tote revenue declined 7.4% on the back of reduced sales (reflecting the migration to fixed-price betting) while strong win rates were maintained. Fixed-price betting revenue on racing was up 16.0% and fixed-price revenue on sports was up 5.4%. Again, our strong double-digit win rates on fixed-price revenue were maintained during the year.

Our online sales channel continued to power ahead generating 22.9% of our sales (FY13: 20.2%). A portion of this growth emanates from a reduction in phone-based sales, which has decreased to 7.0% of total sales from 8.0% in FY13. Retail sales at 68.2%, represent the largest part of our sales channel highlighting the importance and value of retail exclusivity, with on-course sales representing the remaining 1.9% of total sales.

At a product level, exotic bets, such as trifectas and quadrellas, increased to 43.7% (FY13: 41.5%) of the totalisator pool, with win and place betting now representing 56.3% (FY13: 58.5%). Racing continues to dominate the fixed-price book, with 79.6% (FY13: 78.6%) of fixed-price sales being on racing and 20.4% (FY13: 21.4%) on sport.

The 2.0% decline in revenue carried through to the EBITDA and EBIT lines with wagering EBITDA declining 7.6% reflecting the up-scaling of our operations and EBIT declining 7.4%. Our margin at an EBITDA level was 25.0% (FY13: 26.5%), reflecting the increased level of investment in our marketing and bookmaking teams.

As mentioned above we have a full pipeline of initiatives for our wagering operation to position it for future growth and to recapture the sales momentum available in our markets.

GAMING

Tatts' gaming operation incorporates three businesses (Maxgaming, Bytecraft and Talarius), which are managed by one COO to drive a sharing of skills, knowledge and technology given the related nature of these operations. These businesses are focused on providing monitoring and support services to gaming venues across Australia, and in the UK where we manage and operate gaming venues.

Combining these operations under a centralised management is designed to achieve operating efficiencies and more strategic decision making over time (this initiative having been implemented part way through FY13).

MAXGAMING

Highlights

- EBIT growth of 3.3%.
- Achieved revenue growth for the first time in four years.
- Maintained +80% share of gaming machines monitored in Queensland.
- MaxConnect product installed at 120 sites with circa 12,000 machines connected.
- Ticket-In-Ticket-Out technology trialled in Queensland.

Review of operations

Maxgaming is the Group's gaming venue services division. This business is founded upon the provision of government mandated electronic monitoring systems to gaming venues in New South Wales, Queensland and the Northern Territory. The operation leverages this network and associated infrastructure to provide additional value-adding services to its contracted venues.

Maxgaming continued to maintain its profitability in the year through effective management of its cost base and new product initiatives. The business continues to focus on value adding services such as Ticket-in-Ticket-Out technology, loyalty systems and MaxConnect (a customer relationship management system – discussed further below).

Revenue was up 0.9% to $114.2 million being a significant achievement given the prior four years have seen revenue declines. This result was achieved notwithstanding the slight contraction in the number of gaming machines monitored in New South Wales and Queensland, and the continuing decline in the number of machines operating state-wide linked jackpots. The offsetting feature has been the success of new product initiatives designed to respond to the needs of our venue operator customer base. In this regard a standout product has been MaxConnect which provides gaming venues a customer relationship management system together with a customer promotional vouchering/rewards platform. It provides venues with the ability to measure the costs of direct marketing against the revenue generated from vouchering/rewards activity. MaxConnect has been added to 45 gaming venues in FY14 and an additional circa. 3,100 gaming machines connected to the system. Maxgaming EBIT was up 3.3% to $49.7 million due to lower depreciation and amortisation costs.

In FY15 Maxgaming is working on a number of new product innovations relating to the revitalisation of its state-wide links products as well as a full scale roll-out of its Ticket-in-Ticket-Out technology.

BYTECRAFT

Highlights

- Turnaround strategy successfully underway.
- New management structure implemented together with organisational right sizing.
- Exit of non-profitable contracts progressing.
- Developing gaming venue service ability to offer turnkey gaming support across Australia.
- Re-signed Crown Resorts as a key customer.

Review of operations

Bytecraft's revenue declined 7.8% to $106.9 million in FY14 due to the loss of a number of large, but mainly unprofitable, contracts. Revenue from external sources now represents 71.5% of total revenue for the full year compared to 71.2% in FY13. This internally sourced revenue continues to be contracted on a no margin basis.

As part of the organisational renewal which saw Bytecraft come under the control of one COO, a full organisational review has been concluded into the operations of Bytecraft, including its contract base, resourcing, systems and service delivery. The results of this review have seen Bytecraft exit and plan to exit numerous unprofitable contracts together with a "right-sizing" of resources to better focus on service delivery and meeting customer contractual requirements.

EBITDA improved 63.8% to a loss of $0.4 million (FY13: loss of $1.0 million) and EBIT improved 18.4% to a loss of $2.5 million (FY13: loss of $3.0 million). Excluding the impact of one-off restructuring costs of $1.2 million Bytecraft returned to a positive EBITDA of $0.8 million for FY14.

On a positive note, Bytecraft re-signed with Crown Resorts in the year and also secured a new major client servicing DVD kiosks nationally. Bytecraft continues to act as an important internal service provider to our Lotteries, Wagering, Maxgaming and Talarius businesses and is actively exploring extending its services to NSW gaming venues as a turn-key gaming support supplier.

MANAGING DIRECTOR'S REPORT
OPERATING AND FINANCIAL REVIEW

TALARIUS

Highlights

- Contributed positively to Group profitability for the first time since acquisition.
- Achieved common currency sales growth of 14.6%.
- Australian dollar revenue growth of 32.8%.
- Motorway Service Stations gaming areas are delivering ahead of expectations.
- 3 sites acquired from Kellams Ltd in FY13 are performing ahead of expectations.

Review of operations

Talarius was a standout performer for the Group in FY14 with revenue up 32.8% to $103.6 million, EBITDA up 76.6% to $13.6 million and EBIT up 506.8% to $4.1 million. What makes this result all the more pleasing is it reflects the significant effort invested in the business by our UK team. This has seen the operation steadily improve in what has been an extremely challenging economic environment over the past four years - with a controlled investment of resources and in a competitive landscape that more favoured the fixed odds betting terminal (FOBT) operators.

On a common currency basis, Talarius' revenue for FY14 was £58.0 million, up 14.6% on FY13, EBITDA was up 52.1% to £7.6 million and EBIT was up 171.8% to £2.3 million. Gross machine income was up 6.9% on a common currency basis during the year. There were 170 venues in operation as at 30 June 2014, operating 7,634 gaming machines.

The key improvement underpinning Talarius' strong performance across FY14 has been the like-for-like sales growth from its core adult gaming centre business. This growth has been driven by the continued refurbishment of profitable venues and extending operating hours at venues to meet customer demand. This has been coupled with a program designed to develop our gaming venue managers – this team development initiative has delivered positive revenue outcomes and will continue in FY15. In addition our UK team introduced a new product innovation during the year trialling server based gaming, with initial results showing positive incremental sales growth. This trial will be extended through FY15.

DISCONTINUED OPERATIONS

The $26.2 million loss by our pokies operation, which is disclosed under discontinued operations, principally represents the impact of the charge incurred in relation to the health benefit levy payable to the Treasurer of the State of Victoria.

The prior year profit from discontinued operations of $19.9 million included EBIT of $35.8 million derived from 46 days of Tatts Pokies trading and revenue from the monitoring transition operations that ceased on 15 February 2013.

OUTLOOK

The Group has a full pipeline of exciting initiatives for FY15, which I believe positions us well for a successful year.

On the wagering front we will be launching our new website which is focused on delivering a vastly improved customer experience, enhanced functionality and the ability to rapidly iterate, innovate and improve. Being able to quickly respond to customer feedback and market trends is considered a critical feature for a market-leading offering.

Our new wagering brand will be revealed in the year to provide a seamless experience across all our customer touch points whether in store, online or by phone. This will also see the finalisation of current concepts for our next generation retail stores. With our retail presence now certain in Queensland we will start the roll out of a next generation store format in a programmed manner that will continue over the next five years. Our new retail model will include enhanced self-service terminals with cash handling and ticket-in-ticket out capability, virtual sport and racing consoles and new technologies so as to deliver an experience not able to be had elsewhere.

The other major initiative for the year is implementing our "nexgen" sports betting platform. We have a dedicated team working on this important project and we are on track to launch in the second half of the year. This project will deliver a significantly enhanced sports betting capability to the Group.

Lotteries also have a full program of initiatives scheduled for the year. This includes the intended rollout of a new retail channel in the convenience fuel outlets which we believe presents the opportunity to grow the lotteries category. The team is well advanced with an exciting and innovative new draw game which will operate nationally. In addition we are aiming to roll out the very popular New South Wales Lucky Lotto game across all our markets. We will in the year also be working on a new lotteries website to provide our customers with a 'state of the art' online experience.

I look forward to providing you with more details on our progress on these and other exciting initiatives at our AGM in October.

Robbie Cooke
Managing Director & CEO

Robbie Cooke

COMMUNITY AND ENVIRONMENT

CONTRIBUTIONS TO GOVERNMENT

As Australia's largest integrated wagering, lotteries, and gaming solutions provider, Tatts Group is proud to indirectly support over 25,000 jobs across 6,000 Tatts Group backed SME's in every corner of Australia. Likewise, as Australia's oldest gambling company, with a proud 133 year history, we take our role of supporting the communities in which we operate seriously. It is in this context that Tatts continues to make significant community contributions to wagering and lotteries taxes. In the 2014 financial year, we contributed a total of $1.16 billion to state governments (excluding corporate taxes). The contributions by state and territory were:

Queensland	$279.3 million
New South Wales	$322.2 million
Victoria	$409.3 million
South Australia [1]	$78.2 million
Tasmania, ACT and NT	$71.5 million
Total contribution	$1,160.5 million

Whilst we appreciate that each and every state government with which we partner have different goals and priorities, we know that in the majority of cases, the $1.16 billion in wagering and lottery taxes we paid to the various state governments are used to fund health, education, social services, junior sport and vital community infrastructure. Tatts is therefore pleased to be playing such an important and meaningful role in enhancing the lives of everyday Australians. In addition our wagering and lotteries businesses contributed GST payments of $228.5 million to the Federal Government over FY14.

Throughout much of Australia the racing industry supports tens-of-thousands of jobs. We are therefore proud to be a major contributor to the racing industry in Australia with payments of $179.1 million (excluding GST) in the form of product and program fees and race information fees. The majority of these monies were paid to the Queensland Racing Industry being our largest market.

We also assist the NSW and Queensland Governments to collate gaming machine taxes from pubs, clubs and hotels in these states through the use of our Maxgaming monitoring systems.

CONTRIBUTIONS TO COMMUNITY AND COMMUNITY SUPPORT

Tatts supports the communities in which we operate through numerous activities such as charitable donations, sponsorships and hosting community events. In FY14 these activities included:

Charitable donations:

- $50,000 contributed to various causes around Australia through charity betting initiatives with News Limited and other media partners.
- An annual allocation of $1.5 million to child health and wellbeing in Queensland. The principal recipients of these funds were the Children's Hospital Foundation, the Mater Foundation in Brisbane, and the remainder distributed by Queensland Health to children's health projects across Queensland.
- As a proud supporter of the Starlight Children's Foundation, Tatts presented Starlight with funding for another four Starlight Wishes in the current financial year. These wishes, funded from lotteries profits, will be granted by Starlight, to brighten the lives of seriously ill Queensland children and their families.

Sponsorships:

- Celebration partner of the Sydney Opera House to commemorate its 40th anniversary and support its renewal project with a series of marketing initiatives including a contribution of $1 million from Saturday Lotto entries in November 2013.
- $100,000 contributed to the Gold Lotto City Hall Lights Spectacular in December 2013.
- Corporate Partner of the NT Thunder Football Club which supports the sporting endeavours of rural and remote communities in the Northern Territory. One of NT Thunder's aims is to have a

[1] South Australia includes the lotteries taxes generated via our management rights of the SA Lotteries.

positive impact on the NT community, particularly indigenous Territorians.

- Distinguished partner of the Darwin Festival. The Festival supports community arts and culture in the Northern Territory.
- Naming rights sponsor of the Tatts Finke Desert Race, one of the biggest annual sporting events in the Northern Territory. The Finke and Tatts have enjoyed a strong relationship for more than 13 years.
- Sponsorship of the Brisbane Lions and the Gold Coast Suns AFL teams.
- Naming rights sponsorship of the Adelaide Cup (SA) and J.J. Atkins (Qld) feature horse races.
- On-course signage sponsor at numerous race tracks across Queensland, South Australia, Tasmania and Northern Territory.
- Gold partner to the Queensland Hotels Association and Australian Hotels Association and sponsor of the AHA Charity Golf Day.
- Annual awards sponsor of Clubs Queensland.

RESPONSIBLE GAMBLING

Tatts recognises that while the vast majority of people who gamble do so for enjoyment and entertainment, there are some people for whom this form of entertainment has become a problem, causing them personal and financial distress. We understand the importance of providing responsible gambling programs and initiatives to assist those people who may experience difficulties with their gambling behaviour, as well as to keep all our lotteries and wagering customers well informed.

Responsible gambling occurs in an environment where people make informed and rational decisions about their participation in gambling, based on their own individual circumstances. Responsible gambling occurs as a result of the collective actions and shared responsibility of individuals, communities, the gambling industry and governments, to achieve outcomes that are socially responsible and responsive to community concerns.

Responsible gambling codes of conduct exist in each of Tatts' trading jurisdictions. These codes contain a variety of measures that respond to community expectations in regard to player protection and harm minimisation. These measures include responsible gambling information, pre-commitment strategies, game rules, advertising restrictions, customer complaint mechanisms and self-exclusion programs.

Tatts is represented on various state and territory governments' responsible gambling advisory bodies, and collaborate with relevant stakeholders, including representatives of the community, counselling and welfare agencies, gambling industry associations, local government, state and territory government policy makers and regulators.

We are committed to responsible gambling throughout the states and territories in which we operate. Our lottery games are available through an extensive network of over 4,000 retailers in NSW, ACT, Queensland, Victoria, Tasmania, Northern Territory and South Australia as well as online at tatts.com and our wagering products are available through a network of over 1,350 retailers and race tracks in Queensland, Northern Territory, Tasmania and South Australia as well as online at tatts.com. Tatts and our retailers are committed to providing products in a safe, secure and friendly environment and to providing the highest standards of customer care and responsible gambling.

All retailers and their staff must comply with the requirements of our responsible gambling codes of conduct applicable for each jurisdiction as well as comply with various Australian state and territory responsible gambling codes and regulations.

With our online presence through tatts.com, each account holder has access to their own "Self Manage" page. This allows our customers to set a maximum spend for lotteries purchases, enable a wagering pre-commitment limit or to self-exclude themselves from any further purchasing on their accounts.

ENVIRONMENT

The Group comprises a portfolio of neighbourhood based businesses reaching our customers through advanced wide-area network technology. As such, Tatts has a relatively low environmental footprint and CO_2 emissions profile, and is well below the reporting levels identified in the National Greenhouse and Energy Reporting Act. Nonetheless, Tatts has participated in reporting environmental impacts to the Carbon Disclosure Project (CDP) which is run worldwide on behalf of investors.

Our internally conducted review of our major operations indicated the following outcomes for the 12 month period to 31 March 2014:

- Scope 1 CO2-e emissions – 3,471 metric tonnes (prior comparative reporting period: 4,418 metric tonnes), emanating from a fleet of 590 vehicles across Australia which represents a reduction of 94 vehicles over the fleet held in the prior comparative period;
- Scope 2 CO2-e emissions – 18,452 metric tonnes (prior comparative reporting period: 24,984 metric tonnes), predominantly from buildings that utilised 13.2 million kilowatts (pcp: 21.6 million) of electricity translating to 14,153 metric tonnes of CO2-e emissions, and 5.4 million kilometres (pcp: 4.7 million) of air travel translating to 2,137 metric tonnes of CO2-e emissions;
- Tatts has continued to reduce its CO2-e emissions from buildings through the consolidation of office space in Brisbane and reduction in warehouse space utilised;
- Water usage has reduced from the consolidation of office space to 15,898 kilolitres (pcp: 20,195 kilolitres);
- Tatts continues to develop and adapt its services in response to changes in customer demand, and to take advantage of new and more efficient electronic service delivery systems;
- It is expected that Tatts' move to its new head office in Brisbane (expected to take place in FY17) will result in further energy efficiencies as this new development will encompass current energy saving initiatives;
- Environmental management reports are periodically provided to the Audit, Risk and Compliance Committee of the Board.

SAFETY

Tatts has maintained a strong commitment to Workplace Health and Safety. Our safety objective is that all employees, contractors and visitors who attend our various workplaces return home in the same health that they arrived with, each and every day.

Throughout FY14 we have been engaging our employees on a safety journey, developing their safety awareness, knowledge and safe work practices. Our focus for this period has been to review and redesign our health and safety system including enhancing the performance measures and indicators we use to monitor our safety performance.

Our improved health and safety system is based on the foundation that all injuries are preventable and every task can be done safely. Every one of our employees have responsibilities to act safely without risk to themselves or others and we have commitment at all levels of management to continue to improve in this area.

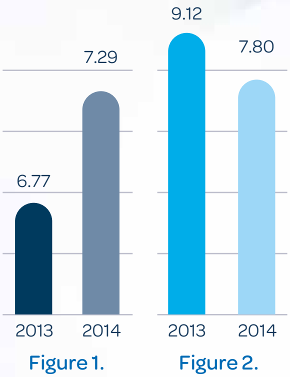
Our efforts have led to an overall improvement in our safety performance including:

- an improvement in the reporting of incidents across the Group;
- a decrease in incidents that resulted in injuries;
- a small increase of two lost time injuries (this is represented in figure 1 and resulted in our LTIFR rate increasing to 7.29);
- the total number of working days lost as a result of injury in FY14 decreased by 7% when compared to FY13. (This is represented in figure 2 and resulted in our Average Lost Time Rate (ATL) reducing from 9.12 to 7.80 in one year).

This is a great result for the Group and whilst it is rewarding to see, we still have a way to go. Our new and improved system is providing us with better insight into our known hazards and associated risks enabling us to proactively seek out areas and programs of improvement. We are confident we are taking the right steps to continue our progress and achieve our safety objectives.

Figure 1.
LOST TIME INJURY FREQUENCY RATE [1]

Figure 2.
AVERAGE TIME LOST RATE



1 The Lost Time Injury Frequency Rate (LTIFR) is a universally adopted measure that reflects the number of lost-time injuries that resulted in absence of more than 1 week per million hours worked. Due to Tatts Group's commitment to safety we include all lost-time injuries in this calculation rather than just those which resulting in 1 week or more lost time.

BOARD OF DIRECTORS

HARRY BOON
Independent
Non-executive Chairman

Chair, Governance and Nomination Committee
Member, Remuneration and Human Resources Committee.

Appointed
31 May 2005

ROBBIE COOKE
Managing Director and CEO

Appointed
14 January 2013

BRIAN JAMIESON
Independent
Non-executive Director

Chair, Audit, Risk and Compliance Committee
Member, Remuneration and Human Resources Committee.

Appointed
31 May 2005

JULIEN PLAYOUST

Independent Non-executive Director

Chair, Remuneration and Human Resources Committee
Member, Audit, Risk and Compliance Committee.

Appointed 21 November 2005

LYNDSEY CATTERMOLE AM

Independent Non-executive Director

Member, Governance and Nomination Committee
Member, Remuneration and Human Resources Committee.

Appointed 31 May 2005

DAVID WATSON

Independent Non-executive Director

Member, Audit, Risk and Compliance Committee
Member, Governance and Nomination Committee.

Appointed 27 March 2014

KEVIN SEYMOUR AM

Independent Non-executive Director

Member, Audit, Risk and Compliance Committee
Member, Governance and Nomination Committee.

Appointed 12 October 2006

EXECUTIVE TEAM

FRANCIS CATTERALL
Executive General Manager – Strategy

Francis leads the Group's domestic and international corporate strategy activities. Francis and his team have led all of the Group's mergers and acquisitions, along with involvement in subsequent integration actions.

DAN CRANE
Chief Online Officer

Dan joined the Group in 2009. His team is comprised of digital product and user experiences professionals who are at the forefront of the Group's online organisational renewal initiatives.

BARRIE FLETTON
Chief Operating Officer – Wagering

Barrie has been a part of the Group for more than twenty years in various executive roles. Barrie's wagering division is one of the largest within the Group with more than 125 full time employees operating across four states and territories.

NEALE O'CONNELL
Chief Financial Officer

Neale, who joined Tatts in 2004, was appointed as CFO in December 2012 and has managed the finance team through a period of substantial expansion via the float, a merger, and several acquisitions. Neale has over 30 years auditing and commercial experience.

MAREE PATANE
Chief Auditor

Maree and her team provide consultative, compliance and continuous audit monitoring services, both nationally and internationally. The audit team has been built up through integration and has an unrivalled knowledge of the wagering industry, gaming business systems and lottery processes.

STEVE LAWRIE

Chief Information Officer

Steve is a longstanding member of Tatts with his team supporting the largest corporate network in Australia. Steve manages a team of over 370 people, with the majority of the team are based in Brisbane with a small number of staff based in our other operating states.

ASHLEIGH LOUGHNAN

Executive General Manager – Office of the CEO

Ashleigh heads up the Office of the CEO which comprises Human Resources, Property & Procurement, Corporate Comms, Investor Relations and Group Brand Strategy. The OCEO teams are spread across five states and territories and are made up of a large number of employees with extensive experience and knowledge of the Group's businesses.

FRANK MAKRYLLOS

Chief Operating Officer – Gaming Solutions

Frank re-joined Tatts in early 2013 as COO - Gaming Solutions, which is an amalgamation of our Maxgaming, Bytecraft and Talarius operations.

The Maxgaming team provides electronic monitoring and value add services to gaming machine venues in New South Wales, Queensland and the Northern Territory. The Talarius team services 170 gaming venues around the United Kingdom and Bytecraft (our largest Australian business by headcount) operates a 24/7 technical services business that monitors and managers over one million service support calls per annum.

BILL THORBURN

Chief Operating Officer – Lotteries

Bill's extensive experience with in the lotteries industry was pre-dated by his time spent as Executive Manager – Corporate Services of TAB Queensland. Following this, Bill joined Golden Casket 18 years ago as the Chief Executive Officer and has since integrated the rest of the Group's lottery operations into the lotteries operating unit.

ANNE TUCKER

General Counsel & Company Secretary

Anne joined the UNiTAB team in June 2005 prior to the Tatts merger in 2006 and was appointed as Company Secretary and General Counsel in July 2013. Anne and her team have a wealth of experience and knowledge within the gaming industry and play an integral role in all merger, acquisition and integration activities.

TRACK RECORD

	30 June 2014 $million	30 June 2013 $million[1]
Revenue	**2,868.3**	2,948.8
Statutory charges		
- Government	**(1,289.9)**	(1,376.4)
- Other[3]	**(600.3)**	(605.7)
Operating Costs[3]	**(479.7)**	(476.5)
EBITDA	**498.4**	490.2
Profit before income tax on continuing operations	**326.6**	303.1
Profit after income tax on continuing operations	**226.6**	227.4
(Loss)/profit from discontinued operation	**(26.2)**	19.9
Net profit after income tax (statutory)	**200.4**	247.3
	Cents	**Cents**
Earnings per share[4]	**14.1**	17.9
Dividends per share[5]	**13.5**	15.5
	%	**%**
Dividend pay-out ratio	**95.9**	87.4
	$'million	**$'million**
Cash flows from operating activities	**278.4**	346.9

30 June 2012 $million[2]	30 June 2011 $million	30 June 2010 $million[6]
2,656.9	3,669.3	3,297.9
(1,265.6)	(1,768.3)	(1,531.4)
(552.3)	(869.1)	(804.8)
(423.4)	(415.6)	(398.7)
415.6	616.3	563.1
225.4	398.9	404.0
161.5	275.4	282.4
157.6	-	-
319.1	275.4	282.4
Cents	**Cents**	**Cents**
23.8	21.2	22.1
23.0	21.5	21.0
%	**%**	**%**
97.4	102.3	95.1
$'million	**$'million**	**$'million**
390.3	391.9	369.2

Notes:

1. The FY13 net profit after income tax on continuing operations includes a one-off tax benefit of $16.2 million. Before one-offs the adjusted NPAT for FY13 would be $211.2 million.
2. Only FY12 comparatives have been restated to reflect Tatts Pokies as a discontinued operation.
3. Product and program fees have been reclassified as "statutory charges – other" in each year.
4. EPS is calculated using the weighted average number of shares on issue throughout the year.
5. 2010 includes the special dividend paid on 1 October 2010, effectively substituting for the final dividend both in quantum and timing.
6. The 2010 underlying results in the table above differ from the reported results as a result of the following one-off and non-continuing adjustments at a net profit after income tax level:

Reported NPAT	**$119.4 m**
Talarius – impairment ($140 m), hedging ($2.1 m) and venue restructure costs ($15.1 m)	$157.2 m
Maxgaming – effective life adjustment to software	$17.7 m
NSW Lotteries – restructure costs	$2.1 m
South Africa – trading profit and profit on sale	($14.0 m)
Underlying NPAT	**$282.4 m**

CORPORATE GOVERNANCE STATEMENT

The Tatts Group Limited (**the Company** or **Tatts**) Board of Directors (**Board**) recognises the importance of good corporate governance and its role in ensuring the accountability of the Board and management. This statement discusses compliance by the Company and its wholly owned subsidiaries (**the Group**) with the corporate governance framework set out in the 2nd edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**ASX Recommendations**). The Board regularly reviews its corporate governance practices to ensure they meet the best interests of the Company and are consistent with the ASX Recommendations.

This statement:

- outlines Tatts' corporate governance framework;
- is structured to align with the Principles as set out in the ASX Recommendations;
- includes cross-references to the Company's charters, policies and codes, details of which (and relevant summaries of which) are available in the Corporate Governance section of the Company's website www.tattsgroup.com; and
- should be read in conjunction with the Directors' Report and the Remuneration Report (contained in the Annual Report) as those reports also contain information required to be included by the ASX Recommendations.

The Board considers that the Company's corporate governance framework and practices have complied with the ASX Recommendations throughout the 2014 financial year.

The Company will assess its corporate governance framework and practices against the 3rd edition of the ASX Recommendations for the purposes of the 2015 financial year.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The role of the Board and management

The Board is committed to act in the best interests of Tatts and to ensure that the Group is properly managed and consistently improved. The principal role of the Board is to:

- protect and enhance the interests of the Company and its shareholders;
- influence, monitor and approve corporate strategy;
- oversee Tatts and the management of Tatts;
- monitor and evaluate the performance of the Managing Director/Chief Executive Officer (CEO) and other executives;
- provide guardianship of Tatts' corporate values;
- approve and monitor financial reporting;
- oversee risk management and legal compliance; and
- oversee shareholder communications.

The Company has established the functions reserved to the Board and these are contained in the Board Charter. The CEO and senior executive group, who are accountable to the Board, are responsible for matters that are not specifically reserved to the Board (primarily being the day-to-day operation and management of the Group).

Chairman and CEO

The Chairman is responsible for leading the Board, ensuring Directors are properly briefed on all matters relevant to their role and responsibilities, facilitating Board discussions, and managing the Board's relationship with the Group's senior executives.

The CEO is responsible for implementing Group strategies and policies.

The Board Charter specifies that there must be clear division of roles between the Chairman and CEO, and also addresses:

- responsibilities of the Board;
- the relationship between the Board and management;
- appointment and role of the Chairman;
- composition of the Board;
- performance of the Board;
- Board committees;
- Board meetings; and
- access by Directors to independent advice.

Senior executive performance evaluation

The process for evaluating the performance of senior executives is detailed in the Remuneration Report. A performance evaluation for senior executives, which accords with the process described, has taken place in the 2014 financial year.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Board meetings

Details of the number of Board meetings held during the 2014 financial year, and the attendance of Directors, are set out on page 45.

Board composition

Tatts' Constitution provides that the minimum number of Directors is three and the maximum number is nine. The Board currently comprises seven Directors being the six Non-executive Directors and the CEO. The Board is chaired by an independent, Non-executive Director.

For more information on each Director (including their experience, expertise, qualifications and term of office) see the Directors' Report on page 40 and 41.

The Board considers it important to maintain an appropriate mix of skills, experience, expertise and diversity in its membership to ensure that it is able to meet the present and future needs of the Group. The skills that the Board looks to achieve and maintain include business and commercial (including gambling industry experience), strategy development, financial, and corporate management expertise.

In respect of diversity, the Board recognises the importance and benefits of having, and looks to achieve in its membership, varying backgrounds, attributes and gender representation.

Board Committees

To assist the Board in meeting its responsibilities, the Board currently has the following three committees:

- the Governance and Nomination Committee;
- the Audit, Risk and Compliance Committee; and
- the Remuneration and Human Resources Committee.

The Board Charter provides that the Board may establish other committees of the Board from time to time as may be necessary to deal with specific matters. Each of the committees has its own charter which establishes the committee's terms of reference and operating procedures.

Governance and Nomination Committee

The Governance and Nomination Committee assists the Board in its oversight responsibilities by monitoring and advising on:

- Board composition (including necessary and desirable competencies of Directors) and succession planning;
- the identification of persons for appointment to the Board, and the re-election of Directors;
- the appointment of the CEO;
- the process of reviewing the independence of Directors;
- Board performance evaluation;
- a procedure to address the induction and education needs of Directors;
- corporate governance developments; and
- the development and implementation of the Group's Code of Conduct.

The Governance and Nomination Committee is chaired by Harry Boon, and its members are Kevin Seymour, Lyndsey Cattermole and Dr David Watson. The qualifications of the members are set out on page 40 and 41.

The committee is structured so that it:

- consists only of independent Directors;
- is chaired by an independent Director; and
- has at least three members.

Details of the number of committee meetings held during the 2014 financial year, and the attendance of the members of the committee, are set out on page 45.

Appointment of new Directors and re-election of incumbent Directors

The Company has developed a skills matrix which it uses to identify any gaps in the skills and experience of Directors on the Board.

Potential Directors are nominated for appointment to the Board on the basis of a number of criteria, including their identified skills and experience. This information is then communicated to shareholders to assist them in their decision whether to vote in favour of the appointment of the nominee as a Director at the relevant general meeting.

