

Tatts Group Limited

ABN 19 108 686 040

Interim Financial Report for the Half-Year 31 December 2015

Tatts Group Limited
ABN 19 108 686 040

ASX Half-Year information - 31 December 2015

18 February 2016

RESULTS FOR ANNOUNCEMENT TO THE MARKET

TATTS GROUP LIMITED HALF-YEAR REPORT

FOR HALF-YEAR ENDED 31 December 2015

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

1. Half-Year Report for the half-year ended 31 December 2015 (Appendix 4D)
2. Directors' Report and Interim Financial Report for the half-year ended 31 December 2015

DIVIDEND

The Directors have determined a fully franked interim dividend of 9.5 cents per share, to be paid on 31 March 2016. The record date for the purpose of determining entitlements is 1 March 2016.

As it is not known when judgment of the High Court in the pokies compensation case will be delivered, and given its potential implications for shareholders if it were to occur during a Dividend Reinvestment Plan (DRP) pricing period (which, for the interim dividend would have occurred in March 2016), the Board has decided to suspend the Group's DRP.

Accordingly the DRP will not operate for the interim dividend.

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



Anne Tucker
General Counsel and Company Secretary

Tatts Group Limited
Half-Year Report
31 December 2015

Appendix 4D information
ABN 19 108 686 040
Half-Year ended 31 December 2015
(Previous corresponding period)
Half-Year ended 31 December 2014

Results for Announcement to the Market

| | Period to 31 December 2015 \$'000 | | Period to 31 December 2014 \$'000 | % |
|------------------------------------------------------------------------|--------------------------------------------|--|--------------------------------------------|---------------|
| From ordinary activities | | | | change |
| Revenue from ordinary activities | 1,607,087 | | 1,508,805 | 6.5% |
| Profit from ordinary activities for the period attributable to members | 147,007 | | 139,802 | 5.2% |
| Net profit after tax for the period attributable to members | 147,007 | | 139,802 | 5.2% |

| From continuing activities | | | | |
|----------------------------------------------------------------------------------------------|------------------|--|-----------|------|
| Revenue from ordinary activities excluding discontinued operation | 1,607,087 | | 1,508,805 | 6.5% |
| Net profit after tax for the period attributable to members excluding discontinued operation | 147,867 | | 139,193 | 6.2% |

Distributions

| Dividend/distributions | Amount per security | Franked amount per security | Amount \$'000 | Date Paid/Payable |
|-----------------------------------------|----------------------------|------------------------------------|----------------------|--------------------------|
| Current year to 31 December 2015 | | | | |
| Interim dividend (per share) | 9.5 cents | 9.5 cents | 139,130 | 31 March 2016 |
| Prior year to 30 June 2015 | | | | |
| Final dividend (per share) | 7.5 cents | 7.5 cents | 109,561 | 5 October 2015 |
| Interim dividend (per share) | 9.0 cents | 9.0 cents | 130,159 | 2 April 2015 |

Record date for determining entitlement to the interim dividend is 1 March 2016.

Explanation of revenue

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

Explanation of profit from ordinary activities after tax

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

Explanation of dividends

The interim dividend of 9.5 cents per share (2015: 9.0 cents per share) represents a payout ratio of 94.6% (2015: 93.1%)

| | 31 December 2015 | 31 December 2014 |
|----------------------------------------|-----------------------------|---------------------|
| Net tangible asset backing (per share) | (\$1.10) | (\$1.19) |

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

Appendix 4D information

Controlled entities acquired or disposed of

Talarius Holdings Limited was incorporated in the United Kingdom on 10 September 2015. The entity's operations are not material to the Group.

Additional dividend/distributions information

The Directors have announced an interim dividend of 9.5 cents per share to be paid on 31 March 2016.

The Company's DRP was suspended on 18 February 2016 and will not operate for the interim dividend.



Anne Tucker
Company Secretary

Brisbane
18 February 2016

Tatts Group Limited
ABN 19 108 686 040
Directors' Report and Interim Financial Report
31 December 2015

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This Interim Financial Report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2015 and any public announcements made by Tatts Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Directors' Report

Your Directors present their report on the consolidated entity (**Group**) consisting of Tatts Group Limited (**Company**) and the entities it controlled at the end of, or during, the half-year ended 31 December 2015.

Directors

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

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

Review of operations

Revenue from continuing activities was up 6.5% to \$1.61 billion, whilst net profit after tax from continuing activities was up 6.2% to \$147.9 million.

Group net profit after tax increased by 5.2% to \$147.0 million. Earnings per share from