Any person appointed to the Board will enter into an appointment agreement setting out the Director's duties, rights, responsibilities and the terms and conditions associated with that appointment. All new Directors appointed to the Board will undertake an induction program co-ordinated by the Company Secretary.

Provided that Tatts has three or more Directors, one third of the Directors (other than the CEO, and rounded down to the nearest whole number) are required to retire at each annual general meeting. In any case, no Director may retain office for the longer of three years, or after the third annual general meeting following the Director's appointment. Retiring Directors may seek re-election. Retiring Directors who are seeking re-election are subject to a performance appraisal overseen by the Governance and Nomination Committee and reappointment is not automatic.

The Company's Constitution also requires that Directors (other than the CEO) who have been appointed by the Board must retire and stand for re-election at the next general meeting following their appointment.

During the 2014 financial year:

- Lyndsey Cattermole and Brian Jamieson were re-elected as Directors of the Company;
- Dr David Watson was appointed by the Board as a Director of the Company (and will offer himself for re-election at the 2014 Annual General Meeting); and
- Bob Bentley resigned from the Board.

Commitments owing of Non-executive Directors to organisations other than Tatts are considered by the Governance and Nomination Committee prior to a Director's re-appointment to the Board of the Company and reviewed as part of their performance assessment.

Independence of Directors

Each Director is required to apply independent judgement to decision making.

A Non-executive Director will be considered to be independent if that Director is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement. The Board considers the factors outlined below when assessing the independence of each Non-executive Director, being whether the Director:

- holds 5% or more of the votes attaching to Tatts shares (that is, a substantial shareholder) or has been a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is or has been employed in an executive capacity by the Group and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- is or has been a principal of a material professional adviser or consultant to the Group, or an employee materially associated with the service provided in the previous three years;
- is or has been a material supplier or customer of the Group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer in the previous three years; or
- has or has had a material contractual relationship with the Group other than in their capacity as a Director in the previous three years.

Family ties and cross directorships may also be relevant in considering interests and relationships which may compromise a Non-executive Director's independence. The test of whether a relationship is material is based on the nature of the relationship and the circumstances of the Director. Materiality is considered from the perspective of the Group, the Director, and the person or entity with whom the Director has the relationship.

The Board considers the factors relevant to assessing independence, and determines the independence of its Non-executive Directors and the Board as a whole, each year. This review has been carried out for the 2014 financial year in respect of members of the Board. All current Non-executive Directors were considered to be independent.

The Board notes that, in accordance with the ASX Recommendations, it has a majority of Directors (including the Chairman) who are considered to be independent.

CORPORATE GOVERNANCE STATEMENT

(CONTINUED)

Independent professional advice

Each Non-executive Director's appointment agreement provides that:

- professional advice in relation to the discharge of the Director's responsibilities to the Company may be sought;
- the Chairman must be notified before advice is sought;
- any advice obtained may be given to the Board where considered appropriate by the Chairman; and
- the Company will reimburse the Director's reasonable expenses where the above procedures have been followed.

Board performance evaluation

The Governance and Nomination Committee is required to establish procedures to evaluate the performance of individual Directors, the Board as a whole and Board committees. When undertaken, the evaluation processes begin with a review of each Director's responses to questionnaires. The results are then compiled on a confidential basis. The results of the evaluation (whether of an individual Director, the Board as a whole or Board committees) are discussed by each relevant committee and reported to the Board. The results of the individual evaluations are provided to the relevant Director and the Chairman (and for the Chairman, to the Chairman of the Audit, Risk and Compliance Committee).

A Board evaluation process (Board Performance Evaluation) and an evaluation of individual Non-executive Directors (Individual Evaluation) was undertaken during the 2014 financial year. The results confirm that the Board continues to function in an appropriate manner.

The results of the Individual Evaluation undertaken in 2014 for those Directors standing for re-election at the 2014 Annual General Meeting were considered by the Governance and Nomination Committee, as were each Director's external commitments, when determining whether to recommend those Directors for re-election.

A review of the performance of each Board committee was last undertaken in the 2013 financial year. The next review will take place in the 2015 financial year.

Director induction and professional development

Tatts has an induction program to facilitate immediate involvement in Board activities by any new Director. Tatts also recognises that Board members must be provided with a range of opportunities for professional development. The Board encourages Directors to identify areas for professional development, including education about key developments in the Group's businesses and in the industries within which they operate. Tatts provides Directors with access to appropriate resources and management conducts presentations attended by Directors about key developments in the Company's business.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

Tatts is committed to promoting a culture of ethical and compliant behaviour among Directors and employees. To this end the Board has adopted a Code of Conduct applying to all Directors and employees. The code promotes:

- acting with honesty, integrity and fairness;
- acting in accordance with the law; and
- using the Group's property and resources appropriately which includes:
  - promotion of confidentiality;
  - avoidance of conflicts of interest; and
  - seeking effective and efficient outcomes for the Group.

Whistleblower policy

The Board has adopted a policy which outlines the steps that Directors and employees should take if they have a genuine suspicion of improper conduct (as described in the policy) regarding Group activities.

Securities trading policy, and remuneration hedging policy

The Board has adopted policies that set out the circumstances in which Directors and employees of the Group may deal in Company securities, and enter into transactions in products that operate to limit the economic risk of holding the Company's securities.

An overriding principle of the securities trading policy is that Directors and employees who possess price sensitive information must not deal in Company securities or enter into any transactions in risk limiting products. The policy specifies 'blackout periods' during which Directors and employees must not deal in Company securities or enter into transactions in risk limiting products, regardless of whether or not they are in possession of price sensitive information. The policy has limited exceptions (for example, acquisitions under employee equity plans).

The remuneration hedging policy prohibits Key Management Personnel, their closely related parties, and all other participants in any equity based incentive plan from entering transactions that limit that individual's economic exposure to risk arising out of an element of remuneration which has not vested or which has vested but remains the subject of a holding lock or other disposal restriction.

Diversity policy

Tatts values diversity and recognises the importance and benefits of having a diverse workforce that embraces the unique contributions of its employees. To demonstrate the Company's commitment, Tatts' diversity policy promotes the responsibilities of the Board and senior executives in creating an inclusive culture and a diverse workforce. A copy of this policy is available on the Corporate Governance section of the Company's website www.tattsgroup.com

Whilst the Group's focus during the 2014 financial year has continued to be on achieving increased gender diversity, there has been an additional focus on reviewing progress against the measureable objectives set by the Board to ensure they continue to drive change outcomes that are aligned with our business.

The Board has set an objective to achieve a 5% increase in the representation of females at the senior levels of the organisation (where there is currently less than 50% representation) within the next 12 months.

Tatts will continue to engage in initiatives relating to attraction, recruitment and selection, leadership development and ongoing education and training, all with the goal of fostering an inclusive and diverse workforce. These objectives will see the organisation appropriately positioned to focus on other dimensions of diversity in addition to gender. Furthermore, processes and systems will continue to be reviewed to ensure no inherent biases exist in decision making. This will include a pay equity audit to be conducted in the 2015 financial year. Tatts continues to support and makes available flexible working arrangements for its employees, where appropriate.

As a relevant employer under the Workplace Gender Equality Act (WGEA), the Company participates in annual reporting against the standardised gender equality indicators. A copy of this report is available on the Company's corporate website www.tattsgroup.com. This report includes the workplace profile using standardised occupational categories. As at 30 June 2014, the proportion of women across the Group's Australian managerial roles was:

Manager occupational categories [1]	Number and Proportion of Women
Board	1 of 6 Non-executive Directors (17%)
Key Management Personnel	0 of 5 employees (0%)
Other executives/ general managers	3 of 6 employees (50%)
Senior managers	9 of 29 employees (31%)
Other managers	18 of 87 employees (21%)

[1] For a description of the categories, see Table 1 of the *Workplace profile and reporting questionnaire*, Version 3, as published by the Workplace Gender Equality Agency.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit, Risk and Compliance Committee

The Board has established an Audit, Risk and Compliance Committee. The committee assists the Board in its oversight responsibilities by monitoring and advising on:

- the truth and fairness of the view given by the financial statements of the Group;
- the integrity of the Group's accounting and financial reporting;
- the Group's accounting policies and practices;
- whether the Group's accounts are consistent with relevant accounting standards;
- the scope of work, independence and performance of the internal and external auditors;
- compliance with legal and regulatory requirements;
- compliance with the Group's risk policy framework;
- the Group's control environment;
- related party transactions; and
- the Group's overall risk management program.

The Chairman of the Audit, Risk and Compliance Committee is Brian Jamieson, and its members are Julien Playout, Kevin Seymour and Dr David Watson. The qualifications of the members are set out on page 40 and 41.

The committee is structured so that it:

- consists only of Non-executive independent Directors;
- is chaired by an independent chairman (who is not the Chairman of the Board); and
- has at least three members.

Details of the number of committee meetings held during the 2014 financial year, and the attendance of the members of the committee, are set out on page 45.

External auditor

It is the responsibility of the Audit, Risk and Compliance Committee to review and approve the external auditor's arrangement for the rotation and succession of audit and review partners, including their approach to managing the transition. The procedure for the selection and appointment of the external auditor and the committee's policy for the rotation of external audit engagement partners are outlined in the Audit, Risk and Compliance Committee's Charter.

The external auditor must attend the Company's annual general meetings, and be available to answer shareholders' questions regarding:

- the conduct of the audit;
- the preparation and the content of the audit report;
- accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

CORPORATE GOVERNANCE STATEMENT

(CONTINUED)

PRINCIPLE 5: TIMELY AND BALANCED DISCLOSURE

Tatts is committed to complying with its continuous disclosure obligations, including the release of relevant information to the market and shareholders in a timely and direct manner as required by the Corporations Act and the ASX Listing Rules.

The Company's Continuous Disclosure Policy is designed to ensure:

- that information that is not generally available and that may have a material effect on the price or value of the Company's securities (price sensitive information) is identified and appropriately considered by the Board, where practicable, and senior executives for disclosure to the market; and
- accountability at a senior executive level to ensure compliance with ASX Listing Rule disclosure requirements.

The policy also sets out procedures that must be followed in relation to the release of announcements to the market and discussions with analysts, the media or shareholders.

Tatts' market announcements are available on the Investors section of the Company's website after they are released to ASX.

PRINCIPLE 6: RESPECTING RIGHTS OF SHAREHOLDERS

The Board has adopted shareholder communication practices to promote effective communication, ready access to information and ease of participation in general meetings.

The Company's website (www.tattsgroup.com/investors) contains all relevant material (including its Shareholder Communications Policy) and the Company will provide a simultaneous webcast of the annual general meeting.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Tatts operates a risk management framework that provides assurance to the Board that risks inherent in the operations and activities of the Group have been and are prudently managed.

The Board has adopted a formal Risk Management Policy to provide a system for managing risks and informing stakeholders. Under the policy, the Board has delegated the review of risk management practices to the Audit, Risk and Compliance Committee. As part of this role, that committee regularly reviews the effectiveness of the risk management system and reports to the Board on the risk management framework throughout the year.

Tatts' management team is responsible for identifying risks to the business, developing and implementing risk mitigation strategies, and reporting to the Board on the effectiveness of risk management. An internal audit team provides assurance to management, the committee and the Board on the adequacy of the risk management and internal control systems. Management reports at least annually to the committee on the material business risks and the extent to which risks are being managed.

Management has identified risks in four core areas: strategic risk, operational risk, financial risk and compliance risk. By way of illustration, management monitors a series of operational risks including:

- the management and retention of licences;
- the operations of commercial partners and other stakeholders (for example, organisations in the racing industry, agents and lottery blocs);
- reliance on technology, in particular the growth of Tatts' online presence; and
- reputation, corporate social responsibility, and customer satisfaction.

Management has also identified particular processes and internal controls to mitigate these risks including:

- corporate planning and the successful implementation of key strategic projects;
- the financial practices undertaken pursuant to the policies and procedures such as delegations of authority, budget monitoring and project performance reports;
- the operation and reporting structures embedded in Tatts' compliance programs in relation to regulatory requirements of Tatts businesses and industry practice that deal with specific areas of risk such as licensing requirements, contractual obligations, WH&S and Treasury risk. (Please note that further information on Tatts' approach regarding responsible gambling, the environment and employees, including WH&S, is contained on page 25 to 27);
- technology focussed disaster recovery plans and security policy processes and practices and other technology related management structures; and
- an annual review of the insurance program to ensure adequate coverage of insurable risks.

The internal audit team also develops an annual audit program in consultation with management and the Audit, Risk and Compliance Committee which focuses on testing the efficacy of operational, financial and compliance risks. Regular reports are provided to the Board.

For the 2014 financial year, management has reported to the Board, in accordance with ASX Recommendation 7.2, as to the effectiveness of the Company's management of the Group's material business risks.

The CEO and the Chief Financial Officer have provided assurance to the Board, in accordance with ASX Recommendation 7.3, that the declaration provided in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal control and the system is operating effectively in all material respects in relation to financial reporting risks. The Board notes that assurance from the CEO and Chief Financial Officer can only be reasonable assurance rather than absolute. This is because of such factors as the need for judgement and limitations on internal controls.

PRINCIPLE 8: FAIR AND RESPONSIBLE REMUNERATION

The Board and the Remuneration and Human Resources Committee are primarily responsible for the oversight of the Company's remuneration framework and policies. Comprehensive information on Tatts' remuneration policies and practices is contained in the Remuneration Report (see page 45 to 60).

Remuneration and Human Resources Committee

The Remuneration and Human Resources Committee assists the Board in its oversight responsibilities by monitoring and advising on:

- Non-executive Director remuneration;
- the CEO's performance review and the allocation of fixed and variable at-risk incentive remuneration;
- executive remuneration and the allocation of variable at-risk incentive remuneration to executives;
- incentive remuneration structures that link incentives to performance measures and targets that will drive shareholder value;
- employee equity plans;
- executive recruitment, retention, termination policies and succession planning;
- remuneration disclosure;
- risk management and controls regarding remuneration;
- superannuation arrangements;
- procedures for reviewing the measurable objectives for achieving diversity; and
- the effectiveness of the diversity policy.

The Chairman of the Remuneration and Human Resources Committee is Julien Playoust, and its members are Harry Boon, Brian Jamieson and Lyndsey Cattermole. The qualifications of the members are set out on page 40 and 41.

The committee is structured so that it:

- consists only of independent Directors;
- is chaired by an independent chairman; and
- has at least three members.

The CEO is invited to attend meetings where requested by committee members.

Details of the number of committee meetings held during the 2014 financial year, and the attendance of the members of the committee, are set out on page 45.

DIRECTORS' REPORT

30 JUNE 2014

Your Directors present their report on the consolidated entity consisting of Tatts Group Limited (**the Company**, or **Tatts**) and the entities it controls (**the Group**) at the end of, or during, the year ended 30 June 2014.

DIRECTORS

The following persons held office as Directors of the Company during the financial year:

Harry Boon
Robbie Cooke
Lyndsey Cattermole
Brian Jamieson
Julien Playoust
Kevin Seymour
Dr David Watson (appointed 27 March 2014)
Robert Bentley (retired 27 March 2014)

Harry Boon
Chairman
Non-executive Director

Member of the Board since 31 May 2005.

Harry was Chief Executive Officer and Managing Director of ASX listed company Ansell Limited until he retired in 2004, a position which capped a career spanning some 28 years with the Ansell Group. Harry has lived, and worked in senior positions, in Australia, Europe, the US and Canada, and has broad based experience in global marketing and sales, manufacturing, and product development. He is multi lingual and has a strong track record in delivering business results through setting ambitious goals, building the appropriate organisation and relationships and relentlessly pursuing objectives.

Harry holds a Bachelor of Laws (Honours) and a Bachelor of Commerce from the University of Melbourne.

Other current directorships

Harry is Chairman of Asaleo Care Limited (Director since May 2014) and a Non-executive Director of Toll Holdings Limited (Director since November 2006), both ASX listed companies.

Special responsibilities

Chairman of Governance and Nomination Committee

Member of Remuneration and Human Resources Committee

Former listed public company directorships in last 3 years

Hastie Group Limited (In Liquidation)
(February 2005 to May 2012)

PaperlinX Limited (May 2008 to September 2012)

Robbie Cooke
Managing Director and Chief Executive Officer

Member of the Board since 14 January 2013.

Robbie Cooke commenced as Chief Executive Officer and Managing Director of Tatts on 14 January, 2013.

Robbie's management career has traversed the wagering and gaming industries, oil and gas and online travel retailing sectors.

Robbie joined the Wotif Group as Chief Operating Officer in 2006 and was promoted to Group CEO and Managing Director in 2007. Prior to that Robbie was Head of Strategy and General Counsel at UNiTAB (now part of Tatts) from 1999 to 2005. He has also held commercial, corporate finance and legal roles at Santos, HSBC James Capel and MIM Holdings Limited.

Robbie holds a Bachelor of Laws (Honours) and Bachelor of Commerce from the University of Queensland together with a Diploma in Company Secretarial Practice.

Robbie is a member of the Australian Institute of Company Directors and Governance Institute of Australia.

Other current directorships

Nil

Former listed public company directorships in last 3 years

Wotif.com Holdings Limited (October 2007 to January 2013)

Lyndsey Cattermole AM
Non-executive Director

Member of the Board since 31 May 2005.

Lyndsey was the founder and Managing Director of Aspect Computing Pty Limited from 1974 to 2003, and a Director of Kaz Group Limited from 2001 to 2004. Lyndsey has also held many board and other membership positions on a range of government, advisory, association and not for profit committees including the Committee for Melbourne, the Australian Information Industries Association and the Victorian Premier's Round Table and as Chairman of the Women's and Children's Health Care Network.

Lyndsey holds a Bachelor of Science from the University of Melbourne and is a Fellow of the Australian Computer Society.

Other current directorships

Lyndsey is a Non-executive Director of Treasury Wine Estates Limited (Director since May 2011) and PACT Group Holdings Limited (Director since November 2013), both ASX listed companies. She also holds directorships with the Melbourne Theatre Company, the Victorian Major Events Company, JadeLynx Pty Limited, Madowla Park Holdings Pty Ltd, MPH Agriculture Pty Ltd, Catinvest Pty Ltd and Melbourne Rebels Rugby Union Ltd.

Special responsibilities

Member of Governance and Nomination Committee

Member of Remuneration and Human Resources Committee

Former listed public company directorships in last 3 years

PaperlinX Limited (December 2010 to September 2012)

Brian Jamieson
Non-executive Director

Member of the Board since 31 May 2005.

Brian Jamieson was Chief Executive of Minter Ellison Melbourne from 2002 – 2005. Prior to joining Minter Ellison, he was the Chief Executive Officer at KPMG Australia from 1998 – 2000; Managing Partner of KPMG Melbourne and Southern Regions from 1993 – 1998 and Chairman of KPMG Melbourne from 2001 – 2002. He was also a KPMG Board member in Australia, and a member of the USA Management Committee.

Brian has over 30 years of experience in providing advice and audit services to a diverse range of public and large private companies.

Brian is a Fellow of the Institute of Chartered Accountants in Australia and a member of the Institute of Company Directors in Australia.

Other current directorships

Brian is Chairman of Mesoblast Limited (Director since November 2007) and Sigma Pharmaceuticals Limited (Director since December 2005) and a Non-executive Director of OzMinerals Limited (Director since August 2004), all ASX listed companies. Further he is a Director and Treasurer of the Bionics Institute.

Special responsibilities

Chairman of Audit, Risk and Compliance Committee

Member of Remuneration and Human Resources Committee

Former directorships in last 3 years

Tigers Realm Coal Limited (February 2011 to May 2014)

Julien Playoust
Non-executive Director

Member of the Board since 21 November 2005.

Julien has worked across a range of industry sectors including property, professional services, media, agriculture, retail/consumer goods, energy and financial services. He is Managing Director of AEH Group and his professional career includes Andersen Consulting, Accenture and executive and Non-executive roles in a number of public and private companies.

Julien is a Fellow of the Australian Institute of Company Directors and member of the Australian Institute of Management and The Royal Australian Institute of Architects.

Julien holds a Masters of Business Administration from AGSM, Bachelor of Architecture, First Class Honours and Bachelor of Science from Sydney University, and a Company Director Course Diploma from Australian Institute of Company Directors.

Other current directorships

Julien is a Non-executive Director of Australian Renewable Fuels Limited (Director since April 2009), an ASX listed company. He is a Director of private equity company MGB Equity Growth Pty Limited, Trustee of the Art Gallery NSW Foundation, Director of the National Gallery of Australia Foundation, and on the NSW College of Fine Arts Advisory Council (COFA) and Advisory Boards of The Nature Conservancy and Beyond Empathy Limited.

Special responsibilities

Chairman of Remuneration and Human Resources Committee

Member of Audit, Risk and Compliance Committee

Kevin Seymour AM
Non-executive Director

Member of the Board since 12 October 2006, previously having been appointed to UNiTAB's Board in September 2000.

Kevin is Executive Chairman of Seymour Group, a private property development and investment company with interests in the energy sector.

Kevin's extensive management and business experience includes company restructuring and equities markets in Australia. Previously independent Chair of Queensland Government Brisbane City Council's Brisbane Housing Company Limited, Chair and Benefactor of Community TV's Channel31, served on Lord Mayor's Drugs Taskforce and is an Honorary Ambassador for the City of Brisbane.

Other current directorships

Kevin is Deputy Chairman of ASX listed Ariadne Australia Limited (since 1992). He also holds board positions with several private companies in Australia.

Special responsibilities

Member of Audit, Risk and Compliance Committee

Member of Governance and Nomination Committee

Former listed public company directorships in last 3 years

Watpac Limited (23 May 1996 - 24 September 2013)

Dr David Watson
Non-executive Director

Member of the Board since 27 March 2014.

Dr Watson served in the Federal Parliament in the House of Representatives as the member for Forde from 1984 - 1987 and in the Queensland Parliament as the member for Moggill from 1990 - 2004, during which time he was the Minister for Public Works and Housing (April 1997 - July 1998). Prior to entering parliament, Dr Watson was Professor of Accounting and Business Finance at the University of Queensland.

Dr Watson holds a Bachelor of Commerce (Hons) from the University of Queensland, and a MA and PhD from Ohio State University.

Dr Watson is a Fellow of the Institute of Chartered Accountants and of CPA Australia. He is also an Associate in Accounting of the University of Queensland.

Other current directorships

Dr Watson is currently the independent Chair of the Translational Research Institute, a leading Australian medical research and biopharmaceutical facility based in Brisbane. He is also Deputy Chair of the Queensland Competition Authority.

Special responsibilities

Member of Audit, Risk and Compliance Committee

Member of Governance and Nomination Committee

DIVIDENDS

The Board continues its previously indicated commitment to maintaining a high dividend payout ratio. The total dividend paid or payable in respect of this year is 5.5 cents per share, reflecting 95.9% of Net Profit After Tax (**NPAT**) being paid as dividends to shareholders and 84.8% of profit from continuing operations. The final dividend of 5.5 cents per ordinary share has been determined since the end of the financial year, and is payable on 6 October 2014. The following dividends have been paid, determined, declared or recommended by the Company since the end of the preceding financial year:

Dividends	($'000)
Final Dividend 2014	
Fully franked dividend for 2014 of 5.5 cents per ordinary share as determined by the Directors on 21 August 2014 with a record date of 3 September 2014 and payable on 6 October 2014	78,895
Interim Dividend 2014	
Fully franked interim dividend for 2014 of 8.0 cents per ordinary share as determined by the Directors on 21 February 2014 with a record date of 4 March 2014 and paid on 4 April 2014	113,370
Final Dividend 2013	
Fully franked final dividend for 2013 of 7.5 cents per ordinary share as determined by the Directors on 22 August 2013 with a record date of 4 September 2013 and payable on 7 October 2013.	105,203

All dividends are fully franked.

Dividend Reinvestment Plan (DRP)

The Company has a DRP in operation. The last date for receipt of a DRP Notice of Election to enable participation for the final dividend is 4 September 2014. A 1.5% discount is applicable to shares acquired under the DRP for this dividend. Shares acquired by a participant under the DRP will be provided via a share issue.

Further information in relation to dividends can be found in Note 29 to the financial statements.

Principal activities

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

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

OPERATING AND FINANCIAL REVIEW

Review of operations

Refer to the Managing Director's Report.

Matters subsequent to the end of the financial year

Other than as stated elsewhere in this Directors' Report, no matters or circumstances have arisen since 30 June 2014 which 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 future financial years.

Likely developments and expected results of operations

The Group's wagering operations are expected to benefit from a lift in marketing activity and an investment in brand redevelopment following the successful renegotiation of the new framework for the conduct of race and sports wagering in Queensland.

Lotteries plans to improve its retail distribution network and develop new products.

New value-add products are expected to maintain Maxgaming's profitability, whilst Bytecraft will continue to work towards improved contract margins. Talarius is expected to consolidate its 2014 financial year performance.

As outlined below under the business strategies section, the Group will continue to develop and implement changes to its online products and distribution channel to extend the Group's reach and availability, particularly in the wagering and lotteries areas.

The Directors anticipate Tatts' application in the High Court of Australia seeking special leave to appeal the decision of the Supreme Court of Victoria in the Health Benefit Levy matter will be considered in the coming year. The appeal by the State of Victoria to set aside orders made by the Victorian Supreme Court in the compensation case is expected to commence on 14 October 2014. At this stage it is not possible to say with any certainty when these matters will be concluded. Refer to the Risks section of the Directors' Report for further details.

In the Directors' opinion, any further disclosure of information would be likely to result in unreasonable prejudice to the Group.

Business Strategies and future prospects

Business strategies aimed at achieving the Group's goals include:

- optimising the management, operation and term of existing licences (including extending/improving licence terms) and businesses to achieve continued growth and operational efficiencies;
- participating in government processes associated with development and licencing of the gambling industry (in Australia and internationally);
- pursuing strategic acquisitions of government and privately owned gambling assets as and when they become available; and
- maintaining a flexible balance sheet to support the existing businesses and fund other growth opportunities that fit with the Group's core competencies.

The Group will continue to develop and implement improvements to its websites, and other distribution channels, including smart phone and tablet Apps and self-service terminals. The focus will be on expanding the Group's online single purse, smart phone and tablet offerings to current account holders and loyalty card members, whilst also seeking to attract new customers.

This will be accomplished by ongoing product development across the Group's broad suite of distribution channels within its operating units, particularly wagering and lotteries.

In the Directors' opinion, any further disclosure of information would be likely to result in unreasonable prejudice to the Group.

RISKS

Set out below is a description of the potential material risks associated with the Group's businesses. It does not purport to list every risk that may be associated with the Group's business now or in the future and there is no guarantee or assurance that the importance of these risks will not change or other risks emerge.

1 Regulation, Licences and other approvals

The conduct of wagering and lotteries in Australia and the operation and monitoring of gaming machines in Australia and the United Kingdom are governed by regulations and through the granting of licences, permits or other approvals to participants by the relevant State, Territory and United Kingdom governments. Any material non-compliance by the Group with the relevant regulations or terms of its licences, permits or approvals may result in financial penalties, or the suspension or loss of certain licences, permits or approvals which may have a material adverse impact on the financial performance of the Group or result in the loss of an operating unit and corresponding revenues from that operating unit.

Regulation at the State, Territory and Federal government levels is subject to change and the Group has no control over the regulations that apply to its current or proposed activities. Pending and/or future changes in legislation, regulation or government policy and decisions by courts and/or governments concerning the interpretation of such legislation, regulation or government policy may result in the imposition of additional taxes or other financial or operational imposts on the Group's businesses. Such changes may reduce the Group's turnover, profitability or both.

Around 75% of the Group's continuing EBITDA (i.e. excluding EBITDA loss from the Discontinued Operation) is generated from licences that run for at least 35 years. Refer Note 1(r) to the Financial Report which outlines relevant details regarding the licences and other authorisations.

The exclusivity period for the South Australian Authorised Betting Operations Licence expires in December 2016. The New South Wales Centralised Gaming Machine Monitoring Licence and New South Wales Licences to operate inter-club and inter-hotel linked gaming systems expire in November 2016, October 2017 and October 2019 respectively. The Victorian Lotteries Licence expires in June 2018.

If these licences are not renewed or licences granted on terms not acceptable to or less favourable to Tatts than the current licence terms:

(i) there is a possibility that this would result in the Group being unable to conduct the specific businesses which operate pursuant to these licences or being unable to guarantee revenues equal to those currently being generated by these businesses; and

(ii) Tatts would be required to review the carrying values of goodwill associated with the cash generating units under which these licences operate. If the licences were not renewed or were significantly altered, there may be an impairment risk. Refer Note 18 for the goodwill associated with each segment.

The Group continues to focus on optimising the management, operation and term of existing licences (including extending/improving licence terms) and businesses to achieve continued growth and operational efficiencies.

2 Litigation risk

(a) Gaming operator's licence compensation payment

On 26 June 2014 the Supreme Court of Victoria upheld an agreement entered into by Tatts with the State of Victoria in 1995. The Court found the State liable to pay Tatts (and Tatts has received) an amount of $540.5 million comprised of $451.2 million together with $89.3 million in interest. The State of Victoria has appealed the decision of the Supreme Court of Victoria and the appeal is expected to commence on 14 October 2014.

There is a risk that the State of Victoria will be successful in their appeal resulting in the decision of the Supreme Court of Victoria being set aside in which case Tatts will be required to pay back the $540.5 million plus interest and costs. Refer Note 32 for full details.

(b) Health Benefit Levy

The Treasurer of the State of Victoria was successful in his appeal in relation to a determination to impose a charge upon Tatts in the amount of $42.6 million for the Victorian gaming operations conducted by Tatts in the 2013 financial year. This has resulted in Tatts being required to pay a Health Benefit Levy greater than the $7.0 million amount that was previously provided for in the accounts.

Tatts has lodged an application in the High Court of Australia seeking special leave to appeal this decision of the Supreme Court of Victoria. There is a risk that Tatts will be unsuccessful in its application for leave to appeal or the appeal itself.

3 Competition

Even if the Group's lotteries, wagering and gaming licences, permits and approvals are maintained and renewed, its businesses may also be subject to competition from existing and new entrants at any time.

Technological developments have, and will continue to increase competition to the Group's businesses, regardless of its licences, permits and approvals. The Group's wagering businesses currently compete (and have for some time) with bookmakers in Queensland, South Australia, Tasmania and the Northern Territory and other interstate and international wagering operators who accept bets over the telephone or online, predominantly in respect of fixed price products.

The internet and other new forms of distribution have allowed new competitors to enter the Group's traditional markets without those competitors being licensed in those states and territories. There is a possibility that competition from interstate and international operators may extend to the Group's retail network in the future.

A sustained increase in competition from new entrants may result in a material failure to grow or loss of market share or revenues.

The Group continues to develop and implement improvements to tatts.com, its internet portal, and other forms of distribution including smart phone and tablet Apps and self-service terminals.

4 Reliance on systems and third parties

Other risks inherent within the Group's businesses which could materially impact the financial performance of the Group include systems failure, and reliance on third parties who are unable to provide products and services (e.g. telecommunication services and racing product). While the Group manages these risks by having system redundancy and other back-up measures in place, failure of, or significant interruption to, products and services (either third party or proprietary) for a sustained period of time may result in the Group being unable to provide certain services during that period, which may have a material adverse impact on the financial performance of the Group.

Environmental regulation

The operations of the Group are not subject to any particular and significant environmental regulation under any law of the Commonwealth of Australia or any of its states or territories.

Directors interest in securities

The relevant interest of each Director in securities of the Company at the date of this Directors' Report is as follows:

Director	Relevant interest in Tatts Bonds	Relevant interest in Ordinary shares	Options over Ordinary shares	Rights over Ordinary shares
Harry Boon	Nil	150,000	Nil	Nil
Robbie Cooke [(1)]	Nil	-	Nil	210,074
Lyndsey Cattermole	Nil	182,663	Nil	Nil
Brian Jamieson	Nil	80,943	Nil	Nil
Julien Playoust	Nil	25,000	Nil	Nil
Kevin Seymour	Nil	14,108,306	Nil	Nil
David Watson	Nil	25,000	Nil	Nil

(1) Executive Directors are the only Directors entitled to participate in the Group's incentive plans. Details of these interests are disclosed in the Remuneration Report.

Company Secretary

Anne Tucker has been employed by the Group since 2005 and was appointed Company Secretary on 2 July 2013. Anne holds Bachelors of Law and Commerce, Graduate Diplomas in Legal Practice and Applied Corporate Governance, and is an Associate of the Governance Institute of Australia.

Meetings of Directors

The numbers of scheduled Board meetings and meetings of Board Committees, and the number of meetings attended by each of the Directors of the Company during the year were:

	Board of Directors meetings		Audit, Risk & Compliance		Governance & Nomination		Remuneration & Human Resources	
	A	B	A	B	A	B	A	B
Harry Boon	10	10	nm	nm	2	2	3	3
Robbie Cooke [(a)]	10	10	nm	nm	nm	nm	3[(b)]	3[(b)]
Lyndsey Cattermole	10	10	3	3	1	1	1	1
Brian Jamieson	10	10	4	4	nm	nm	3	3
Julien Playoust	10	10	4	4	1	1	3	3
Kevin Seymour	10	10	4	4	2	2	nm	nm
Dr David Watson [(c)]	4	4	1	1	1	1	nm	nm
Robert Bentley [(d)]	6	-	nm	nm	1	-	2	-

A Number of meetings during the year while the Director was a member of the Board or Committee.

B Number of meetings attended by the Director as a member during the period.

nm Not a member of the relevant Committee.

(a) Managing Director/Chief Executive Officer, not a Non-executive Director.

(b) Not a member of this Committee, but can be invited by the Committee.

(c) Commenced 27 March 2014.

(d) Commenced temporary leave of absence effective 14 May 2013 and retired 27 March 2014.

REMUNERATION REPORT

This Remuneration Report is presented by the Directors of Tatts Group Limited for the year ended 30 June 2014 and is in accordance with Section 300A of the Corporations Act. The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act. It addresses the following matters:

- Remuneration governance
- Key Management Personnel
- Non-executive Director fees
- Remuneration framework
- Performance of the Group
- Remuneration disclosures
- Shared-based remuneration
- Service agreements
- Additional information

Remuneration highlights for the reporting period are as follows:

Group Performance

The Group NPAT of $200.4 million was impacted by $26.2 million loss after tax as a result of Tatts being required to pay a Health Benefit Levy greater than the $7.0 million amount that was previously provided for in the accounts.

The prior year includes the discontinued operations profit of $19.9 million and the gain on settlement of the Golden Casket tax claim of $16.2 million.

The Group NPAT on a like for like basis (excluding these one-offs and discontinued operations) increased from $211.2 million to $226.6 million or 7.3%.

The Group has successfully refinanced $650 million delivering significant interest savings during the period which contributed significantly to the NPAT growth before the one-off items.

Despite revenue and other income from continuing operations falling 2.8% strong cost management resulted in EBIT growth of 2.1%.

The Group successfully negotiated the extension of the retail exclusivity periods for the Queensland Race Wagering and Sports Wagering licences for a further 30 years.

Group Remuneration

Fixed annual remuneration (**FAR**) will increase in September 2014 by an average of 3.9% across the Group. This is consistent with maintaining a position within the 50th percentile of market.

Managing Director/Chief Executive Officer Remuneration

Total remuneration for the Managing Director/Chief Executive Officer was $3,071,799. This amount includes an incentive payment of $915,000 and amortised cost for his unvested rights of $686,700.

Incentive plan

The incentive plan has been continued this year. More than 1,400 permanent employees in Australia participate in this plan which recognises their capacity to influence the annual operating and financial results and their contribution to other special achievements. This plan is an important part of the remuneration package as it is designed to attract and motivate employees in alignment with drivers of shareholder value.

The allocation of the incentive pool between executives and non-executives is determined each year.

Approximately three quarters of the incentive pool in the current year has been allocated to the non-executive members of the incentive plan.

The incentive plan provides for flexible and relevant incentives for employees. For certain executives and senior managers, a mixture of cash and rights is provided in order to ensure long term alignment with shareholder interests. This year, $0.5 million of the Key Management Personnel incentive, excluding the Managing Director/Chief Executive Officer, will be cash payments and $0.5 million will be in performance rights.

Remuneration governance

The Remuneration and Human Resources Committee (**Committee**) comprises four Non-executive Directors with one of these Non-executive Directors performing the role of Chairman of the Committee. The Committee advises the Board on remuneration policies, frameworks and structures (including equity plans), employment terms and levels of remuneration for senior executives and Non-executive Directors. The Managing Director/Chief Executive Officer is invited to attend at the request of the Committee, but does not take part in the Committee's decision, and nor is he present when his remuneration is discussed. The Committee is also responsible for risk management controls relating to remuneration and overseeing the Group's diversity initiatives.

Remuneration levels set by the Committee are reviewed on an annual basis. During this process consideration is given to individual and overall performance of the Group, as well as market conditions.

The Committee is specifically responsible for advising on the following:

- remuneration for Non-executive Directors;
- Managing Director/Chief Executive Officer performance review, fixed and variable at risk incentive remuneration;
- executive remuneration and allocations of incentives/ variable at-risk remuneration;
- employee equity plans;
- remuneration disclosure;
- executive recruitment, termination policies, and arrangements for superannuation and succession;
- risk management and controls regarding remuneration;
- strategic HR initiatives; and
- diversity initiatives and disclosure.

Key Management Personnel

Key Management Personnel (**KMP**) are Non-executive Directors and those executives with responsibility for the planning, controlling and directing of the Group. Additionally, those executives who lead operating units that contribute more than 25% to continuing consolidated EBITDA are also considered to be KMP. For the year ended 30 June 2014, in addition to Non-executive Directors, the following are considered to be KMP:

- Managing Director/Chief Executive Officer – Robbie Cooke
- Chief Operating Officer, Wagering – Barrie Fletton
- Chief Information Officer – Stephen Lawrie
- Chief Financial Officer – Neale O'Connell
- Chief Operating Officer, Lotteries – Bill Thorburn

Non-executive Director fees

Non-executive Directors receive a base fee and, where they participate in a Board Committee (excluding the Governance and Nomination Committee), an additional fee in recognition of their higher workload and extra responsibilities. Additionally, the Chair of any Board Committee receives a higher fee than a member to reflect the relative role, responsibilities and time commitment. The Board Chairman does not receive additional fees for participation in or chairing of Board Committees.

Non-executive Directors do not receive incentive payments, nor are they entitled to participate in any Group employee or executive equity plans. They receive no non-monetary benefits and do not participate in any retirement benefit scheme other than statutory superannuation contributions.

As approved by the shareholders at the 2011 Annual General Meeting, the maximum aggregate Non-executive Directors' fee pool is $2 million per annum, of which $1.426 million was utilised in the current financial year. Fees paid to Non-executive Directors are set out in the table below and comprise of cash and statutory superannuation.

	Board	Committee (per membership)
Chairman	$445,000 (2013: $430,000)	$32,000 (2013: $30,000)
Member	$175,000 (2013: $167,500)	$10,000 (2013: $10,000)

Upon appointment to the Board, Non-executive Directors are required to enter into an Appointment Agreement setting out their duties, rights, responsibilities and the terms and conditions associated with that appointment.

Remuneration framework

(a) Remuneration policy

The Group ensures that remuneration packages:

- properly reflect each individual's duties and responsibilities;
- are competitive in attracting, retaining and motivating staff of the highest quality; and
- are appropriate for the results delivered so as to uphold the interests of shareholders.

Fixed Annual Remuneration (**FAR**) is set with reference to market salary for each position. Whilst the Group aims to remunerate at around the mid-point of the market for similar positions, it is essential that we maintain the flexibility to ensure that we attract the right people.

Target incentives are set for each employee with the actual amount paid being dependent on business and individual performance. Where exceptional outcomes have been achieved, the ability to pay additional incentives may be exercised. The incentive plan is structured so as to ensure alignment with business value drivers. Certain executives and senior managers receive incentive payments as a combination of cash and rights to ensure continued alignment with shareholder interests.

(b) Executive remuneration structure

Remuneration of senior executives of the Group is comprised of FAR and variable (at risk) remuneration. Details of grants made in previous years under the LTIP and ongoing testing and vesting arrangements are provided later in this report.

Fixed remuneration

Group executives are offered a competitive FAR which comprises base pay, superannuation and any salary sacrifice items (including fringe benefits tax). The following factors are taken into account when setting and reviewing FAR:

- skills and experience of the individual;
- requirements of the role;
- market remuneration levels based on benchmarking data at the 50th percentile; and
- individual and Group performance.

There are no guaranteed pay increases in any executive contracts of employment.

The performance rating for each executive is determined through an annual performance review conducted by the Managing Director/Chief Executive Officer and tabled before the Committee. The Chairman of the Committee, on behalf of the Committee, reviews the Managing Director/Chief Executive Officer's performance. Performance areas are then rated according to an achievement scale and weighted in line with their relative importance. Scores are aggregated to arrive at an overall individual performance rating.

Variable (at risk) remuneration

There is one annual 'incentive plan' which comprises cash incentives with deferred equity components. Executives this year continued to participate in the incentive plan which is aligned with the drivers of shareholder value. Performance hurdles were set around year-on-year growth in EBIT, with EBITDA and Earnings Per Share (**EPS**) used to determine actual payment levels. These measures of performance are combined with individual, business and Group performance requirements which include financial and non-financial measures such as:

- revenue growth against budget and previous year;
- EBITDA growth against budget and previous year;
- cost control and improvement, including cost performance against budget and previous year;
- margin improvement (EBIT margin to revenue) achieved by the operating unit;
- successful development and introduction of new products;
- structure change that adds to profitability;
- efficient capital expenditure outcomes and asset sales activity;
- service delivery assessment by internal customers of shared service activities; and
- delivery of significant projects within cost and time expectations.

Approximately 40% of the incentive pool is used to reward all qualifying employees for their collective contribution to Group performance with the remaining 60% being split amongst the various units along with those employees who may qualify for an incentive as a result of special projects or responsibilities.

Special project/responsibility incentives are those that the Board determines have a direct influence on the share price, investor perspectives and longer term value of the Group. These may include major technology, business specific or Group-wide projects designed to add value through substantial revenue enhancement, improved cost efficiency or business sustainability/competitiveness.

In the event that an incentive pool does not form under the above criteria, the Board may exercise discretion to determine incentives for units that perform strongly against their KPIs.

(c) Equity-based incentives

In order to ensure long-term alignment with shareholder interests, certain executives and senior managers receive their incentive payment as a combination of cash and rights. These rights are exercisable into restricted shares 12 months after grant (subject to continued employment). Once restricted shares are acquired, they are placed under a trading lock until the earlier of a further two years or termination of employment.

Shares issued to participants following the exercise of rights are subject to the discretion of the Board, liable to forfeiture during the Disposal Restriction period, including in circumstances where a participant ceases to be employed in the Group, commits an act of fraud or serious misconduct in relation to the affairs of the Group, or if there is a material misstatement in the Group's financial statements.

Rights granted under the incentive plan are priced at the Volume Weighted Average Price (**VWAP**) for the 10 trading days prior to the day the Committee recommends that they be awarded.

(d) Implementation arrangements for current incentive

The current incentive plan is in its fourth year. A specific feature is that the Committee may determine that a Group-wide incentive allocation will not be paid unless the NPAT (pre any incentive allocation) exceeds the previous year's NPAT on the same basis.

Existing LTIP grants under the old plan will remain until each tranche expires. This includes contractual remuneration arrangements in relation to the former Managing Director/Chief Executive.

Particularly in transition, but also on an ongoing basis, the Board retains the discretion, at the advice of the Committee, to pay incentives at levels and in compositions appropriate to outcomes, even where these are outside the formula and/or market related benchmarks.

(e) Special circumstances incentive

The Board has reserved the right to consider Group changing and/or Group defining special achievements when determining the amount payable in incentives. Major refinancing packages and substantive acquisitions or business divestments are examples where incentives have previously been paid for special achievements. This amount can be sourced from within or outside the normal incentive pool.

Special circumstances incentives may be paid along with other incentives at year end, or may occur at the completion of a specific project. In this financial year special circumstances incentives of $0.4 million (2013: $0.3 million) were paid.

(f) Long term incentive plan

Annual grants under the Group's LTIP were made from 2005 to 2009. With the exception of grants to the former Managing Director/Chief Executive (as approved by shareholders at the 2009 AGM), no grants have been made to executives since 2009 and no further grants will be made as this plan has been replaced by the incentive plan described above. The LTIP, whilst closed to any further grants will continue until all existing grants are exercised or they lapse by 2016. No changes have been made to the vesting or exercise conditions of such grants.

Vesting conditions for performance options and/or performance rights granted in 2005, 2006 and 2007 were based on performance against relative TSR targets. For the grants of 2008 and 2009, vesting was based on relative TSR performance and on achievement of EPS improvement targets over a 3 year period.

TSR Performance

This condition requires the Group's performance to exceed the performance of the median company in its peer group for any vesting to occur. If this is achieved, 50% of instruments vest, if the Group's performance reaches the fourth quartile of its peer group, 100% of instruments vest, and a proportion of instruments vest for performance between these points.

EPS Improvement

The vesting targets for EPS improvement set at the time of grant were 25% for the 3 years from 2008, and 16% for the 3 years from 2009. The EPS measure for the 2009 grant excludes the Tatts Pokies segment NPAT, due to the run-off of this business by August 2012. If the EPS target for a grant is met, then all rights and/or options tied to the EPS condition will vest. No vesting occurs if the target is not met.

To date 2,420,337 performance rights and 5,104,356 performance options have vested with 84.72% of the 2005 grant (for which there is no further retesting), 73.58% of the 2006 grant (for which there is no further retesting), 100% of the 2007 grant, and 100% of the TSR portion of the 2008 grant having vested. Shares issued after options and rights vest and are exercised are placed in a restricted class under the LTIP until the employee requests to sell them.

Options, rights, and shares held in a restricted class may be subject to forfeiture if a participant commits any act of fraud, defalcation or serious misconduct in relation to the Group or if there is a material misstatement in the Group's financial statements.

Since the options vested, the share price has remained below or just above the exercise prices set at the time of the grant. During the year, 2,067 options and 735,491 rights have been exercised.

(g) Managing Director/Chief Executive Officer's remuneration structure

Under the terms of the Managing Director/Chief Executive Officer's contract, the remuneration structure to apply for the 3 years from 14 January 2013 to 14 January 2016 is:

- FAR currently of $1.47 million per annum which is reviewed by the Board in accordance with normal remuneration practices.
- Performance based incentive entitlement of up to 70% of FAR, subject to achievement of KPIs set annually and as approved by the Board. Any performance based incentive entitlement will be paid as 50% cash and 50% rights to restricted shares in accordance with the Group's Remuneration policy. The rights are subject to shareholder approval each year to be sought at the following AGM. In the event that shareholders do not vote in favour of this, the balance of the incentive will be paid in cash.
- A total of 450,000 rights to restricted shares, granted over 3 years in 150,000 tranches each year of the three year contract and with each tranche exercisable 12 months after grant date on a time-based hurdle provided employment is not terminated. The resultant shares will be restricted until the earlier of a further 2 years or cessation of employment. Rights granted under this plan are priced at the VWAP of the 10 trading days prior to the date of the grant.

The performance based incentive entitlement is based on KPIs of financial performance (measured as for the incentive plan for all employees in the Group described earlier), and other specific performance requirements for the position (which include strategic value adding initiatives and organisation development). The Managing Director/Chief Executive Officer has one month after the last date for vesting to exercise vested performance rights.

(h) Hedging

Employees (and closely related parties of KMPs) who receive incentives in the form of equity may not enter into any contract, arrangement or transaction which is designed or intended to hedge or otherwise limit economic exposure to the risk relating to the Group's shares which are subject to an unvested award or a vested award subject to a holding lock or other disposal restriction under any employee incentive plan. Any employee who is proven to have contravened the Hedging policy may face disciplinary action which, depending on the seriousness of the breach, could include termination of employment.

(i) Employee share plan

The general share acquisition plan was an Employee Share Plan under which offers were made to eligible employees to acquire restricted shares. The plan was discontinued as at 1 July 2007.

(j) Services from remuneration consultants

During the period covered by this report, the Committee has not engaged any remuneration consultant to provide a recommendation on the amount or composition of remuneration for any KMPs.

(k) Loans to Directors and executives

There were no loans to Directors and executives during the financial year.

Additional information

Performance of the Group

In considering the Group's performance and its implications for shareholders' wealth in the context of appropriate remuneration levels and structures, the Committee has regard to a variety of measures such as EBIT and EBITDA growth, net profit, EPS and TSR. In prior years revenue was also considered.

Over the last five years, there have been a number of events, including mergers, acquisitions, licence renewal and award outcomes, litigation and impairments which have created substantial volatility in the accounting measures outlined above. This is reflected in the following table:

	2014****	2013***	2012	2011	2010
Revenue from continuing operations ($'000)	2,868,334	2,948,803	2,656,859	3,669,265	3,297,933
EBIT margin (%)	14.4	13.7	12.2	13.5	8.1
NPAT ($'000) from continuing operations	226,622	211,202	161,529	275,428	119,355
NPAT ($'000) statutory	200,421	247,336	319,139	275,428	119,355
Dividends paid/payable ($'000)	192,265	216,269	311,063	281,671	268,588
Dividend payout ratio (%) on statutory NPAT	95.9	87.4	97.4	102.3	95.1*
EPS (basic) (cents)	14.1	17.9	23.8	21.2	8.2
Total incentives as percentage of net profit (%)	4.1	4.1	3.3	1.8	1.5**
Share price at start of year	3.17	2.62	2.40	2.24	2.55
Share price at end of year	3.27	3.17	2.62	2.40	2.24

* The 2010 dividend payout ratio was calculated using the underlying net profit after tax of $282.4 million after adjusting reported NPAT for a number of one-off items, and the special dividend paid on 1 October 2010.

** The total incentives calculated for 2010 is based on the underlying NPAT before one-off adjustments of $282.4 million.

*** Total incentives calculated for 2013 is based on the underlying NPAT of $211.2 million after adjusting for the discontinued operations of $19.9 million and the Golden Casket tax claim of $16.2 million.

****Total incentives calculated for 2014 is based on the underlying NPAT of $226.6 million after adjusting for the loss on discontinued operations of $26.2 million.

For the 2014 financial year, revenue on continuing operations has fallen by 2.8%. However both EBIT and EPS have improved in the current financial year on a continuing operations basis which resulted in NPAT increasing by 7.3% on a continuing operations basis excluding the one-off item of the Golden Casket tax claim in the prior year of $16.2 million.

This level of performance has resulted in an incentive pool being formed. The final dividend has been impacted by the Health Benefit Levy decision. Tatts has lodged an application in the High Court of Australia seeking special leave to appeal the decision of the Supreme Court of Victoria.

The Company's share price has grown by 3.2% in the current financial year and the Company continues to provide strong dividends and returns to shareholders as shown in the total shareholder return percentile index graph in this Remuneration Report.

The incentives paid have been generated through achieving the elements of the incentive system which continue to align shareholder and employee interests.

DIRECTORS' REPORT

30 JUNE 2014 (CONTINUED)

Remuneration disclosures

2014	Short term employee benefits [1]			Post-employment benefits	Long-term benefits	Share-based payments			
Name	**Cash salary and fees $**	**Cash incentive $**	**Other $**	**Super-annuation** $**	**Long service leave $**	**Performance Options $**	**Performance rights (current year) $**	**Performance rights (previous year) $**	**Total remuneration $**
Non-executive Directors									
Harry Boon	424,725	-	-	17,775	-	-	-	-	442,500
Lyndsey Cattermole	183,750	-	-	-	-	-	-	-	183,750
Brian Jamieson	197,676	-	-	17,740	-	-	-	-	215,416
Julien Playoust	197,676	-	-	17,740	-	-	-	-	215,416
Kevin Seymour	168,186	-	-	15,564	-	-	-	-	183,750
David Watson [3]	44,350	-	-	4,102	-	-	-	-	48,452
Robert Bentley [2]	125,920	-	-	11,648	-	-	-	-	137,568
Sub-total Non-executive Directors	**1,342,283**	**-**	**-**	**84,569**	**-**	**-**	**-**	**-**	**1,426,852**
Executive Directors									
Robbie Cooke (Managing Director/ Chief Executive Officer)	1,424,725	457,500	-	17,845	27,529	-	457,500	686,700	3,071,799
Sub-total Executive Directors	**1,424,725**	**457,500**	**-**	**17,845**	**27,529**	**-**	**457,500**	**686,700**	**3,071,799**
Other Key Management Personnel (Group)									
Barrie Fletton [5]	528,764	87,500	-	17,775	15,180	-	87,500	-	736,719
Stephen Lawrie [4]	583,892	85,000	-	17,775	11,159	-	85,000	-	782,826
Neale O'Connell [4]	643,350	225,000	15,673	17,775	12,491	-	225,000	-	1,139,289
Bill Thorburn [5]	508,778	85,000	-	62,761	9,708	-	85,000	-	751,247
Total Key Management Personnel	**2,264,784**	**482,500**	**15,673**	**116,086**	**48,538**	**-**	**482,500**	**-**	**3,410,081**
Total	**5,031,792**	**940,000**	**15,673**	**218,500**	**76,067**	**-**	**940,000**	**686,700**	**7,908,732**

(1) Short term benefits may include amounts paid to superannuation at the discretion of the individual.

(2) Retired from the Board on 27 March 2014.

(3) Commenced on 27 March 2014.

(4) Denotes service unit executives with responsibility for the planning, controlling and directing of the Group.

(5) Denotes operating unit executives that contribute greater than 25% to continuing EBITDA.

2013	Short term employee benefits (1)			Post-employment benefits	Long-term benefits	Share-based payments			
Name	Cash salary and fees $	Cash incentive $	Other $	Superannuation** $	Long service leave $	Performance Options $	Performance rights (current year) $	Performance rights (previous year) $	Total remuneration $
Non-executive Directors									
Harry Boon	424,667	-	-	-	-	-	-	-	424,667
Robert Bentley	161,085	-	-	14,498	-	-	-	-	175,583
Lyndsey Cattermole	175,583	-	-	-	-	-	-	-	175,583
Brian Jamieson	188,438	-	-	16,312	-	-	-	-	204,750
Julien Playoust	188,397	-	-	16,353	-	-	-	-	204,750
Kevin Seymour	161,085	-	-	14,498	-	-	-	-	175,583
Sub-total Non-executive directors	**1,299,255**	**-**	**-**	**61,661**	**-**	**-**	**-**	**-**	**1,360,916**
Executive Directors									
Robbie Cooke (2) (Managing Director/ Chief Executive Officer)	655,998	197,500	-	8,235	12,245	-	363,925	-	1,237,903
Dick McIlwain (3) (former Managing Director/ Chief Executive)	1,171,661	-	5,114	8,235	22,586	-	-	535,972	1,743,568
Sub-total Executive Directors	**1,827,659**	**197,500**	**5,114**	**16,470**	**34,831**	**-**	**363,925**	**535,972**	**2,981,471**
Other Key Management Personnel (Group)									
Barrie Fletton (5)	508,338	120,000	-	16,470	9,775	-	120,000	27,561	802,144
Ray Gunston (4)	483,150	-	812,000	8,951	9,419	(70,882)	-	55,760	1,298,398
Stephen Lawrie (4)	562,697	150,000	7,395	16,470	10,822	-	150,000	29,530	926,914
Neale O'Connell (4) (6)	325,809	162,500	13,492	9,607	6,202	(7,474)	162,500	7,228	679,864
Bill Thorburn (5)	506,090	150,000	-	56,994	9,480	-	150,000	32,472	905,036
Sub-total Key Management Personnel	**2,386,084**	**582,500**	**832,887**	**108,492**	**45,698**	**(78,356)**	**582,500**	**152,551**	**4,612,356**
Total	**5,512,998**	**780,000**	**838,001**	**186,623**	**80,529**	**(78,356)**	**946,425**	**688,523**	**8,954,743**

(1) Short term benefits may include amounts paid to superannuation at the discretion of the individual.

(2) Appointed to the position on 14 January 2013.

(3) The former Managing Director/Chief Executive had 48% of his total remuneration related to the performance of the Group, and 52% which is not directly linked to the Group's performance. He received 37.6% of his target STI in his cash incentive.

(4) Denotes service unit executives with responsibility for the planning, controlling and directing of the Group.

(5) Denotes, operating unit executives that contribute greater than 25% to continuing consolidated EBITDA excluding the Tatts Pokies division.

(6) Appointed to the position on 3 December 2012. Remuneration included from appointment date.

In the preceeding tables, Cash Incentives represent 100% of the cash component of the annual incentive paid to each executive for the financial year. The remaining proportion of their total incentive paid for the year is in the rights they will be awarded as included in the column headed Performance rights. The following KMP have received the following percentages of their total target incentive for the year, with the respective splits between cash and performance rights outlined.

	2014 Incentive plan			2014 % Remuneration related to Group performance		
	Total target incentive achieved %	Cash %	Performance rights %	Total remuneration	Related to Group performance %	Not related to Group performance %
Robbie Cooke	91%	50%	50%	$3,071,799	30%	70%
Barrie Fletton	53%	50%	50%	$736,719	24%	76%
Stephen Lawrie	40%	50%	50%	$782,826	22%	78%
Neale O'Connell	95%	50%	50%	$1,139,289	39%	61%
Bill Thorburn	49%	50%	50%	$751,247	23%	77%

	2013 Incentive plan			2013 % Remuneration related to Group performance		
	Total target incentive achieved %	Cash %	Performance rights %	Total remuneration	Related to Group performance %	Not related to Group performance %
Robbie Cooke	85%	50%	50%	$1,237,903	32%	68%
Barrie Fletton	57%	50%	50%	$802,144	33%	67%
Ray Gunston (1)	N/A	N/A	N/A	$1,298,398	4%	96%
Stephen Lawrie	51%	50%	50%	$926,914	36%	64%
Neale O'Connell	81%	50%	50%	$679,864	49%	51%
Bill Thorburn	68%	50%	50%	$905,036	37%	63%

(1) Denotes KMPs who ceased employment during the year.

Share-based remuneration

The current equity based incentive plan has been outlined earlier in the Remuneration framework section. Prior to 2011, eligible employees who participated in the LTIP were those of senior management level and above (including the former Managing Director/ Chief Executive) whose performance is of strategic and operational importance to the Group.

Options and/or rights were granted annually to eligible participants but do not vest unless both performance and time-based hurdles are met. These conditions ensured that eligible employees were rewarded only when percentage EPS growth and/or TSR growth targets are met as set out in the Additional Information section of this Remuneration Report.

(a) Terms and conditions of options and rights

The terms and conditions of each grant of options and rights affecting remuneration in respect of the previous and current reporting periods are as follows:

Award Type	Grant date	Expiry date	Exercise price	Value per option/ right at grant date	Date exercisable
Performance option	16 December 2005	07 July 2012	\$3.10	\$0.67	7 July 2008
	30 November 2006	30 November 2013	\$3.65	\$0.80	30 November 2009
	30 November 2007	30 November 2014	\$3.99	\$1.02	30 November 2010
	30 November 2008 (1)	30 November 2015	\$2.56	\$0.33	30 November 2011
	30 November 2008 (2)	30 November 2015	\$2.56	\$0.33	30 November 2011
Performance option (former Managing Director/Chief Executive)	30 November 2006	30 November 2013	\$3.13	\$1.00	30 November 2009
Performance right	16 December 2005	07 July 2012	N/A	\$1.80	7 July 2008
	30 November 2006	30 November 2013	N/A	\$2.56	30 November 2009
	30 November 2009 (3)	30 November 2016	N/A	\$1.36	30 November 2012
	30 November 2009 (4)	30 November 2016	N/A	\$1.87	30 November 2012

Award Type	Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
Performance right (former Managing Director/Chief Executive)	30 October 2009 (3)	10 January 2014	N/A	\$1.45	12 October 2012
	30 October 2009 (4)	10 January 2013	N/A	\$1.93	12 October 2012
	29 October 2010 (3)	10 January 2015	N/A	\$1.47	12 October 2013
	29 October 2010 (4)	10 January 2014	N/A	\$1.96	12 October 2013
Performance right	26 September 2011 (5)	27 October 2012	N/A	\$2.18	4 October 2012
Performance right (former Managing Director/Chief Executive)	27 October 2011 (3)	10 January 2016	N/A	\$1.26	12 October 2014
	27 October 2011 (4)	10 January 2015	N/A	\$1.81	12 October 2014
Performance right	26 September 2012 (5)	27 October 2013	N/A	\$2.42	26 September 2013
	22 November 2013 (5)	1 November 2014	N/A	\$3.25	30 September 2014
	October 2014 (6)	November 2015	N/A	\$3.49	November 2015

(1) Options granted with TSR market based vesting conditions.
(2) Options granted with EPS non-market based vesting conditions.
(3) Rights granted with TSR market based vesting conditions.
(4) Rights granted with EPS non-market based vesting conditions.
(5) Rights granted under current incentive plan at fair value.
(6) Rights granted under current incentive plan at share price value.

Options and rights granted under the LTIP, and rights granted under the current incentive plan, carry no dividend or voting rights. Options and rights do not entitle option or right holders to participate in issues of shares except in respect of pro-rata incentive issues and rights issues in the manner specified by the ASX Listing Rules.

The exercise price of options awarded is based on the weighted average price at which the Company's shares traded on the ASX in the 30 days up to and including the determination date.

(b) Rights and options granted and vested during the year

Details of performance options and rights over ordinary shares in the Company granted during and/or in respect of the reporting period as remuneration to KMP of the Group who remained employed within the Group at the date of this Remuneration Report are set out below. Upon exercise of each option or right, the holder receives one fully paid ordinary share in the Company. Further information on the options and rights is set out in Notes 30 and 41 of the audited Financial Report.

	Number of rights granted during and in respect of the year	Number of options vested during the year	Number of rights vested during the year
Executive Directors of Tatts Group Limited			
Robbie Cooke (Managing Director/Chief Executive Officer)	281,089	-	-
Other Key Management Personnel of the Group			
Barrie Fletton	25,072	-	44,014
Stephen Lawrie	24,355	-	56,338
Neale O'Connell	64,470	-	8,936
Bill Thorburn	24,355	-	52,817
Total rights	**419,341**	**-**	**162,105**

During the period covered by this Remuneration Report, 2,067 performance options were exercised and none were granted.

(c) Shares provided upon exercise of vested rights

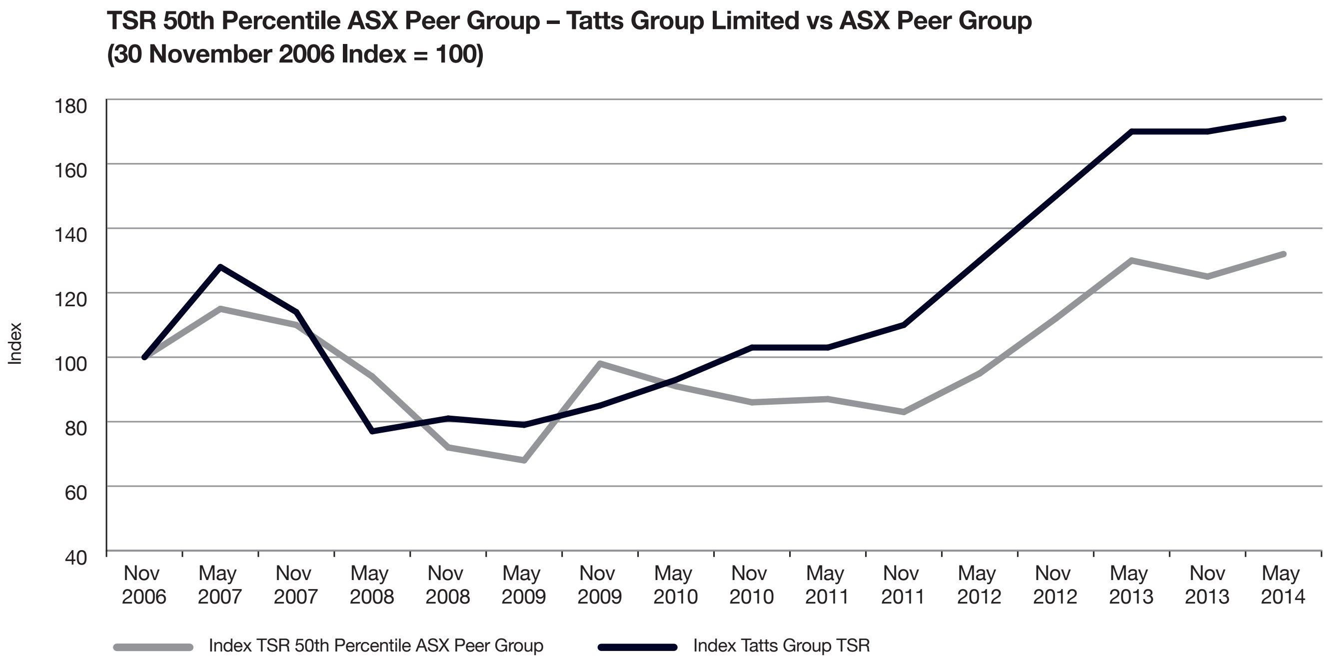
The table below shows the shares issued during the reporting period as a result of vesting of performance rights. Issues of shares under the Group's incentive plan are subject to a cap of 5% of equity. This is inclusive of shares that may be issued in respect of each outstanding offer or grant of shares, options or rights if accepted or exercised under other equity plans of the Company for employees. This amount excludes offers made outside Australia, made under a disclosure document or which do not require a disclosure document.

During the year ended 30 June 2014, 731,937 rights that vested were exercised. Details of the ordinary shares provided to KMP as a result of the exercise of vested rights are as follows:

	Date of share issue on exercise of rights	Number of ordinary shares issued on exercise of rights during the year 2014
Executive Directors of Tatts Group Limited		
Robbie Cooke (Managing Director/Chief Executive Officer)	-	-
Other Key Management Personnel of the Group		
Barrie Fletton	16 October 2013	**44,014**
Stephen Lawrie	16 October 2013	**56,338**
Neale O'Connell	16 October 2013	**8,936**
Bill Thorburn	16 October 2013	**52,817**
Total rights		**162,105**

No consideration is payable on the exercising of rights.

(d) Testing of Total Shareholder Return



The 2008 grant subject to the TSR condition reached the three year vesting timeline in November 2011 with a retest in May 2012. In the initial November 2011 test the Company's TSR outcome reached the 62.49 percentile of the peer group, hence exceeding the 50th percentile level TSR ASX Peer Group, and resulted in 74.98% of the granted options in this portion of the tranche vesting at that date. The 2008 grant subject to the TSR condition was retested in May 2012 at which time the Company's TSR reached the 73.95 percentile, hence exceeding the 62.49 percentile level reached in the November 2011 test, and resulted in an increase to 97.90% from 74.98% of options vesting in participants.

The 2008 grant subject to the TSR condition had a final test in November 2012 at which time the Company's TSR reached the 81.60 percentile of the peer group, hence exceeding the 73.95 percentile level reached in the May 2013 test and resulted in an increase to 100% from 97.90% of options vesting to participants.

The 2009 grant subject to the TSR condition reached the three year vesting timeline in November 2012. In the initial test the Company TSR outcome reached the 78.1 percentile of the peer group, hence exceeding the 50th percentile level TSR ASX peer group and resulted in 100% of the granted options in this portion of the tranche vesting at this date.

The 2009 grant subject to the TSR condition issued to the former Managing Director/ Chief Executive reached the three year vesting timeline in October 2012. In the test the Company TSR outcome reached 76.44 percentile of the peer group, hence exceeding the 50th percentile TSR ASX peer group, and resulted in 100% of the granted rights vesting at that date.

The 2010 grant subject to the TSR condition issued to the former Managing Director/ Chief Executive reached the three year vesting timeline in October 2013. In the test the Company TSR outcome reached 77.74 percentile of the peer group, hence exceeding the 50th percentile TSR of the ASX peer group, and resulted in 100% of the granted rights vesting at that date.

(e) Performance options and rights

For each grant of options and rights as set out below, the percentage of the maximum grant that was paid, or that vested, in the financial year is provided.

Name	Financial year granted or in respect of	Vested %	Forfeited %	Financial years in which options/ rights may vest	Minimum total value of options/ rights grant yet to vest	Maximum total value of options/ rights grant yet to vest
Robbie Cooke	2014	-	-	2016	Nil	457,500
	2013	-	-	2015	Nil	195,241
Barrie Fletton	2014	-	-	2016	Nil	87,500
	2013	-	-	2015	Nil	120,000
	2012	100%	-	2014	Nil	106,514
	2011	100%	-	-	Nil	-
	2010	100%	-	-	Nil	-
	2009	100%	-	-	Nil	-
	2008	100%	-	-	Nil	-
	2007	73.58%	26.42%	-	Nil	-
Stephen Lawrie	2014	-	-	2016	Nil	85,000
	2013	-	-	2015	Nil	150,000
	2012	100%	-	2014	Nil	136,338
	2011	100%	-	2014	Nil	-
	2010	100%	-	-	Nil	-
	2009	100%	-	-	Nil	-
	2008	100%	-	-	Nil	-
	2007	73.58%	26.42%	-	Nil	-
Neale O'Connell	2014	-	-	2016	Nil	225,000
	2013	-	-	2015	Nil	162,500
Bill Thorburn	2014	-	-	2016	Nil	85,000
	2013	-	-	2015	Nil	150,000
	2012	100%	-	2014	Nil	127,817
	2011	100%	-	-	Nil	-
	2010	100%	-	-	Nil	-
	2009	100%	-	-	Nil	-
	2008	100%	-	-	Nil	-
	2007	73.58%	26.42%	-	Nil	-

During the year 2,067 options were exercised and shares were issued. Of the 731,937 rights that vested, all were exercised during the year.

	A	B	C	D
	Remuneration consisting of options/rights %	Value at grant date issue incentive $	Value at exercise date $	Value at lapse date $
Name	**2014**	**2014**	**2014**	**2014**
Robbie Cooke	**37%**	**457,500**	**-**	**-**
Barrie Fletton	**13%**	**87,500**	**132,482**	**41,566**
Stephen Lawrie	**11%**	**85,000**	**169,577**	**38,666**
Neale O'Connell	**20%**	**225,000**	**26,897**	**6,641**
Bill Thorburn	**11%**	**85,000**	**158,979**	**-**

A The percentage of the value of remuneration consisting of options and rights, based on the value of options and rights expensed during the current year.

B The accounting and/or cash value at grant date of options and rights granted during or in respect of the year as part of remuneration.

C The value at exercise date of options and rights that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options and rights at that date.

D The value at lapse date of options and rights that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

There were no options granted as remuneration in the 2014 financial year.

(f) Shares under options and rights

Unissued ordinary shares in the Company under options or rights at the date of this report are as follows:

Award type	Grant Date	Expiry Date	Exercise price	Number under options/ rights
Performance option	30 November 2007	30 November 2014	$3.99	861,371
Performance option	30 November 2008	30 November 2015	$2.56	947,800
Performance right	30 November 2009	30 November 2016	N/A	23,022
Performance right	27 October 2011	10 January 2015	N/A	125,000
Performance right	27 October 2011	10 January 2016	N/A	125,000
Performance right	21 November 2013	1 November 2014	N/A	210,074
Performance right	21 November 2013	1 November 2014	N/A	302,128
Performance right	October 2014	November 2015	N/A	385,782
			Total	**2,980,177**

(g) Equity instrument disclosures relating to KMP

Performance options holdings

The number of performance options over ordinary shares in the Company held during the financial year by each Director of the Company and other Key Management Personnel of the Group, including their personally related parties, are set out below.

2014	Balance at start of the year	Granted as compensation	Exercised	Lapsed	Balance at the end of the year	Vested and exercisable	Unvested
Robbie Cooke	**-**	-	**-**	**-**	**-**	**-**	**-**
Barrie Fletton	**396,215**	-	**-**	**(51,958)**	**344,257**	**344,257**	**-**
Stephen Lawrie	**398,012**	-	**-**	**(48,333)**	**349,679**	**349,679**	**-**
Neale O'Connell	**34,229**	-	**-**	**(8,302)**	**25,927**	**25,927**	**-**
Bill Thorburn	**316,150**	-	**-**	**-**	**316,150**	**316,150**	**-**

2013	Balance at start of the year	Granted as compensation	Exercised	Lapsed	Balance at the end of the year	Vested and exercisable	Unvested
Robbie Cooke	**-**	-	**-**	**-**	**-**	**-**	**-**
Barrie Fletton	**396,215**	-	**-**	**-**	**396,215**	**396,215**	**-**
Stephen Lawrie	**398,012**	-	**-**	**-**	**398,012**	**398,012**	**-**
Neale O'Connell	**45,384**	-	**-**	**(11,155)**	**34,229**	**34,229**	**-**
Bill Thorburn	**316,150**	-	**-**	**-**	**316,150**	**316,150**	**-**

During the financial year 487,544 options were forfeited. Details of options vested, exercised and forfeited are in the table below.

Grant date	Vesting date	Vested percentage	Exercised	Forfeited	Balance at 30 June 2014
30 November 2006	30 November 2011	73.58%	-	334,350	-
30 November 2007	30 May 2012	100%	-	153,194	861,371
30 November 2008	30 May 2012	100%	2,067	-	947,800

Performance rights holdings

The number of performance rights over ordinary shares in the Company held during the financial year by each Director of the Company and other KMP of the Group, including their personally related parties, are set out below.

2014	Balance at start of the year	Granted as compensation	Exercised	Lapsed	Balance at the end of the year	Vested and exercisable	Unvested
Robbie Cooke	60,074	281,089	-	-	-	-	341,163
Barrie Fletton	80,937	25,072	(44,014)	-	-	-	61,195
Stephen Lawrie	102,492	24,355	(56,338)	-	-	-	70,509
Neale O'Connell	58,936	64,470	(8,936)	-	-	-	114,470
Bill Thorburn	98,972	24,355	(52,817)	-	-	-	70,510

2013	Balance at start of the year	Granted as compensation	Exercised	Lapsed	Balance at the end of the year	Vested and exercisable	Unvested
Robbie Cooke	-	60,074	-	-	-	-	60,074
Barrie Fletton	151,608	36,923	(107,594)	-	80,937	-	80,937
Stephen Lawrie	171,186	46,154	(114,848)	-	102,492	-	102,492
Neale O'Connell	36,787	50,000	(27,851)	-	58,936	-	58,936
Bill Thorburn	167,031	46,154	(114,213)	-	98,972	-	98,972

During the current financial year 6,040 rights were forfeited. Details of performance rights vested are in the table below.

Grant date	Vesting date	Vested percentage	Balance at 30 June 2014
30 November 2009	30 November 2012	100%	**121,478**

Non-executive Directors are not entitled to receive performance options or performance rights.

(h) Shareholdings

The numbers of shares in the Company held during the financial year by each Director of the Company and other Key Management Personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

All shares in the Company are ordinary shares.

2014	Balance at the start of the year	Received during the year on the exercise of options/rights	Received on vesting of rights to deferred shares	Other changes during the year	Balance at end of the year
Directors of Tatts Group Limited					
Harry Boon	150,000	-	-	-	150,000
Robbie Cooke	-	-	-	-	-
Lyndsey Cattermole	182,663	-	-	-	182,663
Brian Jamieson	80,943	-	-	-	80,943
Julien Playoust	100,000	-	-	(75,000)	25,000
Kevin Seymour	14,108,306	-	-	-	14,108,306
David Watson	-	-	-	25,000	25,000
Robert Bentley (1)	115,000	-	-	-	115,000

2013	Balance at the start of the year	Received during the year on the exercise of options/rights	Received on vesting of rights to deferred shares	Other changes during the year	Balance at end of the year
Directors of Tatts Group Limited					
Ordinary shares					
Harry Boon	150,000	-	-	-	150,000
Robbie Cooke	-	-	-	-	-
Lyndsey Cattermole	182,663	-	-	-	182,663
Brian Jamieson	80,943	-	-	-	80,943
Julien Playoust	176,000	-	-	(76,000)	100,000
Kevin Seymour	14,108,306	-	-	-	14,108,306
Robert Bentley	160,000	-	-	(45,000)	115,000

(1) Shareholding at retirement date 27 March 2014.

2014	Balance at the start of the year	Received during the year on the exercise of options/ rights	Received on vesting of rights to deferred shares	Other changes during the year	Balance at end of the year
Other Key Management Personnel of the Group					
Barrie Fletton	154,965	44,014	-	-	198,979
Stephen Lawrie	118,611	56,338	-	-	174,949
Neale O'Connell	113,512	8,936	-	-	122,448
Bill Thorburn	114,213	52,817	-	-	167,030

2013	Balance at the start of the year	Received during the year on the exercise of options/ rights	Received on vesting of rights to deferred shares	Other changes during the year	Balance at end of the year
Other Key Management Personnel of the Group					
Ordinary shares					
Barrie Fletton	47,371	107,594	-	-	154,965
Stephen Lawrie	3,763	114,848	-	-	118,611
Neale O'Connell	85,661	27,851	-	-	113,512
BillThorburn	-	114,213	-	-	114,213

(i) Tatts Bonds holdings of Directors and other Key Management Personnel

2014	Balance at the start of the year	Acquired during the year	Disposed during the year	Balance at the end of the year
Barrie Fletton	300	-	-	300
Robert Bentley [1]	300	-	-	300
Total	**600**	**-**	**-**	**600**

[1] Holding at retirement date 27 March 2014.

2013	Balance at the start of the year	Acquired during the year	Disposed during the year	Balance at the end of the year
Barrie Fletton	300	-	-	300
Robert Bentley	300	-	-	300
Total	**600**	**-**	**-**	**600**

Service agreements

The employment conditions of the Managing Director/Chief Executive Officer, and KMPs (excluding Non-executive Directors) are formalised in contracts of employment. Other than the Managing Director/Chief Executive Officer, all other KMP are employed under contracts of no fixed duration.

Termination payment benefits (other than termination for gross misconduct or retrenchment)

Name	Term of contract	Period of notice	Amount of payment [1]
R Cooke	3 year term contract – commenced on 14 January 2013	Written notice for the lesser of 12 months or the period remaining until 13 January 2016	No notice or severance payment required upon expiry of contractual term. Where terminated early entitled to no more than that allowed per Part 2 Division 2 of Chapter D of the Corporations Act
B Fletton	No fixed duration	12 months written notice	A combination of notice and payment in lieu of notice totalling no less than 12 months
N O'Connell	No fixed duration	12 months written notice	A combination of notice and payment in lieu of notice totalling no less than 12 months
S Lawrie	No fixed duration	12 months written notice	A combination of notice and payment in lieu of notice totalling no less than 12 months
B Thorburn	No fixed duration	12 months written notice	A combination of notice and payment in lieu of notice totalling no less than 12 months

(1) These termination payment benefits are unchanged from last year. Termination benefits to Directors and executives covered by this regime which exceed one years' base salary (averaged over three years) will require shareholder approval.

The Group may terminate an employment contract without cause by providing written notice, in accordance with the specified period or making payment in lieu of notice, based on the individual's FAR component.

Termination payments are not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct, the Group may terminate employment at any time. Any options or rights not exercised before or on the date of termination may lapse.

Additional Information

Indemnities and Insurance

Article 7.3 of the Company's Constitution provides that every person who is or has been a Director or Secretary of the Company or of a subsidiary of the Company may be indemnified by the Company, to the extent permitted by law, against liabilities:

- incurred by the person as an officer (as defined in the *Corporations Act*) of the Company or a subsidiary of the Company; and
- for legal costs incurred by the person in defending an action for a liability incurred by that person as an officer of the Company or a subsidiary of the Company.

The Company has executed Deeds of Indemnity, Insurance and Access, consistent with this Article, in favour of all current and former Directors of the Company, certain current and former Directors of related bodies corporate of the Company, and the current and certain former Secretaries of the Company. Each Deed indemnifies those persons for the full amount of all such liabilities including costs and expenses.

For the year ended 30 June 2014, no amounts have been paid pursuant to indemnities (2013: Nil).

The Company's Constitution also allows the Company to pay insurance premiums for contracts insuring the officers of the Company in relation to any such liabilities and legal costs.

During or since the end of the financial year, consistent with the Company's Constitution, the Company has paid the premium in respect of a contract insuring each of the Directors and the Secretary named in this Directors' Report, the former Directors, and the officers of the Company and its subsidiaries as permitted by the *Corporations Act*. The class of officers insured by the policy includes all officers involved in the management of the Group. The terms of the contract of insurance prohibit the disclosure of the nature of the liabilities insured against and the amount of the premium.

Pursuant to the terms of the Company's standard engagement letter with PricewaterhouseCoopers (**PwC**), it indemnifies PwC against any liabilities, including legal costs, that PwC incurs, in connection with any claim by a third party arising out of or in relation to the provision of services or the use of any work performed under, or a breach of, the engagement letter. The indemnity is for the full amount of all such liabilities including costs and expenses. The indemnity does not apply if prohibited by the *Corporations Act*.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act*.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group is important.

Details of the amounts paid or payable to the auditor (**PwC**) for non-audit services provided in respect of the Group during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Audit, Risk and Compliance Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, given the amounts paid and the type of work undertaken, did not compromise the auditor independence requirements of the *Corporations Act* for the following reasons:

- all non-audit services have been reviewed by the Audit, Risk and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as advocate for the Group or jointly sharing economic risk and rewards.

During the year the following fees were paid or payable to PricewaterhouseCoopers for the provision of non-audit services:

	Consolidated	
	2014 **$**	2013 $
Other assurance services		
PwC Australia firm:		
Audit of regulatory returns	**63,750**	73,000
Fees paid to related practices of PricewaterhouseCoopers Australian firm	**203,286**	181,413
Total remuneration for other assurance services	**267,036**	254,413
Taxation services		
Total remuneration for taxation services	**-**	-
Other services		
Total remuneration for other services	**-**	-
Total remuneration for non-audit services	**-**	-

Subject to maintaining their independence, it is the Group's policy to employ the services of PwC on assignments additional to their statutory audit duties where PwC's expertise and experience with the Group is important.

Auditor's Independence

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act* is set out on page 62 and forms part of the Directors' Report for the financial year ended 30 June 2014.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Directors' Resolution

This Directors' Report is made in accordance with a resolution of the Directors.

Harry Boon
Chairman

Robbie Cooke

Robbie Cooke
Managing Director/Chief Executive Officer

Brisbane
21 August 2014

AUDITOR'S INDEPENDENCE DECLARATION

30 JUNE 2014

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Tatts Group Limited for the year ended 30 June 2014, 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 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 period.

Anton Linschoten
Partner
PricewaterhouseCoopers

Brisbane
21 August 2014

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ANNUAL FINANCIAL REPORT 2014

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CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 $'000	2013 $'000
Revenue from continuing operations	6	**2,868,334**	2,948,803
Statutory outgoings			
Government share		**(1,289,867)**	(1,376,403)
Venue share/commission		**(413,123)**	(414,162)
Product and program fees		**(187,194)**	(191,522)
Other income	7	**-**	1,588
Other expenses from ordinary activities			
Employee expenses		**(207,529)**	(196,922)
Operating fees and direct costs		**(70,454)**	(70,483)
Telecommunications and technology		**(39,466)**	(38,646)
Marketing and promotions		**(43,268)**	(45,920)
Information services		**(19,823)**	(19,122)
Property expenses		**(55,980)**	(52,469)
Restructuring expenses		**(1,474)**	(15,232)
Other expenses		**(41,740)**	(39,459)
Share of net profit of associates and joint ventures accounted for using the equity method		**-**	129
Profit before interest, income tax, depreciation and amortisation		**498,416**	490,180
Depreciation and amortisation	8	**(83,909)**	(84,079)
Interest income		**1,927**	3,698
Finance costs	8	**(89,850)**	(106,741)
Profit before income tax		**326,584**	303,058
Income tax expense	9	**(99,962)**	(75,656)
Profit from continuing operations		**226,622**	227,402
(Loss)/profit from discontinued operation	10	**(26,201)**	19,934
Profit attributable to owners of Tatts Group Limited		**200,421**	247,336
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	40	**16.0**	16.4
Diluted earnings per share	40	**16.0**	16.4
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	40	**14.1**	17.9
Diluted earnings per share	40	**14.1**	17.8

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 $'000	2013 $'000
Profit for the year		**200,421**	247,336
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of available-for-sale financial assets	28(a)	**(26)**	(149)
Changes in the value of net investment hedges	28(a)	**(6,861)**	(6,012)
Changes in the value of cross currency interest rate swaps	28(a)	**(2,443)**	4,016
Changes in the value of interest rate swaps	28(a)	**6,205**	15,064
Changes in the value of forward foreign exchange contracts	28(a)	**(179)**	207
Exchange differences on translation of foreign operations	28(a)	**2,924**	2,063
Income tax relating to these items		**(609)**	(4,778)
Items that will not be reclassified to profit or loss			
Actuarial (losses)/gains on retirement benefit obligation		**594**	5,491
Income tax relating to components of other comprehensive income		**759**	(1,648)
Other comprehensive income for the year, net of tax		**364**	14,254
Total comprehensive income attributable to the owners of Tatts Group Limited		**200,785**	261,590

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2014

	Notes	2014 $'000	2013 $'000
ASSETS			
Current assets			
Cash and cash equivalents	12	**687,118**	355,669
Trade and other receivables	13	**132,470**	158,184
Inventories	14	**8,150**	14,110
Assets classified as held for sale	11	**39,625**	39,625
Other current assets	24	**43,575**	45,775
Total current assets		**910,938**	613,363
Non-current assets			
Trade and other receivables	13	**155**	8,684
Available-for-sale financial assets	15	**18,870**	18,306
Property, plant and equipment	17	**205,620**	186,171
Derivative financial instruments	16	**14,817**	24,592
Intangible assets	18	**4,539,984**	4,553,340
Deferred tax assets	19	**9,375**	10,672
Other non-current assets	20	**403**	403
Total non-current assets		**4,789,224**	4,802,168
Total assets		**5,700,162**	5,415,531
LIABILITIES			
Current liabilities			
Trade and other payables	21	**590,975**	633,103
Interest bearing liabilities	22	**-**	343,387
Derivative financial instruments	16	**5,496**	2,802
Tax liabilities		**3,129**	15,426
Provisions	23	**18,366**	19,409
Other current liabilities	24	**584,043**	45,775
Total current liabilities		**1,202,009**	1,059,902
Non-current liabilities			
Trade and other payables	23	**91,568**	74,279
Interest bearing liabilities	22	**1,350,968**	1,277,954
Deferred tax liabilities	25	**201,021**	215,367
Derivative financial instruments	16	**2,848**	11,566
Provisions	23	**3,629**	4,041
Retirement benefit obligations	26	**12,084**	12,001
Total non-current liabilities		**1,662,118**	1,595,208
Total liabilities		**2,864,127**	2,655,110
Net assets		**2,836,035**	2,760,421
EQUITY			
Contributed equity	27	**2,748,417**	2,654,852
Other reserves	28(a)	**(8,762)**	(7,610)
Retained earnings	28(b)	**96,380**	113,179
Capital and reserves attributable to owners of Tatts Group Limited		**2,836,035**	2,760,421
Total equity		**2,836,035**	2,760,421

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

		Attributable to owners of Tatts Group Limited			
	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2012		2,542,875	(15,878)	136,644	2,663,641
Profit for the year		-	-	247,336	247,336
Other comprehensive income		-	10,411	3,843	14,254
Total comprehensive income for the year		**-**	**10,411**	**251,179**	**261,590**
Transactions with owners in their capacity as owners:					
Dividend Reinvestment Plan issues	27	101,192	-	-	101,192
Dividends provided for or paid	29	-	-	(274,644)	(274,644)
Employee performance rights	28	2,307	(137)	-	2,170
Employee share options	28	8,478	(2,006)	-	6,472
		111,977	(2,143)	(274,644)	(164,810)
Balance at 30 June 2013		**2,654,852**	**(7,610)**	**113,179**	**2,760,421**

Balance at 1 July 2013		2,654,852	(7,610)	113,179	2,760,421
Profit for the year		-	-	200,421	200,421
Other comprehensive income		-	(989)	1,353	364
Total comprehensive income for the year		**-**	**(989)**	**201,774**	**200,785**
Transactions with owners in their capacity as owners:					
Dividend Reinvestment Plan issues	27	91,955	-	-	91,955
Dividends provided for or paid	29	-	-	(218,573)	(218,573)
Employee performance rights	28	1,605	260	-	1,865
Employee share options	28	5	(423)	-	(418)
		93,565	**(163)**	**(218,573)**	**(125,171)**
Balance at 30 June 2014		**2,748,417**	**(8,762)**	**96,380**	**2,836,035**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 $'000	2013 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST) net of prizes paid/cash returns to customers		**2,865,150**	3,172,147
Payments to suppliers and employees (inclusive of GST)		**(435,549)**	(479,712)
Payments to Government		**(1,348,100)**	(1,469,694)
Payments to venues/commission		**(413,123)**	(456,751)
Payments for product and program fees		**(190,470)**	(192,934)
		477,908	573,056
Other revenue		**38**	307
Interest received		**4,300**	6,097
Interest paid		**(88,984)**	(104,864)
Income taxes paid		**(114,850)**	(127,679)
Net cash inflow from operating activities	38	**278,412**	346,917
Cash flows from investing activities			
Payments for acquisitions	35	**-**	(428,634)
Payments for property, plant and equipment	17	**(60,265)**	(49,799)
Payments for intangibles		**(15,153)**	(19,066)
Proceeds from sale of property, plant and equipment and investment properties		**347**	68,883
Proceeds from disposal of joint ventures and repayment of loans		**-**	16,888
(Payments)/proceeds from sale of available-for-sale financial assets		**(591)**	18,899
Net cash (outflow) from investing activities		**(75,662)**	(392,829)
Cash flows from financing activities			
Proceeds from issues of shares		**5**	6,748
Dividends paid net of Dividend Reinvestment Plan		**(126,619)**	(173,452)
Proceeds from legal compensation claim		**540,468**	-
Proceeds from borrowings		**195,000**	431,082
Repayment of borrowings		**(495,000)**	(155,000)
Net cash inflow from financing activities		**113,854**	109,378
Net increase in cash and cash equivalents		**316,604**	63,466
Cash and cash equivalents at the beginning of the financial year		**355,666**	290,140
Effects of exchange rate changes on cash and cash equivalents		**14,848**	2,063
Cash and cash equivalents at end of year	12	**687,118**	355,669

The above figures are reconciled to cash and cash equivalents in the balance sheet at the end of the year as follows:

	2014 $'000	2013 $'000
Cash balances as per balance sheet	**687,118**	355,669
Cash balances per statement of cash flows	**687,118**	355,669

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out 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.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the Corporations Act. The Group is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2013 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

- AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards
- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
- AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

AASB 10 Consolidated Financial Statements was issued in August 2011 and replaces the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements. Under the new principles, the Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group has reviewed its investments in other entities to assess whether the conclusion to consolidate is different under AASB 10 than under AASB 127. No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

Under AASB 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. There is no change to the Group's accounting as a result of the adoption of AASB 11.

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. This standard introduced new disclosures but does not affect the Group's accounting policy. (Refer Note 3)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that was previously included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments are implemented retrospectively, have an immaterial impact, and as such the prior year results have not been restated.

(iii) Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2013.

(iv) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and retirement benefit obligation plan assets.

(v) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2014 and the results of all subsidiaries for the year then ended. Tatts Group Limited and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

European Gaming Group

The investment in the European Gaming Group has been partially financed by a loan denominated in United Kingdom Pound Sterling (GBP). The loan has been designated as a net investment hedge within the consolidated financial statements.

In the Company, the investment is designated as a fair value hedge of the foreign currency risk associated with the loan. The investment that is hedged has been revalued based on the closing GBP/AUD exchange rate with the gain/loss on revaluation being recognised in the statement of comprehensive income in line with the corresponding gain/loss arising on the revaluation of the GBP loan.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value and any subsequent gain or loss is to be recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director/Chief Executive Officer.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars (AUD), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are recognised in the statement of comprehensive income.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and consolidated statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

(i) Lotteries revenue

Gross subscriptions received for lotteries less prizes payable are recognised as revenue 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.

(ii) Wagering revenue

Wagering revenue is the residual value after deducting the statutory returns to customers from wagering turnover. Revenue is recognised at the point when the event on which the wagering investment is made is officially completed.

Fixed odds betting revenue is the residual value after deducting fixed odds returns to customers from fixed odds bets placed on specific events. The amounts bet on an event are recognised as an advance sale liability until the outcome of the event is determined, at which time the revenue is recognised in the income statement.

(iii) Rendering of services

Revenue from the sale of goods or rendering of a service is recognised upon the delivery of the goods or service to customers.

(iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. Interest income earned on prize reserves and unpaid prizes is included in revenue from continuing operations with the exception of interest earned on prize reserves by New South Wales Lotteries Corporation Pty Limited. Interest income from all other interest generating balances is included in interest income.

(v) Other revenue

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

(f) Income tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (eg the Research and Development Tax Incentive regime in Australia or other investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at lease inception at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in interest bearing liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Leased assets acquired under finance leases are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Refer Note 33). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the consolidated balance sheet based on their nature.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested six monthly for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(j) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities in current liabilities in the balance sheet.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently reviewed for impairment. Trade receivables are generally due for settlement, unless through prior arrangement, between no more than 2 to 30 days from the date of recognition. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables 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 according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or 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.

(l) Inventories

Stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Inventories of spare parts are measured at cost, less accumulated depreciation. Depreciation of spare parts is based upon their estimated useful life. Costs are assigned on a first in first out basis and comprise direct materials. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Non-current assets held for sale and discontinued operations

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

(m) Non-current assets held for sale and discontinued operations (continued)

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 co-ordinated 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.

(n) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables and receivables in the balance sheet (Refer Note 13).

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

(iii) Available-for-sale financial assets

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.

Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date.

Further increases in estimates of cash flows adjust effective interest rates prospectively.

Recognition and derecognition

Purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in Note 2.

Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment testing of trade receivables is described in Note 1(k).

(ii) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

(o) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 16. Movements in the hedging reserve in shareholder's equity are shown in Note 28. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(iii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

(p) Financial guarantee contracts

Financial guarantee contracts are recognised as a contingent financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

(q) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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 – 50 years
Freehold improvements	25 – 40 years
Plant and equipment	0 – 10 years
Leasehold improvements	7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 (Note 1(i)).

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.

(r) Intangible assets

(i) Goodwill

Goodwill is measured as described in Note 1(i). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment six monthly, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (Refer Note 5).

(ii) Licences

Licences that have 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 licences over their estimated useful lives.

The expected useful lives used for licences are as follows:

Race wagering licence – Qld	92 years	Expires 2098
Sports wagering licence – Qld	84 years	Expires 2098
Totalisator licence – NT	9 years	Expires 2015
Sports bookmaker licence – NT	9 years	Expires 2015
Major betting operations licence – SA	94 years	Expires 2100
Gaming machine monitoring operator's licence – Qld	10 years	Expires 2017
Monitoring providers's licence – NT	5 years	Expires 2016
Centralised monitoring system licence – NSW	10 years	Expires 2016
Inter-club linked gaming system licence – NSW	11 years	Expires 2017
Inter-hotel linked gaming system licence – NSW	13 years	Expires 2019
Radio licences – Qld	11 years	Expires 2014
Lotteries licence – Vic	10 years	Expires 2018
Lotteries licence – NSW	40 years	Expires 2050
Race and sports wagering licence – TAS	50 years	Expires 2062[*]

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

[*] The race and sports wagering licence in Tasmania has an option to be extended for a further 49 years.

(iii) Brand

The TAB brand is an indefinite life asset carried at cost being the fair value on acquisition of TattsBet Limited. It is reviewed annually by reference to future cash flows to ensure it is not carried in excess of recoverable amount.

Brands with a finite useful life are carried at cost less accumulated amortisation and impaired 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:

TAB Brand – SA	16 years	Expires 2022
Golden Casket Brands – Qld	65 years	Expires 2072

(iv) 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.

(v) 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 impaired losses. Amortisation is calculated using the straight-line method to allocate the cost of the software over its estimated useful life of 2 to 14 years.

(vi) Other

The cost associated with the Golden Casket Lottery Operator Agreement is carried at cost less accumulated amortisation and impaired losses. Amortisation is calculated using the straight-line method to allocate the cost of the agreement over the term of 65 years, expiring in 2072.

On 20 June 2012, Tatts NT Lotteries Pty Ltd entered into an agreement with the Northern Territory government to conduct lotteries. The cost associated with the agreement will be amortised over the 20 year life of the agreement which expires in 2032.

On 10 December 2012, Tatts Lotteries SA Pty Ltd entered into an agreement with the South Australia government to exclusively manage the lottery and wide area keno service in South Australia on behalf of the government owned Lotteries Commission of South Australia. The cost allocated to the agreement will be amortised over the 40 year life of the agreement which expires in 2052.

(s) Trade and other payables

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 'Set for Life', 'Made for Life' and 'Win for Life' lottery major prize winners are payable over periods exceeding 12 months and are valued at the net present value of the future expected cash flows. The portion of this liability which is payable more than 12 months post balance date is reported as a non-current liability.

(t) Interest bearing liabilities

Interest bearing liabilities, such as loans, are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Interest bearing liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(u) Finance costs

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.

(v) Provisions

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. Provisions are not recognised for future operating losses.

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.

(w) Employee benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within twelve months after the end of the period in which the employees render the related service are recognised in respect of employees services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of each reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of each reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Retirement benefit obligations

All Group employees are entitled to become members of the Group's accumulation (defined contribution) plan, whilst some employees employed by Golden Casket Lottery Corporation Limited have previously elected into the plans as outlined below. The accumulation plan receives superannuation guarantee contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

Golden Casket Lottery Corporation Limited contributes to the Queensland State Public Sector Superannuation Scheme (Q-Super), with all contributions recognised as an expense when incurred. Benefits are provided to employees on either a defined benefit basis or through an accumulation fund. Both funds are administered by the Queensland Government Superannuation Office. No liability is recognised for superannuation benefits in respect of defined benefit and accumulation plans to which Golden Casket Lottery Corporation Limited contributes as this liability is held on a Whole of Government basis and reported in the Whole of Government financial statements.

New South Wales Lotteries Corporation Pty Limited was acquired on 31 March 2010. Remaining employees were transferred into Tatts Employment Co. (NSW) Pty Limited, a wholly-owned subsidiary of the Company.

In respect of defined contribution superannuation funds, Tatts Employment Co. (NSW) Pty Limited's obligations are determined by the amounts to be contributed for that reporting period so no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss.

Tatts Employment Co. (NSW) Pty Limited also contributes to three defined benefit superannuation funds. Sub-funds have been created in relation to the transferred employees who are members of the following New South Wales public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS).

Tatts Employment Co. (NSW) Pty Limited's net obligations to these funds are calculated separately for each fund by estimating the amount of future benefit that employees have accrued in return for their services in the current and prior reporting periods, discounted to present value based on the long term Commonwealth Government bond rate less the fair value of any assets of the funds. All three funds are closed to new members. To the extent that a surplus or deficit is generated due to variations in actuarial valuations, these variances will be reflected in the balance sheet as an asset or liability and recognised in the statement of comprehensive income as income or expense and associated income tax effect. A surplus resulting in a superannuation asset may allow Tatts Employment Co. (NSW) Pty Limited to have a reduction in its contributions. A deficit resulting in a superannuation liability may require Tatts Employment Co. (NSW) Pty Limited to increase the level of its contributions.

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the end of each reporting period less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the end of each reporting period, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the end of each reporting period on Commonwealth Government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in the statement of comprehensive income.

Past service costs are recognised immediately in the income statement.

Future taxes that are funded by the entity as part of the provision of the existing benefit obligation (e.g. taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset.

Contributions to defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Performance-based incentives

Permanent employees of the Group participate in an annual incentive plan under which employees receive cash, and for certain executives a combination of cash and share-based compensation benefits. The total incentive amount paid annually is determined by a calculation based on revenue growth, EBIT margin growth, and EPS growth, applied to target incentives of the Group's permanent employees.

For the amount payable in cash, the Group recognises a liability and an expense for such cash incentives arising from these calculations, and for any Special Circumstance incentive amounts paid or payable outside of the incentive pool arising from the calculations. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation. Share-based payments under this annual incentive plan are outlined in the next section.

(v) Share-based payments

Share-based compensation benefits are provided to certain employees who have 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 executive remains employed with the Group.

The fair value of the rights granted under this incentive plan is recognised as an employee benefit expense with the corresponding increase in the share-based equity reserve. The fair value is the VWAP (Volume Weighted Average Price) of the ten trading days prior to the day the Remuneration and Human Resources Committee decides to recommend to the Board that it award the rights (determination date) recognising the 12 month exercise date, and fully charged to the period to which the performance incentive applies. The market value of shares provided to employees for no cash consideration under this incentive plan is charged to the share-based equity reserve when the employee exercises the right and becomes entitled to the restricted shares.

Share-based compensation benefits prior to the 2011 financial year were provided to employees via the Long-Term Incentive Plan (LTIP), an equity settled plan.

The fair value of performance options and rights granted under the LTIP was recognised as an employee benefit expense with a corresponding increase in equity. The fair value was measured at determination date and is recognised over the period during which the employees become unconditionally entitled to the options and rights.

The assessed fair value at determination date of options and rights granted to the individuals is allocated equally over a three year period from determination date. Fair values at determination date were determined using a Monte-Carlo Simulation Valuation methodology that takes into account the exercise price, the term of the option and right, the impact of dilution, the share price at determination date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option and right.

The fair value of the options and rights granted under the LTIP excludes the impact of any non-market vesting conditions (for example, profitability and sales and growth targets). Non-market vesting conditions are included in assumptions about the number of options and rights that are expected to become exercisable. At each reporting period date, the Group revises its estimates of the number of options and rights that are expected to become exercisable.

Upon the exercise of options or rights under the LTIP, the balance of the share-based payments reserve relating to those options and rights is transferred to share capital.

The market value of shares issued to employees for no cash consideration under the LTIP is recognised as an employee benefit expense with a corresponding increase amortised over the vesting period in equity when the employees become entitled to the shares.

(vi) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(x) Contributed equity

Ordinary shares 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. Incremental costs directly attributable to the issue of new shares or options/rights, for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(y) Dividends

Provision is made for the amount of any dividend determined, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

(z) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financial costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive ordinary shares.

(aa) 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 consolidated 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.

(ab) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(ac) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods and have not yet been applied in the financial statements. The Group's assessment of the impact of these new standards and interpretations is set out over the page.

(i) AASB9 Financial Instruments, AASB2009-11 Amendments to Australian Accounting Standards arising from AASB 9, and AASB2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2017)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces an 'expected loss' impairment model and a revised approach to micro-hedge accounting, replacing the guidance in AASB 139. The standard is applicable for reporting periods after 1 January 2018 but is available for early adoption. There will be no material impact on the Group's accounting for financial assets or liabilities, as the new requirements for classification and measurement only affect the accounting for gains and losses on available for sale debt instruments and financial liabilities that are designated at fair value through profit and loss and the Group does not have any such assets or liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The new 'expected loss' approach to impairment will require more timely recognition of expected credit losses however these are not expected to be material for the Group. The revisions to hedge accounting align the accounting treatment with risk management activities which will require enhanced disclosures about risk management activity however is not expected to materially affect any of the amounts recorded. The Group has not yet decided when to adopt AASB 9.

(ii) IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers addresses the recognition, measurement and disclosure of revenue, replacing IAS 18 covering contracts for goods and services and IAS 11 which covers construction contracts. The standard is not applicable until 1 January 2017 but is available for early adoption. The AASB have not yet issued their interpretation of the standard, but this is expected to be released shortly. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The Group will have to adopt the new 5-step process for the recognition of revenue. The Group will have a choice of full retrospective application, or prospective application with additional disclosures. The Group has not yet decided when to adopt IFRS 15.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(ad) Parent entity financial information

The financial information for the Parent Entity, Tatts Group Limited, disclosed in Note 39 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the Parent Entity. Dividends received from associates are recognised in the Parent Entity's profit or loss rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation

Tatts Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Tatts Group Limited.

The head entity and its controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate the head entity for any current tax payable assumed, and are compensated by the head entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the head entity under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable as a contribution to (or distribution from) wholly-owned tax consolidated entities.

NOTE 2 FINANCIAL RISK MANAGEMENT

Financial risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, monitors and manages financial risks in close co-operation with the Group's operating units. The Treasury and Investment Committee internally co-ordinate this process and the Audit, Risk and Compliance Committee oversees the management and implementation of the risk management framework and policies.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses various risk management approaches including, where appropriate, derivative financial instruments such as foreign exchange contracts and interest rate swaps, to hedge certain risk exposures. Derivatives, when utilised, are exclusively for hedging purposes, not for trading or other speculative purposes. The Group uses a variety of methods to measure the extent of different types of risk to which it is exposed, including market or fair value, or face value as appropriate.

The operation of this treasury activity is managed through segregation of duties, reporting requirements and structured authority levels, and is subject to ongoing internal and external audit review.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising predominantly from currency exposures to the British Pound (GBP), United States Dollar (USD), and various other currencies from time to time.

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency, and from net investments in foreign operations. Management of foreign exchange risk is focused on minimising the volatility of Group financial results to adverse exchange rate movements by protecting the cash flows of the business and reducing large investment exposures to such exchange rate movements.

This is achieved through a combination of risk management approaches including forward foreign exchange contracts, cross currency interest rate swaps, holding foreign currency cash balances against exposures, and minimising offshore net asset holdings through foreign currency denominated debt.

(a) Market risk (continued)

(i) Foreign exchange risk (contined)

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

	30 June 2014		30 June 2013	
	GBP $'000	USD $'000	GBP $'000	USD $'000
Interest bearing liabilities	**46,070**	**-**	46,070	-
Derivative financial liability	**-**	**-**	1,400	-
Cross-currency interest rate swap - receivable	**-**	**(225,000)**	-	(225,000)
Loan notes (US Private Placement)	**-**	**225,000**	-	225,000
Forward exchange contracts - buy foreign currency (cash flow hedge)	**-**	**-**	750	-
Total	**46,070**	**-**	48,220	-

The following relevant exchange rates applied during the year:

	Average rate		Spot rate at 30 June	
Currency	**2014**	2013	**2014**	2013
British Pound (GBP)	**0.5587**	0.65094	**0.55141**	0.60074
United States Dollar (USD)	**0.9138**	1.02110	**0.94330**	0.91380

Sensitivity analysis

Based on the financial instruments held at 30 June 2014, had the Australian dollar weakened/strengthened by 10% (2013: 10%) against the British Pound with all other variables held constant, the Group's post-tax profit for the year would have been the same as that reported in the income statement, while equity would have been $7.6 million higher/$9.3 million lower (2013: $7.3 million higher/$8.9 million lower) than that reported in the consolidated balance sheet.

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

(ii) Price risk

The Group is exposed to equity securities and managed fund securities price risk. This arises from investments held by the Group and classified in the consolidated balance sheet as available-for-sale financial assets (refer to Note 15 for further information). The Group is not directly exposed to commodity price risk.

Such equity and managed fund investments are not part of the usual business operations or strategies of the Group and do not represent a material exposure to the Group. As at 30 June 2014, the amount held is $18.9 million (2013: $18.3 million).

Sensitivity analysis

Based on the equity securities and managed fund securities held at 30 June 2014, had the price increased/decreased by 10% (2013: 10%) with all other variables held constant, the Group's post tax profit for the year would have been unaffected while equity would have been $1.9 million higher/lower (2013: $1.8 million higher/lower).

(b) 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. In relation to treasury activities, credit risk arises primarily from investments, and from the use of risk management derivative instruments. Group Treasury related credit risk is governed by the Board approved Treasury Policy which mandates ensuring all counterparties maintain credit ratings at a minimum of BBB+.

As at 30 June 2014, all current counterparties for Treasury activities have an investment grade that exceeds this requirement. Additionally, Group Treasury seeks to spread transactions across a range of approved counterparties to minimise the concentration of credit risk with any one financial institution.

Business and trade related credit risk is managed through procurement policies in place for the Group.

(c) Liquidity risk

Liquidity risk is the risk that monies needed to fund the Group may not be available in sufficient quantities at some future date. Prudent liquidity risk management requires maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities, and the ability to close-out market positions to meet the ongoing needs of the Group. 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. The Group has a policy that ensures any surplus cash is invested using approved investment instruments with approved financial institutions on maturities that ensure ongoing liquidity. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available and ensuring compliance with borrowing facility covenants and undertakings. This approach is supported through the maintenance of good banking relationships with the Group's core banks.

Maturities of financial assets

The financial assets of the Group, with the exception of available-for-sale financial assets disclosed in Note 15, have maturity periods ranging from 2 to 120 days.

Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at end of each reporting date to the contractual maturity date. The amounts disclosed are undiscounted cash flows.

Contractual maturities of financial liabilities	Less than 6 months $'000	6-12 months $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total contractual cash flows[4] $'000	Carrying value $'000
At 30 June 2014							
Non-derivatives							
Trade and other payables [(1)]	**559,735**	**79,246**	**14,295**	**19,316**	**15,315**	**687,907**	**682,543**
Bank loans [(2)]	**15,642**	**15,939**	**33,903**	**912,309**	**-**	**977,793**	**917,836**
Tatts Bonds [(2)]	**5,515**	**5,547**	**11,462**	**37,926**	**198,049**	**258,499**	**194,664**
Loan Notes (USPP) [(3)]	**5,906**	**5,906**	**11,811**	**89,918**	**194,113**	**307,654**	**248,398**
Total non-derivatives	**586,798**	**106,638**	**71,471**	**1,059,469**	**407,477**	**2,231,853**	**2,043,441**
Derivatives							
Net settled (interest rate swaps)	**-**	**5,460**	**361**	**1,749**	**737**	**8,307**	**8,308**
Gross settled (forward foreign exchange contracts – cash flow hedges)							
– (inflow)	**(737)**	**-**	**-**	**-**	**-**	**(737)**	**-**
– outflow	**805**	**-**	**-**	**-**	**-**	**805**	**36**
	68	**-**	**-**	**-**	**-**	**68**	**36**

Contractual maturities of financial liabilities	Less than 6 months $'000	6-12 months $'000	1 to 2 years $'000	2 to 5 years $'000	Over 5 years $'000	Total contractual cash flows[4] $'000	Carrying value $'000
At 30 June 2013							
Non-derivatives							
Trade and other payables [(1)]	559,564	73,539	19,584	30,684	30,812	714,183	707,382
Bank loans [(2)]	26,801	370,093	40,974	616,814	303,035	1,357,717	1,182,484
Tatts Bonds [(2)]	5,965	5,655	11,360	41,673	214,081	278,734	194,664
Loan Notes (USPP) [(3)]	6,096	6,096	12,192	95,451	209,942	329,777	246,224
Total non-derivatives	**598,426**	**455,383**	**84,110**	**784,622**	**757,870**	**2,680,411**	**2,330,754**
Derivatives							
Net settled (interest rate swaps)	2,945	-	11,566	-	-	14,511	14,511
Gross settled (forward foreign exchange contracts – cash flow hedges)							
– (inflow)	(1,249)	-	-	-	-	(1,249)	(143)
– outflow	1,106	-	-	-	-	1,106	-
	(143)	**-**	**-**	**-**	**-**	**(143)**	**(143)**

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

(i) Financing arrangements

The Group's existing debt facilities and their maturities are as follows:

- US$225.0 million from US Private Placement (USPP) raised in December 2010 which comprised of two tranches:
  US$55.0 million maturing in December 2017; and
  US$170.0 million maturing in December 2020.
- A$1,380.0 million syndicated multi-currency revolving facility, which is comprised of:
  A$350.0 million maturing in March 2016;
  A$180.0 million maturing in July 2016;
  A$300.0 million maturing in September 2017;
  A$300.0 million maturing in July 2018; and
  A$250.0 million maturing in February 2019.
- A$194.7 million Tatts Bonds maturing July 2019.
- A$100.0 million bilateral loan facility maturing February 2019.

(c) Liquidity risk (continued)

(i) Financing arrangements (continued)

The Group intends to maintain capacity to redraw the undrawn bank facilities up until the relevant maturity dates. This assists the Group to ensure ongoing liquidity.

Unrestricted access was available at balance date to the following lines of credit:

	Available facility $'000	**Balance drawn down $'000**	Weighted average interest rate [1] %	Available facility $'000	Balance drawn down $'000	Weighted average interest rate [1] %
Syndicated multi currency revolving facility	**1,380,000**	**917,836**	3.74	1,480,000	1,182,484	4.49
Loan notes (US Private Placement)	**238,524**	**238,524**	4.95	246,224	246,224	4.95
Tatts Bonds	**194,664**	**194,664**	5.79	194,664	194,664	6.17
Bilateral facility	**100,000**	**-**	-	-	-	-
Total	**1,913,188**	**1,351,024**		1,920,888	1,623,372	

(1) The weighted average rate represents the variable rate at which the funds have been borrowed. This excludes the overlay of any derivatives at the end of each reporting period.

The syndicate banks provided funds under the syndicated multi-currency revolving facility agreement, covered by financial undertakings that impose certain covenants on the Group. In relation to the USD funds raised in December 2010 from Private Placement Investors, the undertakings and covenants are similar to the syndicated multi-currency revolving facility agreement. The financial undertakings state that (subject to certain exceptions) the companies party to these facilities would limit security given over their assets, and will ensure that certain financial ratios are maintained. The financial ratios were maintained as at 30 June 2011, 30 June 2012, 30 June 2013 and 30 June 2014.

The Tatts Bonds are seven-year senior and unsecured debt securities which are listed on the ASX and governed by a Trust Deed. No financial covenants apply to the Tatts Bonds.

During the financial year, the Group refinanced one tranche of the syndicated multi-currency revolving facility comprising a $100 million bilateral facility and a $250 million syndicated facility, both with 5 year terms.

Key Financial Disclosures for Tatts Bonds

In accordance with the requirements of ASIC Class Order 10/321 and 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 2014 calculated in accordance with section 713B of the *Corporations Act* are:

$$\text{Interest Coverage Ratio}^{(1)} = \frac{\text{EBITDA}}{\text{Net Interest Expense}} = 5.67 \text{ times}$$

$$\text{Gearing Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}} = 101.0\%$$

$$\text{Working Capital Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = 75.8\%$$

(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.

(d) 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 interest bearing assets and borrowings.

Borrowings issued at variable rates expose the Group to cash flow interest rate risk, while borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's borrowings at variable rates were denominated in Australian Dollars and British Pounds. When required, the Group may enter into interest rate hedge instruments, ranging from 0% to 100.0% of the interest rate exposure determined on the debt profile of the Group. Any decision to hedge interest rate risk will be assessed at the inception of each floating rate debt facility and/or at each rollover in light of the overall Group exposure, the prevailing interest rate market and any funding counterparty requirements.

The Group's interest bearing assets are typically invested at fixed rates for terms ranging between 30 and 180 days to match potential liquidity requirements. As a result, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

Group Treasury manage interest rate risk by establishing interest rate hedges in accordance with the Board approved policy.

At balance date, material exposure to interest rate risk is limited to the loans available under the funding arrangements as disclosed in (c) above and cash and cash equivalents as disclosed in Note 12.

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.

Sensitivity analysis

At 30 June 2014, if interest rates had increased/decreased by 100 basis points (2013: 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 $0.8 million lower/higher and $7.8 million lower/$7.3 million higher respectively (2013: $8.3 million lower/higher and $4.0 million lower/higher respectively).

(e) Fair value of financial assets and liabilities

Other than those classes of financial assets and liabilities denoted as 'listed' (Refer to Note 15), 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 32. No material losses are anticipated in respect of any of those contingencies.

(iii) 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.

(iv) Fair value hierarchy

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy. (Refer Note 3).

(f) Capital risk management

The Group's policy is to maintain a capital structure for the business which ensures sufficient liquidity and support for business operations, maintains shareholder and market confidence, provides strong stakeholder returns, and positions the business for future growth.

The ongoing maintenance and pursuit of this policy is characterised by:

- maintaining a leverage ratio that ensures an investment grade credit profile of the Group;
- maintaining appropriate sources of debt funding that ensures an appropriate maturity profile for the Group;
- a dividend policy aimed at dividend payout ratios of circa 90% on a fully franked basis;
- investment criteria that consider earnings accretion and risk adjusted rate of return requirements based on the Group's weighted average cost of capital; and
- ongoing cash flow forecast analysis and detailed budgeting processes which, combined with continual development of banking and investor relationships, is directed at providing a sound financial positioning for the Group's operations and financial management activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2014 (CONTINUED)

(f) Capital risk management (continued)

The leverage ratios that management monitor as key metrics for capital management are calculated as net debt divided by total capital (balance sheet leverage ratio), and net debt divided by EBITDA (earnings leverage ratio).

Net debt is calculated as total borrowings (interest bearing liabilities as shown in the balance sheet, plus derivative financial liabilities and bank guarantees) less cash and cash equivalents (less prize reserves and other committed cash amounts).

Total capital is calculated as 'equity' as shown in the balance sheet (including non-controlling interests) plus net debt. EBITDA (leverage) is the earnings before interest, tax, depreciation and amortisation as shown in the income statement, adjusted to reflect full year outcomes of continuing operations, adjusted for non-recurring significant or extraordinary items which are non-cash in nature, adjusted for acquisitions/disposals during the past financial year on a pro forma 12 month basis and with the addition of interest income.

Two measures are used for leverage to provide both a balance sheet and earnings/cash flow perspective of the leverage of the business.

In addition, the interest cover ratio is used to monitor the annual earnings leverage in the income statement. Interest cover ratio is calculated as EBITDA (leverage) as outlined above less the acquisition/disposal adjustment (EBITDA (interest cover)), divided by interest expense as disclosed in the accounts adjusted for any non-recurring non-cash items.

	2014 $'000	2013 $'000
EBITDA (leverage)	**464,379**	543,793
EBITDA (interest cover)	**464,379**	524,243
Interest expense	**91,066**	106,741
Interest bearing and other liabilities	**1,357,311**	1,626,363
Less: cash and cash equivalents (excluding prize reserves)	**(583,279)**	(169,144)
Net debt	**774,032**	1,457,219
Equity	**2,836,035**	2,760,421
Total Capital	**3,610,067**	4,217,460
Balance sheet leverage ratio	**21.44%**	34.55%
Earnings leverage ratio	**1.67:1**	2.68:1
Interest cover ratio	**5.10:1**	4.91:1

The Group received $540.5 million on 27 June 2014 in accordance with orders made by the Supreme Court of Victoria in proceedings commenced against the State of Victoria. This has had a positive impact on the Earnings leverage ratio which fell from 2.83:1 on 27 June to 1.67:1 on 30 June. This matter is subject to appeal. If the appeal is successful, the Group would be liable to repay the original amount plus interest and costs.

The Board and management continually assess the relative merits of the potential for higher returns from increased leverage and the advantages that flow to markets and operational stability and strategic flexibility from a strong capital base.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, other than normal banking requirements.

NOTE 3 FAIR VALUE MEASUREMENTS

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

(a) 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 – the fair value is calculated using quoted prices in active market

Level 2 – the fair value is 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 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data *(i) Recognised fair value measurements*

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2014. Comparative information for non-financial assets has not been provided as permitted by the transitional provisions of the new rules.

At 30 June 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Financial assets				
Financial assets at Fair Value Through Profit and Loss				
Cross currency interest rate swaps	**-**	**14,817**	**-**	**14,817**
Available-for-sale financial assets	**-**	**18,870**	**-**	**18,870**
Total financial assets	**-**	**33,687**	**-**	**33,687**
Non-financial assets				
Total non-financial assets	**-**	**-**	**-**	**-**
Financial liabilities				
Forward foreign exchange contracts	**-**	**36**	**-**	**36**
Interest rate swap contracts	**-**	**8,308**	**-**	**8,308**
Total financial liabilities	**-**	**8,344**	**-**	**8,344**

At 30 June 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Financial assets				
Financial assets at Fair Value Through Profit and Loss				
Cross currency interest rate swaps	-	24,592	-	24,592
Available-for-sale financial assets	-	18,306	-	18,306
Total financial assets	-	42,898	-	42,898
Financial liabilities				
Forward foreign exchange contracts	-	(143)	-	(143)
Interest rate swap contracts	-	14,511	-	14,511
Total financial liabilities	-	14,368	-	14,368

There were no transfers between levels 1 and 2 for recurring fair value measurements during the period. There were no recurring or non-recurring transfers in or out of level 3 measurements.

(b) 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 rates 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.

NOTE 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill, licences and brands

The Group tests six monthly whether goodwill, licences and brands have suffered any impairment, in accordance with the accounting policy stated in Note 1(r). The recoverable amounts of cash generating units have been determined based on the higher of fair value less costs to sell or value in use calculations. These calculations require the use of assumptions. (Refer to Note 18 for details of these assumptions).

(b) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In addition, the Group recognises deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity, which is not part of the tax consolidated group, to satisfy certain tests at the time the losses are recouped.

(c) Legal proceedings against the State of Victoria

On 26 June 2014, the Supreme Court of Victoria found in favour of Tatts in the proceedings commenced by it against the State of Victoria for compensation on the expiry of its gaming operator's licence on 15 August 2012.

The Court found the State is liable to pay Tatts $451.2 million plus interest of $89.3 million with the total amount received subject to applicable tax. This upholds an agreement entered into with the State in 1995. This agreement led to the State receiving substantial additional licence fees from Tatts for the conduct of the Tatts Pokies business, on the basis that the State would grant compensation if a new gaming operator's licence was granted to anyone other than Tatts on the expiry of its licence.

The amount of $540.5 million has been treated as unearned income and a current liability. Subsequent to 30 June 2014, funds have been predominantly used to pay down long term debt.

The matter is subject to appeal, and if the judgement of the Supreme Court of Victoria is set aside, the $540.5 million plus interest and costs will be payable to the State of Victoria. Refer Note 32.

(d) Health Benefit Levy

On 1 July 2014, the Victorian Court of Appeal upheld the Victorian Treasurer's determination that Tatts must pay a Health Benefit Levy of $42.6 million in respect of its Victorian gaming operations in the financial year ended 30 June 2013. The Court of Appeal set aside the previous decision of the Supreme Court to the effect that the Treasurer had erred in making this determination. Tatts paid an amount of $44.3 million (including interest) to the Treasurer on 2 July 2014. The Court of Appeal also ordered that Tatts pay the Treasurer's costs, which are still to be determined.

Tatts' accounts for the financial year ended 30 June 2013 included a provision for the levy of $7 million, calculated on a pro-rata basis for the 46 days of operation under its gaming operator's licence. The additional impact on the Group, shown within Discontinued operation (Refer Note 10) for the financial year ended 30 June 2014 as a result of a levy of $42.6 million, plus interest, being imposed is $25.7 million after tax.

Tatts has lodged an application in the High Court of Australia seeking special leave to appeal the decision of the Victorian Court of Appeal.

NOTE 5 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.

Operating segments

The Group is organised on a global basis into the following divisions by product and service type.

Division	Product and service type
Tatts Lotteries	The operation of lottery licences within the states of Victoria, New South Wales, Tasmania, ACT, the operation of a Lottery Operator Agreement in Queensland, South Australia, and an agreement in Northern Territory to conduct lotteries.
TattsBet	Totalisator and fixed odds betting on thoroughbred, harness, greyhounds and other sporting events pursuant to licences in Queensland, South Australia, Northern Territory and Tasmania.
Maxgaming	Gaming machine monitoring and value added services in Queensland, New South Wales and the Northern Territory.
Bytecraft Systems	Warehousing, installation, relocation, repair and maintenance of gaming machines, lottery and wagering terminals and other transaction devices in Australia and New Zealand.
Talarius	Gaming operations in the United Kingdom.
Unallocated	This segment includes shared services and investment properties. None of these activities constitutes a separately reportable business segment.
Discontinued	The operation of gaming machines and Club Keno in Victoria. On 15 August 2012, Tatts Gaming Operator Licence expired. The expiry of this licence resulted in Tatts Pokies ceasing gaming machine operations from 16 August 2012.

Geographical areas

Although the Consolidated Entity's divisions are managed on a global basis they have operated in two main geographical areas during the current and comparative financial year (United Kingdom and Australia).

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is $4,590.0 million (2013: $4,596.2 million) and the total of these non-current assets located in the UK is $184.4 million (2013: $170.7 million).

(a) Accounting policies

Segment information is prepared in conformity with the accounting policies of the Group disclosed in Note 1(c) and accounting standard AASB 8 Operating Segments, which states that disclosure of total assets and liabilities for each reportable segment is only required if such an amount is regularly provided to the chief operating decision maker (Managing Director/Chief Executive Officer).

Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion of corporate expenses that can be allocated to a segment on a reasonable basis.

(b) Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an 'arm's-length' basis and are eliminated on consolidation.

Segment information provided to the Managing Director/Chief Executive Officer of the Group

2014	Tatts Lotteries $'000	TattsBet $'000	Max-gaming $'000	Bytecraft Systems $'000	Talarius $'000	Un-allocated $'000	Inter-segment eliminations[1] $'000	Total Continuing Operations $'000	Dis-continued Operation $'000	Consoli-dated $'000
Total segment revenue and other income	**1,922,767**	**642,271**	**114,249**	**106,888**	**103,629**	**8,660**	**(30,130)**	**2,868,334**	**79**	**2,868,413**
EBITDA	296,562	160,776	63,105	(369)	13,618	(35,276)	-	498,416	(35,964)	462,452
Depreciation and amortisation	(25,048)	(16,687)	(13,434)	(2,092)	(9,562)	(17,086)	-	(83,909)	-	(83,909)
EBIT	**271,514**	**144,089**	**49,671**	**(2,461)**	**4,056**	**(52,362)**	**-**	**414,507**	**(35,964)**	**378,543**

2013	Tatts Lotteries $'000	TattsBet $'000	Max-gaming $'000	Bytecraft Systems $'000	Talarius $'000	Un-allocated $'000	Inter-segment eliminations[1] $'000	Total Continuing Operations $'000	Dis-continued Operation $'000	Consoli-dated $'000
Total segment revenue and other income	**2,008,592**	**655,682**	**113,181**	**115,954**	**78,026**	**10,111**	**(31,155)**	**2,950,391**	**190,664**	**3,141,055**
EBITDA	294,605	173,923	63,062	(1,021)	7,709	(48,098)	-	490,180	53,885	544,065
Depreciation and amortisation	(25,125)	(18,287)	(14,975)	(1,994)	(8,706)	(14,610)	(382)	(84,079)	(947)	(85,026)
Impairment	-	-	-	-	-	-	-	-	(17,138)	(17,138)
EBIT	**269,480**	**155,636**	**48,087**	**(3,015)**	**(997)**	**(62,708)**	**(382)**	**406,101**	**35,800**	**441,901**

[1] Inter-segment eliminations against revenue primarily comprises of Bytecraft Systems revenue.

[2] On 15 August 2012, the Gaming Operator Licence issued to Tatts Pokies expired resulting in this segment ceasing gaming machine operations subsequent to 15 August 2012. Refer to Note 10 for further details regarding this segment.

A reconciliation of EBIT from continuing operations to operating profit before tax is as follows:

	2014 $'000	2013 $'000
EBIT from continuing operations	**414,507**	406,101
Interest income	**1,927**	3,698
Finance costs	**(89,850)**	(106,741)
Profit before income tax from continuing operations	**326,584**	303,058

NOTE 6 REVENUE

	2014 $'000	2013 $'000
From continuing operations		
Sales revenue		
Entertainment products and services	**2,648,420**	2,717,208
Rendering of services	**207,456**	212,255
	2,855,876	2,929,463
Other revenue		
Rents and sub-lease rentals	**6,729**	6,646
Interest on unpaid prizes and prize reserves	**4,697**	6,371
Other revenue	**1,032**	6,323
	12,458	19,340
	2,868,334	2,948,803

NOTE 7 OTHER INCOME

	2014 $'000	2013 $'000
Net gain on disposal of property, plant and equipment	**-**	114
Net gain on sale of available-for-sale financial assets	**-**	1,299
Movement on foreign exchange	**-**	175
	-	1,588

NOTE 8 EXPENSES

From continuing operations

(a) Net gains and expenses

Profit before income tax includes the following specific expenses:

	2014 $'000	2013 $'000
Expenses		
Depreciation		
Buildings	**2,118**	2,369
Plant and equipment	**33,216**	33,313
Leasehold improvements	**6,069**	6,154
Freehold improvements	**1,273**	700
Investment properties	**-**	474
Total depreciation	**42,676**	43,010
Amortisation		
Licences	**14,923**	14,998
Brand	**894**	894
Computer software	**19,491**	21,113
Other	**5,925**	4,064
Total amortisation	**41,233**	41,069
Total depreciation and amortisation	**83,909**	84,079
Finance costs		
Interest and finance charges paid/payable	**89,850**	106,741
Finance costs expensed	**89,850**	106,741
Other items		
Minimum lease payments expense relating to operating leases	**25,459**	22,923
Defined contribution superannuation	**13,370**	12,479
Impairment of freehold land in restructuring costs	**-**	316

(b) Significant expenses

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

	2014 $'000	2013 $'000
Restructuring costs:		
Restructuring costs – other	**1,474**	3,903
Restructuring costs – relocation of head office	**-**	11,329
	1,474	15,232

NOTE 9 INCOME TAX EXPENSE

(a) Income tax expense

	2014 $'000	2013 $'000
Current tax	**99,462**	114,198
Deferred tax	**(12,052)**	(15,082)
Adjustments for current tax of prior periods	**1,573**	(7,599)
	88,983	91,517
Income tax expense is attributable to:		
Profit from continuing operations	**99,962**	75,656
(Loss)/Profit from discontinued operations	**(10,979)**	15,861
	88,983	91,517
Deferred income tax (revenue) included in income tax expense/(benefit):		
(Increase)/decrease in deferred tax assets (note 19)	**(16,070)**	3,778
(Decrease)/increase in deferred tax liabilities (note 25)	**4,018**	(18,860)
	(12,052)	(15,082)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2014 $'000	2013 $'000
Profit from continuing operations before income tax expense	**326,584**	303,058
(Loss)/profit from discontinuing operations before income tax expense	**(37,180)**	35,795
	289,404	338,853
Tax at the Australian tax rate of 30.0% (2013 - 30.0%)	**86,822**	101,656
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Depreciation and amortisation	**1,728**	(2,048)
Non-assessable income	**(165)**	(2,011)
Non-deductible items	**1,105**	1,991
Unrecognised tax losses	**171**	(72)
Sundry items	**(3,351)**	-
	86,310	99,516
Difference in overseas tax rates	**(34)**	486
Changes in overseas tax rate	**1,453**	415
Under/(over) provision in prior years in deferred tax	**(319)**	(1,301)
Under/(over) provision in prior years in current tax	**1,573**	(7,599)
Income tax expense	**88,983**	91,517

(c) Amounts recognised directly in equity

	2014 $'000	2013 $'000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to goodwill:		
Net deferred tax – debited (credited) directly to equity	**-**	-

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

	2014 $'000	2013 $'000
Available-for-sale financial assets	**46**	(223)
Cash flow hedges	**(655)**	(4,555)
Other	**759**	(1,648)
	150	(6,426)

(e) Tax losses

	2014 $'000	2013 $'000
Unused tax losses for which no deferred tax asset has been recognised	**37,598**	33,789
Potential tax benefit at 22.59% (2013: 23.79%)	**8,494**	8,038

All unused tax losses were incurred by overseas entities that are not part of the Tax Consolidated Group.

(f) Golden Casket licence fee tax claim

On 13 May 2013, Tatts reached settlement with the ATO in relation to the deductability of the Golden Casket licence fee. The resulting income tax benefit of $16.2 million was included within 2013 under/(over) provision in prior years in current tax ($8.1 million) and the prior period deferred tax expense/(benefit) of ($8.1 million).

Tax consolidation legislation

Tatts Group Limited and its wholly-owned Australian controlled entities have adopted the tax consolidation legislation. The accounting policy in relation to this legislation is set out in Note 1(ad).

NOTE 10 DISCONTINUED OPERATION

(a) Description

On 15 August 2012 the Gaming Operator Licence held by the Company expired. This Gaming Operator 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 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 exceed their written down book value. The remainder of the gaming assets classified under plant and equipment relating to the Gaming Operator Licence continued to be depreciated at existing rates up to the expiry of the licence on 15 August 2012.

(b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the full year ended 30 June 2014 (2014 column) and the corresponding prior period ended 30 June 2013 .

	2014 $'000	2013 $'000
Revenue (note 6)	**-**	167,076
Expenses	**(36,043)**	(136,779)
Profit on disposal of assets classified as held for sale	**70**	-
Profit on sale of gaming machines and associated equipment to venues	**9**	23,588
Depreciation	**-**	(947)
Impairment of freehold land	**-**	(1,586)
Impairment of goodwill	**-**	(15,552)
(Loss)/profit before income tax and interest	**(35,964)**	35,800
Finance costs	**(1,216)**	(5)
Income tax expense/benefit	**10,979**	(15,861)
(Loss)/profit after income tax of discontinued operation	**(26,201)**	19,934
Net cash (outflow) from operating activities	**(467)**	(539)
Net cash inflow from investing activities	**79**	59,710
Net cash (decrease)/increase generated by Tatts Pokies	**(388)**	59,171

NOTE 11 ASSETS CLASSIFIED AS HELD FOR SALE

Investment properties previously held as non-current were transferred in 2013 to current assets classified as held for sale. The balance at 30 June 2014 is $39.6 million (2013: $39.6 million).

NOTE 12 CASH AND CASH EQUIVALENTS

	2014 $'000	2013 $'000
Cash at bank and in hand	**656,301**	305,189
Deposits at call	**817**	879
Fixed interest securities	**30,000**	49,601
	687,118	355,669

On 27 June 2014 Tatts received $540.5 million from the Victorian Government following the Supreme Court of Victoria finding in favour of Tatts in the proceedings commenced by it against the State of Victoria on the expiry of its Gaming Operator Licence on 15 August 2012.

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	2014 $'000	2013 $'000
Balances from previous page	**687,118**	355,669
Balances per statement of cash flows	**687,118**	355,669

(b) Interest rate risk exposure

(i) Cash at bank and in hand

Cash at bank is bearing floating interest rates between zero and 2.47% (2013: zero and 2.72%).

(ii) Deposits at call

The deposits are bearing floating interest rates between 2.45% and 2.60% (2013: 2.70% and 3.50%) and have a maturity of between 1 and 14 days.

(iii) Fixed interest securities

Fixed interest securities are bearing fixed interest rates with a weighted average of 3.21% (2013: 3.96%) and have maturities between 10 days and 2 months.

NOTE 13 TRADE AND OTHER RECEIVABLES

Current	2014 $'000	2013 $'000
Trade receivables		
Weekly sweeps [(1)]	**56,834**	92,210
Trade debtors	**30,459**	25,563
Less: Provision for impairment of receivables	**(561)**	(737)
	86,732	117,036
Other receivables	**27,757**	26,058
Prepayments	**17,981**	15,090
	132,470	158,184
Non-current		
Other receivables	**155**	8,684

(1) Balances with venues, agencies and outlets are swept on recurring cycles of between 2 and 7 days.

(a) Impaired trade and other receivables

The Group has recognised losses of $0.6 million in the income statement (2013: loss of $1.0 million) in respect of bad and doubtful trade receivables during the year ended 30 June 2014.

At 30 June 2014, there were no material receivables past due and deemed to be irrecoverable which have not been impaired or individual balances specifically impaired. Collateral is not normally obtained for balances owing.

Movements in the provision for impairment of receivables are as follows:

	2014 $'000	2013 $'000
At 1 July	**(737)**	(791)
Provision for impairment recognised during the year	**(819)**	(964)
Receivables written off during the year as uncollectable	**995**	1,014
Effect of exchange rate changes on provision for impairment of receivables	**-**	4
At 30 June	**(561)**	(737)

(b) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. Where interest is charged, this is on commercial terms. Collateral is not normally obtained.

(c) Foreign exchange and interest rate risk

Information concerning exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 2.

(d) Fair value and credit risk

Due to the short term nature of these trade and other receivables, their carrying amount is assumed to approximate their fair value. Information concerning the credit risk of receivables is set out in Note 2.

NOTE 14 INVENTORIES

	2014 $'000	2013 $'000
Spare parts – at cost	**12,762**	18,998
Accumulated depreciation of spare parts inventory	**(4,686)**	(4,987)
	8,076	14,011
Finished goods – at cost	**74**	99
Total inventory	**8,150**	14,110

Depreciation represents the write down of spare parts inventory. The write down for the year ended 30 June 2014 is $4.5 million (2013: $4.8 million) and has been included in operating fees and direct costs in profit or loss.

NOTE 15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include the following classes of financial assets:

	2014 $'000	2013 $'000
Unlisted investments		
Managed fund investment – at fair value	**18,870**	18,306
Total available-for-sale financial assets	**18,870**	18,306

Impairment and price risk exposure

Information concerning exposure to price and credit risk is set out in Note 2.

The Group has recognised no impairment loss on its available-for-sale financial assets during the year ended 30 June 2014 (2013: $Nil).

NOTE 16 DERIVATIVE FINANCIAL INSTRUMENTS

	2014 $'000	2013 $'000
Non-current assets		
Cash flow hedges – Cross currency interest rate swaps (US Private Placement)	**14,817**	24,592
	14,817	24,592
Current liabilities		
Cash flow hedges – forward foreign exchange contracts	**36**	(143)
Cash flow hedges – interest rate swap contracts	**5,460**	2,945
	5,496	2,802
Non-current liabilities		
Cash flow hedges – interest rate swap contracts	**2,848**	11,566
	2,848	11,566

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group financial risk management policies (refer to Note 2). Information regarding exposure to the credit risk, foreign exchange risk and interest rate risk is provided in Note 2.

(a) Interest rate swap contracts – 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 cover approximately 35.2% of the loan principal outstanding (2013: 39.4%) and 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 2.71% and 2.74% (2013: 0.51% and 2.96%) while the fixed interest rates average AUD 4.83% (2013: AUD 5.93% and GBP 4.82%).

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 (refer to Note 28).

(b) Forward foreign exchange contracts – cash flow hedges

The Group has entered into forward foreign exchange contracts to purchase British Pounds. These contracts are hedging highly probable future interest payments for the next 6 to 12 months. The contracts are timed to mature when interest payments and contractual payments are due to occur. The gain or loss from remeasuring the forward foreign exchange contracts 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 (refer to Note 28).

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

Information concerning the cross-currency interest rate swap contracts and US Private Placement Loan notes is set out in Note 2. 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 (refer to Note 28).

NOTE 17 PROPERTY, PLANT AND EQUIPMENT

	Freehold Land $'000	Buildings $'000	Freehold improvements $'000	Leasehold improvements $'000	Plant and equipment $'000	Assets under development $'000	Total $'000
At 30 June 2013							
Cost	23,883	71,112	23,528	70,290	470,694	8,102	667,609
Accumulated depreciation	-	(29,850)	(16,888)	(53,056)	(381,644)	-	(481,438)
Carrying amount at 30 June 2013	**23,883**	**41,262**	**6,640**	**17,234**	**89,050**	**8,102**	**186,171**
Year ended 30 June 2014							
Opening net book amount	23,883	41,262	6,640	17,234	89,050	8,102	186,171
Additions	8,593	-	-	-	5,278	46,394	60,265
Disposals	-	(192)	(276)	(8)	(187)	-	(663)
Depreciation and impairment continuing operations (Note 8)	-	(2,118)	(1,273)	(6,069)	(33,216)	-	(42,676)
Transfers in/(out)	-	-	3,874	4,243	29,841	(37,950)	8
Foreign exchange movements	153	486	-	420	1,380	76	2,515
Carrying amount at 30 June 2014	**32,629**	**39,438**	**8,965**	**15,820**	**92,146**	**16,622**	**205,620**

	Freehold Land $'000	Buildings $'000	Freehold improvements $'000	Leasehold improvements $'000	Plant and equipment $'000	Assets under development $'000	Total $'000
At 30 June 2014							
Cost	32,629	72,811	25,297	72,795	495,244	16,622	715,398
Accumulated depreciation	-	(33,373)	(16,332)	(56,975)	(403,098)	-	(509,778)
Net book amount	**32,629**	**39,438**	**8,965**	**15,820**	**92,146**	**16,622**	**205,620**

NOTE 17 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land $'000	Buildings $'000	Freehold improve-ments $'000	Leasehold improve-ments $'000	Plant and equipment $'000	Assets under de-velopment $'000	Total $'000
At 30 June 2012							
Cost	25,651	69,891	20,535	65,072	703,919	9,352	894,420
Accumulated depreciation	-	(26,906)	(16,188)	(44,644)	(580,343)	-	(668,081)
Carrying amount at 30 June 2012	**25,651**	**42,985**	**4,347**	**20,428**	**123,576**	**9,352**	**226,339**
Year ended 30 June 2013							
Opening net book amount	25,651	42,985	4,347	20,428	123,576	9,352	226,339
Additions through acquisition of subsidiary	-	-	-	20	267	-	287
Additions	-	-	2,169	1,237	20,276	26,117	49,799
Disposals	-	(218)	-	(28)	(39,685)	-	(39,931)
Depreciation and impairment continuing operations (Note 8)	(316)	(2,369)	(700)	(6,154)	(33,313)	-	(42,852)
Depreciation and impairment discontinued operation (Note 8)	(1,586)	-	-	(18)	(323)	-	(1,927)
Transfers in/(out)	-	410	824	1,381	17,563	(27,428)	(7,250)
Foreign exchange movements	134	454	-	368	689	61	1,706
Carrying amount at 30 June 2013	**23,883**	**41,262**	**6,640**	**17,234**	**89,050**	**8,102**	**186,171**
At 30 June 2013							
Cost	23,883	71,112	23,528	70,290	470,694	8,102	667,609
Accumulated depreciation	-	(29,850)	(16,888)	(53,056)	(381,644)	-	(481,438)
Net book amount	**23,883**	**41,262**	**6,640**	**17,234**	**89,050**	**8,102**	**186,171**

(a) Valuations of land and buildings

The basis of valuation of land and buildings is at cost less subsequent depreciation for buildings. Where required, land and buildings of the Group were assessed by independent valuers, and these assessments were greater than the carrying value.

NOTE 18 INTANGIBLE ASSETS

	Goodwill $'000	Licences $'000	Brands [(1)] $'000	Software [(2)] $'000	Other [(3)] $'000	Total $'000
At 30 June 2013						
Cost	3,757,736	587,570	105,417	250,559	285,854	4,987,136
Accumulation amortisation and impairment	(140,000)	(73,100)	(5,559)	(199,860)	(15,277)	(433,796)
Carrying amount at 30 June 2013	**3,617,736**	**514,470**	**99,858**	**50,699**	**270,577**	**4,553,340**
Year ended 30 June 2014						
Opening net book amount	3,617,736	514,470	99,858	50,699	270,577	4,553,340
Additions	-	-	-	15,153	-	15,153
Transfers in/(out) [(4)]	-	(3)	(1)	(4)	-	(8)
Amortisation charge continuing operations	-	(14,923)	(894)	(19,491)	(5,925)	(41,233)
Foreign exchange movements	12,735	-	-	(3)	-	12,732
Carrying amount at 30 June 2014	3,630,471	499,544	98,963	46,354	264,652	4,539,984

At 30 June 2014	Goodwill $'000	Licences $'000	Brands [(1)] $'000	Software [(2)] $'000	Other [(3)] $'000	Total $'000
Cost	3,770,471	587,568	105,417	237,564	285,854	4,986,874
Accumulated amortisation	(140,000)	(88,024)	(6,454)	(191,210)	(21,202)	(446,890)
Net book amount	**3,630,471**	**499,544**	**98,963**	**46,354**	**264,652**	**4,539,984**

	Goodwill $'000	Licences $'000	Brands [(1)] $'000	Software [(2)] $'000	Other [(3)] $'000	Total $'000
At 30 June 2012						
Cost	3,466,840	547,568	105,417	263,339	136,049	4,519,213
Accumulation amortisation and impairment	(140,000)	(58,102)	(4,665)	(207,149)	(11,213)	(421,129)
Carrying amount at 30 June 2012	**3,326,840**	**489,466**	**100,752**	**56,190**	**124,836**	**4,098,084**
Year ended 30 June 2013						
Opening net book amount	3,326,840	489,466	100,752	56,190	124,836	4,098,084
Additions through acquisition of subsidiary	325,176	-	-	-	150,000	475,176
Additions	-	10,000	-	9,066	-	19,066
Disposals	-	-	-	(30)	-	(30)
Transfers in/(out) [(4)]	(29,750)	30,002	-	7,193	(195)	7,250
Amortisation charge continuing operations	-	(14,998)	(894)	(21,113)	(4,064)	(41,069)
Amortisation and impairment charge discontinued operation	(15,552)	-	-	(606)	-	(16,158)
Foreign exchange movements	11,022	-	-	(1)	-	11,021
Carrying amount at 30 June 2013	3,617,736	514,470	99,858	50,699	270,577	4,553,340

	Goodwill $'000	Licences $'000	Brands [(1)] $'000	Software [(2)] $'000	Other [(3)] $'000	Total $'000
At 30 June 2013						
Cost	3,757,736	587,570	105,417	250,559	285,854	4,987,136
Accumulation amortisation and impairment	(140,000)	(73,100)	(5,559)	(199,860)	(15,277)	(433,796)
Net book amount	**3,617,736**	**514,470**	**99,858**	**50,699**	**270,577**	**4,553,340**

(1) Brands include $46.3 million and $7.1 million of assets with an indefinite life, which is included in the TattsBet and Maxgaming segments respectively.
(2) Software includes capitalised development costs being an internally generated intangible asset.
(3) Refer to Note 1(r)(v) for details of other intangibles.
(4) Transfers include assets transferred (to)/from property plant and equipment.

(a) Impairment tests for goodwill

The accounting policy for impairment of assets is set out in Note 1(i).

Goodwill is allocated to the Group's cash-generating units (CGUs) expected to benefit from the synergies of those business combinations.

A segment-level summary of the goodwill allocation is presented below.

	2014 $'000	2013 $'000
Tatts Lotteries	**1,510,853**	1,510,853
TattsBet	**1,454,242**	1,454,242
Maxgaming	**500,000**	500,000
Bytecraft Systems	**10,291**	10,291
Talarius	**155,085**	142,350
Total	**3,630,471**	3,617,736

The recoverable amount of each CGU is determined based on the higher of fair value less costs to sell and value in use. These calculations use cash flow projections based on the budget approved by the Board for the next financial year and management's forecasts covering a five year period. Cash flows beyond the five year period are extrapolated using a growth rate not exceeding the long term growth rate for the business in which the CGU operates.

(b) Key assumptions

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and other non-current assets:

(i) Cash flow forecasts

Cash flow forecasts are based on the 2015 financial year budget approved by the Board and management's five year forecasts.

(ii) Terminal value

Terminal value is calculated using a perpetuity growth rate based on the cash flow forecast for year 5, pre-tax weighted average cost of capital and forecast growth rates.

(iii) Forecast growth rates

Forecast EBITDA growth rates are principally based on management's expectations for future performance in each business segment. These growth rates take into account historical growth rates for each CGU. The growth rates range from 3.5% to 4% for each CGU (2013: 4% to 5%).

(iv) Discount rates

Discount rates used are based on the Group's pre-tax weighted average cost of capital and reflect specific risks relating to the relevant segments and the countries in which they operate. The pre-tax discount rates used range from 8.95% to 13.1% (2013: 8.3% to 13.5%).

These key assumptions apply for the impairment testing for all of the Group's indefinite life intangible assets. The impairment calculations are on a value in use basis.

(c) Impact of possible changes in key assumptions

Management do not believe that a reasonably possible change in any of the key assumptions except as outlined below in (d) Licence renewals (growth rates and discount rates), after allowing for any consequential impacts on other key assumptions of any such change, would cause the carrying value of any of the segments to exceed their recoverable amounts.

(d) Licence renewals

The exclusivity period for the Group's South Australian Authorised Betting Operations licence expires December 2016. In addition, the New South Wales Centralised Gaming Machine Monitoring licence, New South Wales licences to operate inter-club and inter-hotel linked gaming systems and the Victorian Lotteries licence expire November 2016, October 2017, October 2019 and June 2018 respectively.

Impairment models have been performed and assessed on the basis these licences will be renewed for a further term.

If these licences are not renewed or licences granted on terms not acceptable to or less favourable to the Group than the current licence terms:

(i) there is a possibility that this would result in the Group being unable to conduct the specific businesses which operate pursuant to these licences or being unable to guarantee revenues equal to those currently being generated by these businesses; and

(ii) the Group would be required to review the carrying values of goodwill associated with the cash generating units under which these licences operate. If the licences were not renewed or were significantly altered, there may be an impairment risk.

On 27 June 2014, Tatts Group Limited reached in-principle agreement with the Queensland Government and Racing Queensland extending the term of Tatts sports wagering licence by 61 years, bringing it in line with the Group's race wagering licence with both licences to expire on 30 June 2098. Retail exclusivity has been secured for a further 30 years, from 1 July 2014 until 30 June 2044, under each licence.

The amount to be paid as a licence fee will be treated as an intangible asset within the financial year ending 30 June 2015.

NOTE 19 DEFERRED TAX ASSETS

	2014 $'000	2013 $'000
The balance comprises temporary differences attributable to:		
Employee benefits	**11,765**	9,975
Depreciation	**20,069**	16,817
Provisions	**262**	212
Cash flow hedges	**4,471**	3,470
Other	**20,655**	9,727
	57,222	40,201
Set-off of deferred tax liabilities pursuant to set-off provisions	**(47,847)**	(29,529)
Net deferred tax assets	**9,375**	10,672
Deferred tax assets to be settled within 12 months	**22,838**	22,036
Deferred tax assets to be settled after more than 12 months	**34,384**	18,165
	57,222	40,201

Movements	Employee Benefits $'000	Deprecia-tion $'000	Provisions $'000	Tax Losses $'000	Listed securities $'000	Cash flow hedge $'000	Other $'000	Total $'000
At 1 July 2012	11,937	15,014	1,792	445	1,469	8,710	7,660	**47,027**
(Charged)/credited								
– to the income statement (Note 9(a))	(1,962)	1,804	(1,580)	(445)	(1,215)	(3,242)	2,862	**(3,778)**
– to other comprehensive income (Note 9(d))	-	-	-	-	(254)	(1,998)	(1,640)	**(3,892)**
Foreign exchange movement	-	-	-	-	-	-	844	**844**
Closing balance at 30 June 2013	9,975	16,818	212	-	-	3,470	9,726	**40,201**

	Employee benefits $'000	Deprecia-tion $'000	Provisions $'000	Tax losses $'000	Listed securities $'000	Cash flow hedge $'000	Other $'000	Total $'000
At 1 July 2013	9,975	16,818	212	-	-	3,470	9,726	**40,201**
(Charged)/credited								
– to the income statement (Note 9(a))	1,031	(660)	50	-	-	-	15,649	**16,070**
– to other comprehensive income (Note 9(d))	759	-	-	-	-	(655)	-	**104**
Foreign exchange movement	-	-	-	-	-	-	847	**847**
Transfer between asset classes	-	3,911	-	-	-	1,656	(5,567)	**-**
Closing balance at 30 June 2014	11,765	20,069	262	-	-	4,471	20,655	**57,222**

Other includes $11.0 million relating to the Health Benefit Levy paid to the Victorian Government on 2 July 2014.

NOTE 20 OTHER NON-CURRENT ASSETS

	30 June 2014 $'000	30 June 2013 $'000
Non-current		
Shares in other unlisted investments	**403**	403

Unlisted investments

Unlisted investments are not traded in active markets.

NOTE 21 TRADE AND OTHER PAYABLES

	2014 $'000	2013 $'000
Current		
Trade payables	**507,165**	547,594
Other payables and accruals	**83,810**	85,509
	590,975	633,103
Non-Current		
Other payables	**91,568**	74,279

(a) Foreign currency and interest rate risk

Information concerning exposure to foreign currency and interest rate risk in relation to trade and other payables is set out in Note 2.

(b) Fair value and maturity analysis disclosures

Details of the fair value and the maturity analysis are set out in Note 2.

NOTE 22 INTEREST BEARING LIABILITIES

	2014 $'000	2013 $'000
Current		
Unsecured		
Bank loans	**-**	343,387
Total current interest bearing liabilities	**-**	343,387
Non-current		
Unsecured		
Bank loans	**912,015**	841,174
Loan notes (US Private Placement)	**247,412**	245,239
Tatts Bonds	**191,541**	191,541
Total non-current interest bearing liabilities	**1,350,968**	1,277,954

All interest bearing liabilities are unsecured, and are disclosed net of capitalised borrowing costs of $9.9 million (2013: $11.5million).

(a) Foreign currency and interest rate risk exposures

Information concerning exposure to foreign currency and interest rate risk in relation to interest bearing liabilities is set out in Note 2.

(b) Fair value and maturity analysis disclosures

Details of the fair value borrowings for the Group and the maturity analysis are set out in Note 2.

(c) Refinancing details

Information concerning the refinancing of the syndicated multi-currency revolving facility is set out in Note 2.

NOTE 23 PROVISIONS

	2014 $'000	2013 $'000
Current		
Employee benefits	**17,536**	16,324
Onerous leases	**146**	742
Dilapidations	**684**	2,343
	18,366	19,409
Non-current		
Employee benefits - long service leave	**2,557**	2,415
Onerous leases	**1,072**	1,626
	3,629	4,041

Reconciliation of provision movements other than employee benefits:

2014	Onerous leases $'000	Dilapida-tions $'000
Opening balance at 1 July 2013	2,368	2,343
Additional provisions recognised	-	607
Utilisation of the provision	(1,577)	(819)
Charged/(credited) to the income statement	283	(1,518)
Foreign exchange movements	144	71
Carrying amount at end of year	1,218	684

(i) Onerous leases

A provision for onerous leases is recognised for venues in the United Kingdom which have closed but are contracted to future payments under an operating lease and for property leases acquired through the Tote Tasmania acquisition.

(ii) Dilapidations

A provision for dilapidations is recognised for leasehold properties requiring remedial dilapidations work at the expiry of the lease arrangement.

NOTE 24 OTHER CURRENT LIABILITIES

	2014 $'000	2013 $'000
SA Lotteries monies held in trust [(i)]	**43,575**	45,775
Unearned income [(ii)]	**540,468**	-
Total other current-liabilities	**584,043**	45,775

(i) SA Lotteries monies held in trust

There is a corresponding asset in other current assets.

(ii) Unearned income

On 26 June 2014, the Supreme Court of Victoria found in favour of Tatts in the proceedings commenced by it against the State of Victoria for compensation on the expiry of its gaming operator's licence on 15 August 2012.

The Court found the State is liable to pay Tatts $451.2 million plus interest of $89.3 million with the total amount received subject to applicable tax. This upholds an agreement entered into with the State in 1995. This agreement led to the State receiving substantial additional licence fees from Tatts for the conduct of the Tatts Pokies business, on the basis that the State would grant compensation if a new gaming operator's licence was granted to anyone other than Tatts on the expiry of its licence.

The amount received of $540.5 million has been treated as unearned income and a current liability. The matter is subject to appeal, and if the judgement of the Supreme Court of Victoria is set aside, the $540.5 million plus interest and costs will be payable.

NOTE 25 DEFERRED TAX LIABILITIES

	2014 $'000	2013 $'000
The balance comprises temporary differences attributable to:		
Depreciation	**4,081**	2,445
Intangibles	**234,386**	237,827
Unclaimed dividends	**3,591**	3,635
Accrued revenue	**-**	66
Other	**6,810**	923
	248,868	244,896
Set-off of deferred tax liabilities pursuant to set-off provisions (note 19)	**(47,847)**	(29,529)
Net deferred tax liabilities	**201,021**	215,367
Deferred tax liabilities to be settled within 12 months	**3,714**	4,559
Deferred tax liabilities to be settled after more than 12 months	**245,154**	240,337
	248,868	244,896

Movements	Deprecia-tion $'000	Intangible assets $'000	Unclaimed dividends $'000	Accrued revenue $'000	Listed securities $'000	Other $'000	Total $'000
At 1 July 2012	4,490	204,131	3,690	421	-	1,690	**214,422**
Charged/(credited)							
Charged/(credited) to the income statement (Note 9(a))	(2,045)	(13,104)	(55)	(355)	-	(3,301)	**(18,860)**
Charged to other comprehensive income statement (Note 9(d))	-	-	-	-	-	2,534	**2,534**
Acquisition of subsidiary	-	46,800	-	-	-	-	**46,800**
Closing balance at 30 June 2013	2,445	237,827	3,635	66	-	923	**244,896**

	Deprecia-tion $'000	Intangible assets $'000	Unclaimed dividends $'000	Accrued revenue $'000	Listed securities $'000	Other $'000	Total $'000
At 1 July 2013	2,445	237,827	3,635	66	-	923	**244,896**
Charged/(credited)							
Charged/(credited) to the income statement (Note 9(a))	1,636	(3,441)	(44)	(66)	-	5,933	**4,018**
Charged to other comprehensive income statement (Note 9(d))	-	-	-	-	(46)	-	**(46)**
- directly to equity	-	-	-	-	-	-	**-**
Acquisition of subsidiary	-	-	-	-	-	-	**-**
Transfer between asset classes	-	-	-	-	46	(46)	**-**
Closing balance at 30 June 2014	4,081	234,386	3,591	-	-	6,810	**248,868**

NOTE 26 RETIREMENT BENEFIT OBLIGATIONS

All employees of the Group are entitled to benefits from one of the Group's superannuation plans on retirement, disability or death.

Defined benefit superannuation plan – New South Wales Lotteries Corporation Pty Limited

Following the Group's acquisition of New South Wales Lotteries Corporation Pty Limited on 31 March 2010, the Group has consolidated the net liability relating to Tatts Employment Co (NSW) Pty Limited's defined benefit plans for those employees who transferred employment to Tatts Employment Co (NSW) Pty Limited, a subsidiary of Tatts Group Limited.

Sub funds were created in relation to the transferred employees who are members of the following New South Wales public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All these schemes are closed to new members.

Employees contribute to the schemes at various percentages of their salaries. Tatts Employment Co (NSW) Pty Limited contributes to the investment of the plans based on actuarial advice, but generally at a multiple of the employees' contributions, depending on the fund.

Actuarial based gains and losses are recognised in the statement of comprehensive income in the year in which they occur.

The figures below relate only to those employees who transferred to Tatts Employment Co (NSW) Pty Limited on 31 March 2010.

Description of the regulatory framework

The schemes in the Pooled Fund are established and governed by the following NSW legislation: Superannuation Act 1916, State Authorities Superannuation Act 1987, Police Regulation (Superannuation) Act 1906, State Authorities Non-Contributory Superannuation Scheme Act 1987, and their associated regulations.

The schemes in the Pooled Fund are exempt public sector superannuation schemes under the Commonwealth Superannuation Industry (Supervision) Act 1993 (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2012.

Description of other entities' responsibilities for governance of the fund

The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of fund beneficiaries. The Trustee has the following roles:

- administration of the fund and payment to the beneficiaries from fund assets when required in accordance with the fund rules;
- management and investment of the fund assets; and
- compliance with other applicable regulations.

Description of risks

There are a number of risks to which the Fund exposes Tatts Group Limited. The more significant risks relating to the defined benefits are:

- Investment risk – The risk that investment returns will be lower than assumed and the Company will need to increase contributions to offset this shortfall.
- Longevity risk – The risk that pensioners live longer than assumed, increasing future pensions.
- Pension indexation risk – The risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- Salary growth risk – The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- Legislative risk – The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2014 (CONTINUED)

Description of significant events

There were no fund amendments, curtailments or settlements during the year.

(i) Reconciliation of the net defined benefit liability/(asset)

	2014 $'000	2013 $'000
Net defined benefit liability at the start of the year	**12,001**	17,526
Current service cost	**223**	457
Net interest on the net defined benefit liability	**455**	535
Actual return on Fund assets less interest income	**(967)**	62
Actuarial (gains)/losses arsing from changes in demographic assumptions	**-**	694
Actuarial (gains)/losses arising from changes in financial assumptions	**970**	(3,272)
Actuarial (gains)/losses arising from liability experience	**(523)**	(3,935)
Employer contributions	**(75)**	(66)
Net defined benefit liability at end of year	**12,084**	12,001

(ii) Reconciliation of the Fair Value of Fund assets

	2014 $'000	2013 $'000
Fair value of Fund assets at start of the year	**14,235**	17,766
Interest income	**524**	523
Actual return on Fund assets less interest income	**967**	(62)
Employer contributions	**75**	66
Contributions by participants	**93**	208
Benefits paid	**(952)**	(4,327)
Taxes, premiums & expenses paid	**57**	60
Fair value of Fund assets at end of the year	**14,999**	14,234

(iii) Reconciliation of the defined benefit obligation

	2014 $'000	2013 $'000
Present value of defined benefit obligation at start of the year	**26,236**	35,292
Current service cost	**223**	457
Interest cost	**979**	1,058
Contributions by participants	**93**	208
Actuarial (gains)/losses arising from changes in demographic assumptions	**-**	694
Actuarial (gains)/losses arising from changes in financial assumptions	**970**	(3,272)
Actuarial (gains)/losses arising from liability experience	**(523)**	(3,935)
Benefits paid	**(952)**	(4,327)
Taxes, premiums & expenses paid	**58**	60
Present value of defined benefit obligation at end of the year	**27,083**	26,236

(iv) Fair value of Fund assets

All Pooled Fund assets are invested by STC at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund.

The percentage invested in each asset class at the reporting date is:

As at	**30 June 2014**
Short term securities	**6.5%**
Australian fixed interest	**6.2%**
International fixed interest	**2.3%**
Australian equities	**30.9%**
International equities	**28.8%**
Property	**8.6%**
Alternatives	**16.7%**
Total	**100.0%**

* Additional to the assets disclosed above, at 30 June 2014 Pooled Fund has provisions for receivables/(payables) estimated to be around $2.2 billion, giving an estimated assets totalling around $40.2 billion.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cashflow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such managers make limited use of derivatives.

(v) Fair value of financial instruments

The fair value of the Pooled Fund assets include as at 30 June 2014 of $173.9 million in NSW government bonds.

(vi) Significant actuarial assumptions at the reporting date

As at	**30 June 2014**
Discount rate	3.57% pa
Salary increase rate (including promotional increases)	2.27%pa to 30 June 2015, then 2.5% pa to 30 June 2018, 3.0% pa from 1 July 2018 to 30 June 2023, and 3.5% pa thereafter.
Rate of CPI increase	2.5% pa
Pensioner mortality	as per the 2012 Actuarial Investigation of the Pooled Fund

As at	**30 June 2013**
Discount rate	3.80%
Salary increase rate (including promotional increases)	2.25%pa for 2013/2014, 2.25% pa for 2014/2015, 2.00% pa for 2015/2016 to 2019/2020; 2.50% pa thereafter.
Rate of CPI increase	2.5% pa
Pensioner mortality	as per the 2012 Actuarial Investigation of the Pooled Fund

(vii) Sensitivity analysis

The Company's total defined benefit obligation as at 30 June 2014 under several scenarios is presented below.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

	Base case	**Scenario A -1.0% discount rate**	**Scenario B +1.0% discount rate**
Discount rate	3.57%	2.57%	4.57%
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation (A$)	27,083,193	31,511,221	23,561,963

	Base case	**Scenario C +0.5% rate of CPI increase**	**Scenario D -0.5% rate of CPI increase**
Discount rate	as above	as above	as above
Rate of CPI increase	2.5%	3.0%	2.0%
Salary inflation rate	as above	as above	as above
Defined benefit obligation (A$)	27,083,193	29,063,453	25,297,807

	Base case	**Scenario E +0.5% salary increase rate**	**Scenario F -0.5% salary increase rate**
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above plus 0.5% pa	as above less 0.5% pa
Defined benefit obligation (A$)	27,083,193	27,187,139	26,983,173

	Base case	**Scenario G +5% pensioner mortality rates**	**Scenario H -5% pensioner mortality rates**
Defined benefit obligation (A$)	27,083,193	26,853,749	27,325,626

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

(viii) Asset-liability matching strategies

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cashflows to manage liquidity requirements.

(ix) Funding arrangements

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2012. Contribution rates are set after discussions between Tatts, STC and NSW Treasury.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

(x) Surplus/deficit

The following is a summary of the 30 June 2014 financial position of the Fund calculated in accordance with AAS 25 "Financial Reporting by Superannuation Plans":

	2014 $'000	2013 $'000
Accrued benefits	**15,810**	15,396
Net market value of Fund assets	**(14,999)**	(14,235)
Net (surplus)/deficit	**811**	1,161

(xi) Employer contributions

Employer contributions to the defined benefit section of the plan were based on recommendations by the plan's actuary. The method used to determine employer contributions at the last actuarial review was the Aggregate Funding method. The method adopted affects the timing of the cost to the Group. Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account current values of assets and future contributions.

The expected employer contribution for the period 1 July 2014 to 30 June 2015 is $0.1 million.

Economic assumptions:

The economic assumptions adopted for the 30 June 2012 actuarial investigation of the Pooled Fund are:

	2014	2013
Weighted average assumptions		
Expected rate of return on fund assets backing current pension liabilities	**8.30%**	8.30%
Expected rate of return on fund assets backing other liabilities	**7.30%**	7.30%
Expected salary increase rate	**2.70%**	2.70%
Expected rate of CPI increase	**2.50%**	2.50%

(xii) Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 15.5 years (2013: 15.5 years).

NOTE 27 CONTRIBUTED EQUITY

(a) Share capital

	2014 Shares	2013 Shares	2014 $'000	2013 $'000
Ordinary shares – fully paid	**1,434,447,341**	1,402,708,406	**2,748,417**	2,654,852

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	$'000
1 July 2012	Opening balance	1,362,919,733	-	2,542,875
27 August 2012	Performance options issue	96,333	$2.87	276
29 August 2012	Performance options issue	142,787	$2.87	410
3 October 2012	Dividends reinvestment plan issues	21,633,110	$2.64	57,111
26 October 2012	Performance rights issue	408,227	$1.88	767
14 December 2012	Performance rights issue	443,509	$1.62	716
14 December 2012	Performance options issue	3,063	$2.90	9
20 December 2012	Performance rights issue	456,779	$1.62	738
10 January 2013	Performance rights issue	31,037	$1.62	50
17 January 2013	Performance options issue	216,702	$2.87	622
17 January 2013	Performance options issue	377,600	$2.87	1,084
27 February 2013	Performance options issue	1,471,600	$4.13	6,078
27 February 2013	Reinvestment of unclaimed dividends	127,898	-	-
5 April 2013	Dividends reinvestment plan issues	14,358,600	$3.07	44,081
17 April 2013	Performance rights issue	21,428	$1.62	35
30 June 2013	**Closing balance**	**1,402,708,406**	**-**	**2,654,852**

Date	Details	Number of shares	Issue price	$'000
1 July 2013	Opening balance	1,402,708,406	-	2,654,852
9 August 2013	Performance rights issue	3,554	$2.56	9
3 September 2013	Performance options issue	2,067	$2.87	6
7 October 2013	Dividends reinvestment plan issues	13,671,857	$3.05	41,699
16 October 2013	Performance rights issue	481,937	$2.42	1,166
22 November 2013	Performance rights issue	250,000	$1.72	429
4 April 2014	Dividends reinvestment plan issues	17,329,520	$2.90	50,256
30 June 2014	**Closing balance**	**1,434,447,341**	**-**	**2,748,417**

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Voting power may be subject to certain restrictions arising from a combination of the Company's Constitution, statute, the ASX listing rules and other general law.

There is no current on-market share buy-back.

(d) Dividend reinvestment plan (DRP)

The Company has a DRP in operation under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the provision of ordinary shares rather than being paid in cash.

A 1.5% discount is applicable to shares acquired under the DRP for the final dividend. Shares acquired by a participant under the DRP will be provided via a share issue.

(e) Options and rights issues

Refer to Note 41 regarding options and rights issued as share-based payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2014 (CONTINUED)

NOTE 28 OTHER RESERVES AND RETAINED PROFITS

(a) Reserves

	2014 $'000	2013 $'000
Available-for-sale financial assets revaluation reserve	**38**	18
Hedge reserve	**41,515**	45,448
Share-based payments reserve	**3,784**	3,947
Foreign currency translation reserve	**(54,099)**	(57,023)
	(8,762)	(7,610)

Movements:

	Notes	2014 $'000	2013 $'000
Available-for-sale financial assets revalution reserve			
Balance 1 July		**18**	390
Sale of shares		**-**	(278)
Redemption of investment		**-**	278
Revaluation	15	**(26)**	(149)
Tax on these items		**46**	(223)
Balance 30 June		**38**	18
Hedge reserve			
Balance 1 July		**45,448**	36,728
Interest rate swap movement		**6,205**	15,064
Forward foreign exchange contracts movements		**(179)**	207
Cross currency interest rate swaps		**(2,443)**	4,016
Foreign currency net investment hedge movements		**(6,861)**	(6,012)
Tax on these items		**(655)**	(4,555)
Balance 30 June		**41,515**	45,448
Share-based payments reserve			
Balance 1 July		**3,947**	6,090
Performance options and rights expense		**1,447**	1,894
Options and rights exercised		**(1,610)**	(4,037)
Balance 30 June		**3,784**	3,947
Foreign currency translation reserve			
Balance 1 July		**(57,023)**	(59,086)
Currency translation differences arising during the year		**2,924**	2,063
Balance 30 June		**(54,099)**	(57,023)

(b) Retained earnings

Movements in retained earnings were as follows:

	2014 $'000	2013 $'000
Balance 1 July	**113,179**	136,644
Net profit for the period	**200,421**	247,336
Actuarial (losses)/gains on retirement benefit obligation, net of tax	**1,353**	3,843
Dividends	**(218,573)**	(274,644)
Balance 30 June	**96,380**	113,179

(c) Nature and purpose of other reserves

(i) Available-for-sale financial assets revaluation reserve

Changes in the fair value and exchange differences arising on translation of investments, such as equities, classified as available-for-sale financial assets, are recognised in other comprehensive income as described in Note 1(n) and accumulated in a separate reserve within equity. Amounts are reclassified to the income statement when the associated assets are sold or impaired.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of foreign controlled entities are recognised in other comprehensive income as described in Note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the income statement upon disposal of the net investment.

(iii) Hedge reserve

The hedge reserve is used to recognise the portion of the gain or loss on a hedging instrument in a net investment or cash flow hedge that is determined to be an effective hedge. Amounts are reclassified to the income statement if the hedge is ineffective.

(iv) Share-based payment reserve

The share-based payments reserve is used to recognise the fair value at grant date of performance options and performance rights issued but not exercised.

NOTE 29 DIVIDENDS

(a) Ordinary shares

	2014 $'000	2013 $'000
Final dividend for the year ended 30 June 2013 of 7.5 cents per fully paid share paid on 7 October 2013 (2013: 12.0 cents paid on 3 October 2012)		
Fully franked based on tax paid @ 30%	**105,203**	163,578
Interim dividend for the year ended 30 June 2014 of 8.0 cents per fully paid share paid on 4 April 2014 (2013: 8.0 cents paid on 5 April 2013)		
Final franked based on tax paid @ 30.0%	**113,370**	111,066
	218,573	274,644

(b) Dividends not recognised at year end

In addition to the above dividends, since the balance sheet date the Directors have determined the payment of a final dividend of 5.5 cents (2013: Final - 7.5 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend to be paid on 6 October 2014 out of retained earnings, but not recognised as a liability at year end, is $78.9 million (2013: $105.2 million).

(c) Franked dividends

The franked portions of the final dividends determined after 30 June 2014 will be franked out of existing franking credits or out of franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2015.

	2014 $'000	2013 $'000
Franking credits available for subsequent financial years based on a tax rate of 30.0% (2013 - 30.0%)	**186,790**	179,753

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted as necessary for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting period, and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting period.

The consolidated amounts include franking credits that would be available to the Company if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the final dividend determined by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $33.8 million (2013: $45.1 million).

NOTE 30 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key Management Personnel compensation

	2014 $	2013 $
Short term employee benefits – cash salary, fees and cash bonus	**5,987,465**	7,130,999
Post-employment benefits	**218,500**	186,623
Long term benefits	**76,067**	80,529
Share-based payments	**1,626,700**	1,556,592
	7,908,732	8,954,743

Detailed remuneration disclosures are provided in the Remuneration Report on pages 45 to 60.

(b) Loans to Key Management Personnel

No loans are made to Directors or Key Management Personnel.

(c) Other transactions with Key Management Personnel

No other transactions were made with Directors or Key Management Personnel.

NOTE 31 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) PwC Australia

	2014 $	2013 $
Audit and other assurance services		
Audit and review of financial reports and other audit work under the *Corporations Act*	**898,912**	883,712
Other assurance services		
Audit of regulatory returns	**63,750**	73,000
Total remuneration for audit and other assurance services	**962,662**	956,712
Total remuneration of PwC Australia	**962,662**	956,712

(b) Network firms of PwC Australia

	2014 $	2013 $
Audit and other assurance services		
Audit and review of financial statements	**203,286**	181,413
Total remuneration of network firms of PwC Australia	**203,286**	181,413
Total auditors' remuneration	**1,165,948**	1,138,125

Subject to maintaining their independence it is the Group's policy to employ PwC on assignments additional to their statutory audit duties where PwC's expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on transactions.

NOTE 32 CONTINGENT LIABILITIES

The Group had contingent liabilities at 30 June 2014 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 $2.9 million (2013: $3.7 million).

Legal proceedings against the State of Victoria

On 26 June 2014, the Supreme Court of Victoria found in favour of Tatts in the proceedings commenced by it against the State of Victoria for compensation on the expiry of its gaming operator's licence on 15 August 2012.

The Court found the State is liable to pay Tatts $451.2 million plus interest of $89.3 million with the total amount received subject to applicable tax. This upholds an agreement entered into with the State in 1995. This agreement led to the State receiving substantial additional licence fees from Tatts for the conduct of the Tatts Pokies business, on the basis that the State would grant compensation if a new gaming operator's licence was granted to anyone other than Tatts on the expiry of its licence.

The matter is subject to appeal, and the risk to Tatts is that if the matter is set aside on appeal then the $540.5 million plus interest and costs will be payable.

NOTE 33 COMMITMENTS FOR EXPENDITURE

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2014 $'000	2013 $'000
Property, plant and equipment – payable:		
Within one year	**14,307**	2,242
	14,307	2,242

(b) 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.

	2014 $'000	2013 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**20,288**	20,477
Later than one year but not later than five years	**39,314**	38,506
Later than five years	**10,653**	8,026
Commitments not recognised in the financial statements	**70,255**	67,009

(c) Operating commitments

Operating commitments contracted for at the reporting date but not recognised as liabilities are as follows:

	2014 $'000	2013 $'000
Commitments in relation to non-cancellable operating activities are payable as follows:		
Within one year	**29,686**	19,942
Later than one year but not later than five years	**25,294**	26,254
	54,980	46,196

(d) Employee remuneration commitments

	2014 $'000	2013 $'000
Commitments under non-cancellable employment contracts not provided for in the financial statements payable:		
Within one year	**1,904**	1,620
Later than one year but not later than five years	**1,269**	2,485
	3,173	4,105

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2014 (CONTINUED)

NOTE 34 RELATED PARTY TRANSACTIONS

(a) Parent entities

The ultimate parent entity within the Group is Tatts Group Limited.

(b) Controlled entities

Interests in controlled entities are set out in Note 36.

(c) Directors and Key Management Personnel

Disclosures relating to Directors and specified executives are set out in Note 30.

(d) Transactions with other related parties

	2014 $'000	2013 $'000
Superannuation contributions		
Contributions to superannuation funds on behalf of employees	**16,474**	15,224

(e) Outstanding balances

There are no outstanding balances at 30 June 2014 (2013: Nil) in relation to transactions with related parties.

(f) Terms and conditions

Transactions relating to dividends were on the same terms and conditions that applied to other shareholders.

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of principal on loans advanced by the Company. There was no interest charged on loans during the year (2013: nil).

Outstanding balances are unsecured and are repayable in cash.

NOTE 35 BUSINESS COMBINATIONS

(a) Prior period acquisitions

On 10 December 2012, the Group acquired the exclusive right, as Master Agent, to manage the lottery and wide area Keno service in South Australia for total consideration of $427.0 million. Details of the fair value of the assets and liabilities acquired, and the preliminary goodwill arising are disclosed in the 30 June 2013 Annual Report.

There have been no changes to the preliminary fair values during the current period, and final goodwill of $314.7 million has been recognised on acquisition.

NOTE 36 INVESTMENTS IN CONTROLLED ENTITIES

Shareholdings in all controlled entities are classed as ordinary shares.

		Equity holding	
Name of entity	**Country of incorporation**	**2014 %**	2013 %
Controlled entities of Tatts Group Limited			
TattsBet Limited (1)	Australia	**100**	100
NT TAB Pty Ltd (1)	Australia	**100**	100
Broadcasting Station 4IP Pty Ltd	Australia	**100**	100
SA TAB Pty Ltd (1)	Australia	**100**	100
TAB Queensland Pty Ltd (3)	Australia	**100**	100
Tote Tasmania Pty Ltd (1)	Australia	**100**	100
Agility Interactive Pty Ltd (3)	Australia	**100**	100
Tasradio Pty Ltd (3)	Australia	**100**	100
Maxgaming Holdings Pty Ltd (1)	Australia	**100**	100
Maxgaming NSW Pty Ltd (1)	Australia	**100**	100
Maxgaming QLD Pty Ltd (1)	Australia	**100**	100
Maxgaming VIC Pty Ltd	Australia	**100**	100
Bytecraft Systems Pty Ltd (1)	Australia	**(2)**	(2)
Bytecraft Systems (NSW) Pty Ltd (1)	Australia	**100**	100
Bytecraft Systems (NZ) Limited	New Zealand	**100**	100
EGM Tech Pty Ltd (3)	Australia	**100**	100
Reaftin Pty Ltd (1)	Australia	**100**	100

Name of entity	Country of incorporation	Equity holding 2014 %	2013 %
Bytecraft Systems Pty Ltd [(1)]	Australia	[(2)]	[(2)]
Tattersalls Holdings Pty Ltd [(1)]	Australia	**100**	100
Tatts Online Pty Ltd	Australia	**100**	100
Tattersall's Sweeps Pty Ltd [(1)]	Australia	**100**	100
Tattersall's Gaming Pty Ltd [(1)]	Australia	**100**	100
Tattersall's Club Keno Pty Ltd [(3)]	Australia	**100**	100
tatts.com Pty Ltd	Australia	**100**	100
New South Wales Lotteries Corporation Pty Limited	Australia	**100**	100
Tatts Employment Co (NSW) Pty Limited	Australia	**100**	100
George Adams Pty Ltd	Australia	**100**	100
Tattersall's Australia Pty Ltd [(3)]	Australia	**100**	100
Tatts NT Lotteries Pty Ltd	Australia	**100**	100
Golden Casket Lottery Corporation Limited [(1)]	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)(5)]	Australia	**100**	100
TattsTech Pty Ltd [(3)(7)]	Australia	**100**	100
Tatts Interactive Pty Ltd [(3)(8)]	Australia	**100**	100
European Gaming (Finance) Limited	United Kingdom	**100**	100
George Adams Holdings Limited	United Kingdom	**100**	100
European Gaming Limited	United Kingdom	**100**	100
Talarius Limited	United Kingdom	**100**	100
Bytecraft Systems (UK) Limited	United Kingdom	**100**	100
In-To-Save Limited	United Kingdom	**100**	100
Blackheath Leisure (Carousel) Limited	United Kingdom	**100**	100
RAL Limited	United Kingdom	**100**	100
RAL Employee Benefit Trustee Limited	United Kingdom	**100**	100
RAL Interactive Limited	United Kingdom	**100**	100
CZ Trading Limited	United Kingdom	[(6)]	100
Leisure Promotions Limited	United Kingdom	**100**	100
Kellams Limited [(3)]	United Kingdom	**100**	100
Leisurama Holdings Limited	United Kingdom	**100**	100
Leisurama Entertainment Limited	United Kingdom	**100**	100
Displaymatics Holdings Limited	United Kingdom	**100**	100
Winners Amusements Limited	United Kingdom	**100**	100
Palma Leisure Limited	United Kingdom	**100**	100
National Leisure Limited	United Kingdom	**100**	100
Tattersall's Sweeps Consultation Long Service Leave Fund	Australia	[(4)]	[(4)]

(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 37 for further information.

(2) Owned 50% by Tatts Group Limited and 50% by Reaftin Pty Ltd. 100% equity holding within the Group.

(3) Dormant entity.

(4) Not incorporated. The trustees of the entity are employees of the Group, therefore in accordance with AASB, the Group controls the Fund and the Fund is consolidated. The Fund was wound up on 24 January 2014.

(5) Entity renamed during the previous financial year. Previous name was VicTote Participant Pty Ltd.

(6) Entity disposed of in the current financial year.

(7) Entity renamed during the previous financial year. Previous name was Victorian Licence Bid Co Pty Ltd.

(8) Entity renamed during the financial year. Previous name was VicTote Manager Pty Ltd.

NOTE 37 DEED OF CROSS GUARANTEE

As at 1 July 2013, 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, TattsBet Limited, SA TAB 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, Tote Tasmania Pty Ltd, Tatts Lotteries SA Pty Ltd and Bytecraft Systems NSW 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.

During the year Tatts NT Lotteries Pty Ltd and NT TAB Pty Ltd became party to the Deed by way of a Deed of Assumption dated 24 June 2014.

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.

(a) 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 2014 of the Closed Group consisting of the companies listed above.

	2014 $'000	2013 $'000
Consolidated income statement		
Revenue from continuing operations	**2,744,539**	2,801,925
Statutory outgoings		
Government share	**(1,270,426)**	(1,340,269)
Venue share/commission	**(413,037)**	(404,948)
Product/program fees	**(187,194)**	(188,475)
Other income	**5**	1,479
Other expenses from ordinary activities		
Employee expenses	**(173,861)**	(163,364)
Operating fees and direct costs	**(65,961)**	(73,042)
Telecommunications and technology	**(37,868)**	(36,349)
Marketing and promotions	**(40,678)**	(38,675)
Information services	**(23,569)**	(21,547)
Property expenses	**(25,619)**	(28,068)
Restructuring costs	**(1,471)**	(15,145)
Other expenses	**(35,381)**	(29,886)
Profit before interest, income tax, depreciation, amortisation and impairment	**469,479**	463,636
Depreciation and amortisation expense	**(73,037)**	(72,057)
Interest income	**1,301**	2,761
Finance costs	**(84,413)**	(99,826)
Profit before income tax	**313,330**	294,514
Income tax expense	**(93,003)**	(70,593)
Profit for the year from continuing operations	**220,327**	223,921
Profit/(Loss) from discontinued operation	**(26,201)**	19,934
Profit attributable to owners of Tatts Group Limited	**194,126**	243,855

	2014 $'000	2013 $'000
Statement of comprehensive income		
Other comprehensive income		
Profit for the year	**194,126**	243,855
Items that may be reclassified to profit or loss		
Changes in the fair value of available-for-sale financial assets	**(27)**	(149)
Changes in the value of net investment hedges	**(6,861)**	(6,012)
Changes in the value of interest rate swaps	**(2,443)**	4,016
Changes in the fair value of cash flow hedges	**4,804**	10,970
Changes in the fair vale of forward foreign exchange contracts	**(179)**	207
Exchange differences on translation of foreign operations	**1,267**	775
Income tax relating to these items	**(609)**	(4,778)
Other comprehensive income for the year, net of tax	**(4,048)**	5,029
Total comprehensive income for the year	**190,078**	248,884

	2014 $'000	2013 $'000
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**146,994**	163,409
Net profit for the year	**194,126**	243,855
Dividends (Note 29)	**(218,573)**	(274,644)
Transfer of retained earnings from entities outside the Closed Group	**8,968**	14,374
Retained earnings at the end of the financial year	**131,515**	146,994

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2014 (CONTINUED)

(b) Consolidated balance sheet

Set out below is a consolidated balance sheet as at 30 June 2014 of the Closed Group consisting of the companies listed.

	2014 $'000	2013 $'000
ASSETS		
Current assets		
Cash and cash equivalents	**670,684**	359,325
Trade and other receivables	**207,994**	227,228
Inventories	**7,701**	13,363
Total current assets	**886,379**	599,916
Non-current assets		
Trade and other receivables	**155**	184
Available-for-sale financial assets	**19,027**	18,306
Other financial assets	**128,759**	204,750
Property, plant and equipment	**149,817**	138,147
Derivative financial instruments	**14,817**	24,592
Intangible assets	**4,379,901**	4,319,741
Total non-current assets	**4,692,476**	4,705,720
Total assets	**5,578,855**	5,305,636
LIABILITIES		
Current liabilities		
Trade and other payables	**601,936**	646,156
Derivative financial instruments	**5,496**	1,403
Current tax liabilities	**3,982**	16,212
Provisions	**16,386**	16,279
Interest bearing liabilities	**-**	343,387
Other current liabilities	**540,468**	-
Total current liabilities	**1,168,268**	1,023,437
Non-current liabilities		
Trade and other payables	**91,568**	62,079
Interest bearing liabilities	**1,186,682**	1,127,158
Provisions	**2,536**	2,326
Derivative financial instruments	**2,848**	11,566
Deferred tax liabilities	**203,215**	217,207
Retirement benefit obligations	**-**	12,001
Total non-current liabilities	**1,486,849**	1,432,337
Total liabilities	**2,655,117**	2,455,774
Net assets	**2,923,738**	2,849,862
EQUITY		
Contributed equity	**2,748,412**	2,654,847
Reserves	**43,811**	48,021
Retained earnings	**131,515**	146,994
Total equity	**2,923,738**	2,849,862

NOTE 38 RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2014 $'000	2013 $'000
Profit for the year	**200,421**	247,336
Non cash flows in operating profit		
Depreciation, amortisation and impairment	**83,909**	102,164
Amortisation of borrowing costs	**1,610**	1,882
(Profit)/ loss on sale of fixed assets	**(31)**	(25,776)
Employee share option	**243**	1,894
Restructure charges	**-**	316
Bad and doubtful debts	**561**	964
Retirement benefit obligation	**1,437**	-
Share of joint venture profit	**-**	(129)
Change in operating assets and liabilities, net of effects from purchase of controlled entities		
(Increase)/decrease in trade and other receivables	**34,501**	863
(Increase)/decrease in inventories	**5,959**	1,966
(Increase)/decrease in deferred tax assets	**(17,021)**	6,826
(Increase)/decrease in other operating assets	**-**	915
(Decrease)/increase in trade and other payables	**(23,636)**	56,007
(Decrease)/increase in provision for current tax liabilities	**(12,297)**	(23,642)
(Decrease)/increase in deferred tax liabilities	**4,210**	(22,029)
(Decrease)/increase in other provisions	**(1,454)**	(2,640)
Net cash inflow (outflow) from operating activities	**278,412**	346,917

(a) Non-cash financing activities

Dividends satisfied by the issue of shares under a dividend reinvestment plan are shown in Note 27(d). Options and rights issued to employees under the Group's incentive plans and structures are shown in Note 41.

NOTE 39 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2014 $'000	2013 $'000
Balance sheet		
Current assets	**1,299,080**	1,283,018
Total assets	**3,905,879**	3,894,668
Current liabilities	**14,594**	129,938
Total liabilities	**986,086**	1,089,138
Shareholders' equity		
Issued capital	**3,847,885**	3,754,320
Reserves		
Hedge reserve	**(6,611)**	(3,865)
Foreign currency translation reserve	**(4,583)**	(5,533)
Share-based payments	**3,783**	3,947
Retained earnings	**(920,680)**	(943,339)
Total equity	**2,919,794**	2,805,530
Profit or loss for the year	**241,232**	291,751
Total comprehensive income	**239,436**	296,414

(b) 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 2014 or 30 June 2013.

There are cross guarantees given by the parent entity and its nominated subsidiaries as described in Note 37. No deficiencies of assets exist in any of these entities.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2014 or 30 June 2013.

(d) 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 2014 or 30 June 2013.

NOTE 40 EARNINGS PER SHARE

(a) Basic earnings per share

	2014 Cents	2013 Cents
From continuing operations attributable to the ordinary equity holders of the Company	16.0	16.4
Total basic earnings per share attributable to the ordinary equity holders of the Company	14.1	17.9

(b) Diluted earnings per share

	2014 Cents	2013 Cents
From continuing operations attributable to the ordinary equity holders of the Company	16.0	16.4
Total diluted earnings per share attributable to the ordinary equity holders of the Company	14.1	17.8

(c) Reconciliation of earnings used in calculating earnings per share

	2014 $'000	2013 $'000
Basic and diluted earnings per share		
Profit from continuing operations	226,622	227,402
Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share:	226,622	227,402
Profit attributable to the ordinary equity shareholders of the Company used in calculating basic and diluted earnings per share	200,421	247,336

(d) Weighted average number of shares used as denominator

	2014 Number of shares	2013 Number of shares
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,417,297,489	1,384,047,008
Adjustments for calculation of diluted earnings per share:		
Performance options and performance rights	958,667	2,396,576
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,418,256,156	1,386,443,584

NOTE 41 SHARE-BASED PAYMENTS

(a) Incentive plan

Executives and senior managers who have greater potential impact on share price and long term value generation receive part of any annual incentive awarded to them as cash and part as rights to restricted shares.

Rights granted under this incentive plan are priced at the VWAP (Volume Weighted Average Price) of the ten trading days prior to the day the Remuneration and Human Resources Committee decides to recommend to the Board that it award them. The rights will be able to be exercised into restricted shares 12 months after grant provided the executive remains employed with the Group. Once the shares are acquired, they will be placed in a restricted class and employees will be required to retain them for a further 2 years. No exercise price is payable upon the exercise of the rights. The rights granted under this structure carry no dividend or voting rights. The restricted shares do carry dividend and voting rights.

(b) Long-term incentive plan pre 2011 financial year

Staff eligible to participate in the Long-Term Incentive Plan (LTIP) pre 2011 financial year were those of senior manager level and above (including Executive Directors).

Performance options and performance rights granted under the LTIP were for no consideration. Options and rights granted were for a three year vesting period for the earnings per share performance level with a subsequent one or two year testing period to achieve the requisite total shareholder return. The exercise period for these instruments granted to date will expire on the seventh anniversary of their allocation date. The performance rights issued to the former Chief Executive expire 90 days after the last date for vesting.

Performance options and performance rights granted under the LTIP carry no dividend or voting rights.

The exercise price of performance options was based on the weighted average price at which the Company's shares are traded on the Australian Securities Exchange during the 30 days immediately before the determination date. No exercise price is payable upon the exercise of performance rights.

(c) Options and rights granted under the incentive plans

Set out below are summaries of the performance options and rights granted or to be granted in respect of the 2014 financial year under the incentive plans:

2014 Grant date	Expiry date	Exercise price $	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	Vested and exercisable at end of the year Number
Performance Options								
16 December 2006	30 November 2013	$3.65	334,350	-	-	(334,350)	-	-
16 December 2007	30 November 2014	$3.99	1,014,565	-	-	(153,194)	861,371	861,371
16 December 2008	30 November 2015	$2.56	949,867	-	(2,067)	-	947,800	947,800
Weighted average exercise price		**$3.35**		**-**	**$2.56**	**$3.76**	**$3.24**	**$3.24**

	Expiry date	Balance at start of the year	Granted during and in respect of the year	Exercised during the year	Lapsed/ forfeited during the year	Balance at end of year	Exercisable at end of year
Performance rights							
30 November 2006	30 November 2013	3,554	-	(3,554)	-	-	-
30 November 2009	30 November 2016	121,478	-	-	-	121,478	121,478
29 October 2010 – Chief Executive	10 January 2015	125,000	-	(125,000)	-	-	-
29 October 2010 – Chief Executive	10 January 2014	125,000	-	(125,000)	-	-	-
27 October 2011 – Chief Executive	7 January 2016	125,000	-	-	-	125,000	-
27 October 2011 – Chief Executive	10 January 2015	125,000	-	-	-	125,000	-
1 September 2012	1 October 2013	481,937	-	(481,937)	-	-	-
22 November 2013	1 November 2014	-	210,074	-	-	210,074	-
22 November 2013	1 November 2014	-	308,168	-	(6,040)	302,128	-
Total		**1,106,969**	**518,242**	**(735,491)**	**(6,040)**	**883,680**	**121,478**

2013 Grant date	Expiry date	Exercise price $	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	Vested and exercisable at end of the year Number
16 December 2005	7 July 2012	$3.10	174,726	-	-	(174,726)	-	-
16 December 2005	30 November 2013	$3.13	1,471,600	-	(1,471,600)	-	-	-
16 December 2006	30 November 2013	$3.65	383,639	-	-	(49,289)	334,350	334,350
16 December 2007	30 November 2014	$3.99	1,129,969	-	-	(115,404)	1,014,565	1,014,565
16 December 2008	30 November 2015	$2.56	1,791,000	-	(836,485)	(4,648)	949,867	949,867
Weighted average exercise price		**$3.16**		**-**	**$2.92**	**$3.47**	**$3.35**	**$3.35**

	Expiry date	Balance at start of the year	Granted during and in respect of the year	Exercised during the year	Lapsed/ forfeited during the year	Balance at end of the year	Exercisable at end of year
Performance rights							
30 November 2006	30 November 2013	3,554	-	-	-	3,554	3,554
30 October 2009 – Chief Executive	10 January 2014	125,000	-	(125,000)	-	-	-
30 October 2009 – Chief Executive	10 January 2013	125,000	-	(125,000)	-	-	-
30 November 2009	30 November 2016	1,097,607	-	(952,753)	(23,376)	121,478	121,478
29 October 2010 – Chief Executive	10 January 2015	125,000	-	-	-	125,000	-
29 October 2010 – Chief Executive	10 January 2014	125,000	-	-	-	125,000	-
26 September 2011	27 October 2012	158,227	-	(158,227)	-	-	-
27 October 2011 – Chief Executive	6 January 2016	125,000	-	-	-	125,000	-
27 October 2011 – Chief Executive	10 January 2015	125,000	-	-	-	125,000	-
1 September 2012	1 October 2013	481,937	-	-	-	481,937	-
Total		**2,491,325**	**-**	**(1,360,980)**	**(23,376)**	**1,106,969**	**125,032**

The weighted average share price at the date of the exercise of rights exercised during the year ended 30 June 2014 was $3.02 (2013: $2.89).

The weighted average share price at the date of the exercise of options exercised during the year ended 30 June 2014 was $3.12 (2013: N/A).

The weighted average remaining contractual life of exercisable rights outstanding at the end of the period was 1.42 years (2013: 1.39 years).

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.94 years (2013: 1.69 years).

Fair value of rights granted

The model inputs for rights granted during the year ended 30 June 2014 included:

	Perfomance rights
Performance conditions	**Rights granted to qualifying executives under current incentive plan**
Grant date	Oct-2014
Expiry date	Oct-2015
Share price at grant date	$3.56
Expected life	1.0 year
Vesting period	1.0 year
Volatility	N/A
Risk free interest rate	N/A
Dividend yield	3.8%
Fair value	$3.49

The model inputs for rights granted during the year ended 30 June 2013 included:

	Perfomance rights
Performance conditions	**Rights granted to qualifying executives under current incentive plan**
Grant date	Oct-2013
Expiry date	Oct-2014
Share price at grant date	$3.20
Expected life	1.0 year
Vesting period	1.0 year
Volatility	N/A
Risk free interest rate	N/A
Dividend yield	4.80%
Fair value	$3.25

(d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2014 $'000	2013 $'000
Performance rights issued [1]	**667**	2,170
Performance options issued [1]	**(424)**	(276)
Performance rights issued under incentive plan [2]	**1,346**	1,198
	1,589	3,092

[1] Represents the amortised cost charged in the relevant financial year for all grants that are still in, or remain to enter into, their vesting period.
[2] Represents the total value of the rights to be granted in respect of the relevant financial year.

NOTE 42 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Health Benefit Levy

On 1 July 2014 the Victorian Court of Appeal upheld the Victorian Treasurer's determination that Tatts must pay a Health Benefit Levy of $42.6 million in respect of its Victorian gaming operations in the financial year ended 30 June 2013. As this appeal was in process during the financial year ended 30 June 2014 the additional impact after tax on the Group of $25.7 million has been accounted for within Discontinued operation. (Refer Note 4 and Note 10).

In the opinion of the Directors, there have been no other material matters or circumstances which have arisen between 30 June 2014 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the result of those operations or the state of affairs of the Group in subsequent financial periods.

DIRECTORS' DECLARATION

30 JUNE 2014

In the Directors' opinion:

(a) the financial statements and notes set out on pages 63 to 124 are in accordance with the Corporations Act, including:

   (i) complying with Accounting Standards, the *Corporations Regulations* and other mandatory professional reporting requirements, and

   (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date, 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, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 37 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 described in Note 37.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act*.

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

Harry Boon
Chairman

Robbie Cooke

Robbie Cooke
Managing Director/Chief Executive Officer

Brisbane
21 August 2014

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

Report on the financial report

We have audited the accompanying financial report of Tatts Group Limited (the company), which comprises the consolidated balance sheet as at 30 June 2014, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other 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 at year's end or from time to time during the financial year.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
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T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

pwc

Auditor's opinion

In our opinion, the financial report of Tatts Group Limited is in accordance with the *Corporations Act 2001,* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

Report on the Remuneration Report

We have audited the remuneration report included in pages 45 to 60 of the directors' report for the year ended 30 June 2014. 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.

Auditor's opinion

In our opinion, the remuneration report of Tatts Group Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A Linschoten

Anton Linschoten
Partner

Brisbane
21 August 2014

SHAREHOLDER INFORMATION

The shareholder information set out below is based on the information recorded in the Tatts Group Limited share register as at 5 August 2014.

ORDINARY SHARES

Tatts has on issue 1,434,545,797 fully paid ordinary shares.

TATTS BONDS

Tatts has on issue 1,946,642 Tatts Bonds which are seven year debt securities listed on the Australian Securities Exchange (ASX) under the code TTSHA. They were initially issued on 29 June 2012 to successful applicants pursuant to the Tatts Bonds Prospectus dated 6 June 2012 and commenced trading on a normal settlement basis on 4 July 2012.

VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares – On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Performance options and rights – No voting rights.

SUBSTANTIAL SHAREHOLDERS

The following is a summary of the current substantial shareholders pursuant to notices lodged with the ASX in accordance with section 671B of the *Corporations Act*:

Name	Date of interest	Number of ordinary shares(1)	% of issued capital(2)
Perpetual	14 May 2014	135,542,189	9.45%
JCP Investment Partners Ltd	29 January 2014	103,105,631	7.28%
BlackRock Inc.	28 July 2014	73,394,905	5.11%

(1) As disclosed in the last notice lodged with the ASX by the substantial shareholder.

(2) The percentage set out in the notice lodged with the ASX is based on the total issued share capital of Tatts at the date of interest.

ON MARKET BUY-BACK

There is no current on-market buy-back in respect of Tatts Group's ordinary shares.

DISTRIBUTION OF SECURITIES HELD

Analysis of number of ordinary shareholders and Tatts Bonds holders by size of holding:

	Ordinary shares(1)		Tatts Bonds	
Range	Number of holders	Number of securities	Number of holders	Number of securities
1 – 1,000	13,454	7,751,093	1,524	393,505
1,001 – 5,000	46,287	128,037,296	100	223,945
5,001 – 10,000	7,448	55,942,848	8	56,533
10,001 – 100,000	6,052	138,215,448	8	429,921
100,001 and over	379	1,104,599,112	3	842,738
Total	**73,620**	**1,434,545,797**	**1,643**	**1,946,642**

(1) Ordinary shares include restricted shares offered to employees under the Company's incentive arrangements.

There were 1,274 holders of less than a marketable parcel of ordinary shares representing 66,582 shares.

TOP TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest quoted equity security holders as they appear on the Tatts Group Limited share register are listed below:

	Ordinary shares	
Name	**Number of shares**	**% of total shares**
HSBC Custody Nominees (Australia) Limited	274,369,827	**19.13**
JP Morgan Nominees Australia Limited	231,103,365	**16.11**
National Nominees Limited	149,490,446	**10.42**
Citicorp Nominees Pty Limited	78,151,591	**5.45**
RBC Investor Services Australia Nominees Pty Limited	35,563,843	**2.48**
BNP Paribas Noms Pty Ltd	25,672,087	**1.79**
HSBC Custody Nominees (Australia) Limited	17,049,285	**1.19**
UBS Wealth Management Australia Nominees Pty Ltd	16,735,973	**1.17**
Tassyd Pty Limited (Estate Thomas Lyons)	13,340,000	**0.93**
National Nominees Limited	10,599,963	**0.74**
RBC Investor Services Australia Nominees Pty Limited	10,056,333	**0.70**
Robin Edward Davey (Estate Alexander Hubbard)	9,568,668	**0.67**
QIC Limited	7,283,518	**0.51**
Wentworth Investments Pty Ltd	7,176,501	**0.50**
BNP Paribas Nominees Pty Ltd	7,055,512	**0.49**
Citicorp Nominees Pty Limited	5,351,502	**0.37**
RBC Investor Services Australia Nominees Pty Limited	4,971,441	**0.35**
Questor Financial Services Limited	4,859,537	**0.34**
UBS Nominees Pty Ltd	4,561,186	**0.32**
AMP Life Limited	4,052,445	**0.28**
Total	**917,013,023**	**63.94**

TOP TWENTY LARGEST TATTS BONDS HOLDERS

The names of the twenty largest quoted Tatts Bonds holders as they appear on the Tatts Group Limited register are listed below:

	Tatts Bonds	
Name	**Number of Bonds**	**% of total Bonds**
JP Morgan Nominees Australia Limited	402,797	20.69
Citicorp Nominees Pty Limited	258,065	13.26
National Nominees Limited	181,876	9.34
National Nominees Limited	85,247	4.38
UBS Nominees Pty Ltd	84,926	4.36
Citicorp Nominees Pty Limited	73,908	3.80
BNP Paribas Noms Pty Ltd	60,000	3.08
HSBC Custody Nominees (Australia) Limited	57,496	2.95
Questor Financial Services Limited	30,987	1.59
RBC Investor Service Australia Nominees Pty Limited	25,000	1.28
Sandhurst Trustees Ltd	12,357	0.63
RBC Investor Services Australia Nominees Pty Limited	9,000	0.46
Avanteos Investments Limited	7,955	0.41
RBC Investor Services Australia Nominees Pty Limited	7,060	0.36
Navigator Australia Ltd	7,000	0.36
Richard Small Nominees Pty Limited	7,000	0.36
BT Portfolio Services Limited	6,760	0.35
BT Portfolio Services Limited	6,750	0.35
Australian Friendly Society Ltd	5,000	0.26
Baraine Nominees Pty Ltd	5,000	0.26
Total	**1,334,184**	**68.53**

SHAREHOLDER INFORMATION

(CONTINUED)

DOMICILE OF ORDINARY SHAREHOLDERS

Domicile	Number of holders	% holders	Number of shares	% of shares
Australian Capital Territory	760	1.03%	3,650,508	0.25%
New South Wales	9,424	12.80%	538,805,178	37.56%
Northern Territory	313	0.43%	1,226,596	0.09%
Queensland	39,190	53.23%	191,740,029	13.37%
South Australia	1,746	2.37%	14,480,404	1.01%
Tasmania	1,070	1.45%	50,675,276	3.53%
Victoria	18,018	24.47%	606,435,370	42.27%
Western Australia	2,738	3.72%	21,231,538	1.48%
Overseas	361	0.49%	6,300,898	0.44%
Total	**73,620**	**100.0%**	**1,434,545,797**	**100.0%**

DOMICILE OF TATTS BONDS HOLDERS

Domicile	Number of holders	% holders	Number of shares	% of shares
Australian Capital Territory	16	0.97%	3,447	0.18%
New South Wales	394	23.98%	445,596	22.89%
Northern Territory	4	0.24%	375	0.02%
Queensland	334	20.33%	66,734	3.43%
South Australia	55	3.35%	23,073	1.19%
Tasmania	25	1.52%	11,333	0.58%
Victoria	574	34.94%	1,313,570	67.48%
Western Australia	237	14.42%	81,969	4.21%
Overseas	4	0.24%	545	0.03%
Total	**1,643**	**100.0%**	**1,946,642**	**100.0%**

UNQUOTED EQUITY SECURITIES

	Number on issue	Number of holders
Performance options in respect of ordinary shares issued under the Tatts Group long term incentive plan	1,809,170	25
Performance rights in respect of ordinary shares issued under the Tatts Group long term incentive plan and rights plan	785,224	24

Note: Excludes 385,782 performance rights approved by the Board but not yet issued as at 5 August 2014.

GO ONLINE TO MANAGE YOUR SHAREHOLDING

Online share registry facility

Tatts offers shareholders the use of an online share registry facility through www.computershare.com.au or www.investorcentre.com to conduct standard shareholding enquiries and transactions, including:

- update registered address
- lodge or update banking details
- notify Tax File Number / Australian Business Number
- download dividend statements
- check current and previous shareholding balances
- appoint a proxy to vote at the Annual General Meeting
- participate in the Dividend Reinvestment Plan

DIVIDEND PAYMENTS

All dividends paid by Tatts to shareholders with a registered address in Australia are paid by electronic funds transfer into your nominated bank account with an Australian financial institution. Payments are electronically credited on payment date, allowing shareholders to utilise your funds immediately.

Shareholders can provide or update their bank account details by using the online share registry facility or by contacting Computershare.

DIVIDEND REINVESTMENT PLAN (DRP)

Tatts operates a DRP which enables participants to reinvest their dividends into acquiring additional Tatts shares without incurring any brokerage or handling costs. There has been a 1.5% discount applied to the price at which shares will be issued under the DRP in respect of the final dividend payable on 6 October 2014. To elect to participate in the Company's DRP, contact Computershare.

CORPORATE DIRECTORY

REGISTERED AND PRINCIPAL ADMINISTRATIVE OFFICE IN AUSTRALIA

Tatts Group Limited
87 Ipswich Road, Woolloongabba, QLD, 4102
Telephone: + 61 7 3435 4500
ABN: 19 108 686 040

WEBSITE ADDRESSES

www.tatts.com
www.tattsgroup.com

AUSTRALIAN SECURITIES EXCHANGE (ASX) LISTING

Tatts Group Limited shares are listed on the ASX under the code TTS.
Tatts Group Limited Bonds are listed on the ASX under the code TTSHA.

DIRECTORS

Refer to profiles on pages 40 and 41

SENIOR EXECUTIVES

Refer to profiles on pages 30 and 31

GENERAL COUNSEL AND COMPANY SECRETARY

Anne Tucker
E-mail: legal@tattsgroup.com

INVESTOR RELATIONS

Giovanni Rizzo
E-mail: investorrelations@tattsgroup.com

MEDIA

Carolyn Prendergast
E-mail: medialiaison@tattsgroup.com

AUDITOR

PwC Australia
Freshwater Place Level 19, 2 Southbank Boulevard,
Southbank, VIC, 3006

SHARE REGISTRY

Computershare Investor Services Pty Limited
117 Victoria Street, West End, QLD, 4101
E-mail: web.queries@computershare.com.au
Telephone within Australia: 1300 552 270
Telephone outside Australia: +61 7 3237 2100
Fax: +61 7 3237 2152

To maintain or update your details online and enjoy full access to all your holdings and other valuable information, simply visit www.investorcentre.com

CORPORATE DIRECTORY
(CONTINUED)

SHAREHOLDER CALENDAR

Event	Dates
Interim results announcement	19 February 2015
Ex-dividend	27 February 2015
Record date	3 March 2015
DRP pricing period commences	5 March 2015
Dividend payment	2 April 2015
Full year results announcement	20 August 2015
Ex-dividend	1 September 2015
Record date	3 September 2015
DRP pricing period commences	7 September 2015
Dividend payment	5 October 2015
Annual General Meeting	30 October 2015

TATTS BONDS CALENDAR

Quarterly interest payment	Payment date
October 2014	7 October 2014
January 2015	5 January 2015
April 2015	7 April 2015
July 2015	6 July 2015
October 2015	6 October 2015

All dates may be subject to change and will be updated under Investors at **www.tattsgroup.com**

DIVIDEND HISTORY

Date paid/payable	Type	Cents per share	DRP share price
5 April 2006	FY 2006 Interim	8.75	-
26 September 2006	FY 2006 Final	7.50	-
30 March 2007	FY 2007 Interim	8.00	-
5 October 2007	FY 2007 Final	10.0	-
5 October 2007	FY 2007 Special	4.00	-
4 April 2008	FY 2008 Interim	9.50	-
3 October 2008	FY 2008 Special (1)	10.5	-
3 April 2009	FY 2009 Interim	10.0	2.58
2 October 2009	FY 2009 Final	11.0	2.52
6 April 2010	FY 2010 Interim	10.0	2.44
1 October 2010	FY 2010 Special (2)	11.0	2.29
6 April 2011	FY 2011 Interim	10.5	2.18
5 October 2011	FY 2011 Final	11.0	2.10
4 April 2012	FY 2012 Interim	11.0	2.33
3 October 2012	FY 2012 Final	12.0	2.64
5 April 2013	FY 2013 Interim	8.0	3.07
7 October 2013	FY 2013 Final	7.5	3.05
4 April 2014	FY 2014 Interim	8.0	2.90
6 October 2014	FY 2014 Final	5.5	(3)

All dividend payments are fully franked unless otherwise stated.

(1) Paid in place of a 2008 Final Dividend - refer to ASX Releases dated 23 June and 28 August 2008.

(2) Paid in place of a 2010 Final Dividend – refer to ASX Release dated 26 August 2010.

(3) Not available at date of printing. Refer to **www.tattsgroup.com/investors**

TATTS ANNOUNCEMENTS

Details of all announcements released by Tatts Group Limited can be found under the Investor section at **www.tattsgroup.com**

GLOSSARY OF TERMS

AASB
Australian Accounting Standards Board

ABN
Australian Business Number

AGM
Annual General Meeting

App
A software application designed to run on smartphones, tablet computers and other mobile devices.

ASIC
Australian Securities and Investments Commission

ASX
ASX Limited ABN 98 008 624 691, or the financial products market operated by ASX, as the context requires.

ATO
Australian Taxation Office

Board
The Company's Board of Directors.

CEO
Chief Executive Officer

CFO
Chief Financial Officer

Company or Tatts
Tatts Group Limited

Consolidated Entity
The Company and its subsidiaries.

COO
Chief Operating Officer

Corporations Act
Corporations Act 2001 (Cth)

CPI
Consumer Price Index

Director
A Director (or their alternate) of the Company.

EBIT
Earnings before interest and tax

EBITDA
Earnings before interest, tax, depreciation and amortisation

Fixed price betting
A betting system where the payout is agreed at the time the bet is sold.

Group
The Company and its wholly-owned subsidiaries (unless otherwise defined).

GST
Australian goods and services tax

Non-executive Director
A Director who is not a member of the Company's executive management team.

NPAT
Net profit after tax

Pari-mutuel
A betting system where the payout is not determined until the pool is closed.

pcp
prior corresponding period

PwC
Pricewaterhouse Coopers

TattsBet or wagering
The Group's businesses that provide pari-mutuel and fixed price betting services under various licences from state governments in Queensland, South Australia, Tasmania and Northern Territory.

Tatts Lotteries or lotteries
The Group's businesses that provide lottery products under various licences, permits and approvals from state governments in Victoria, Queensland, Tasmania, New South Wales, South Australia, Australian Capital Territory and Northern Territory.

Tatts Pokies
The poker machine business operated under a licence granted by the Victorian Government, and which ceased operations on 15 August 2012.

TSR
Total shareholder return

Tatts Group Limited
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tattsgroup.com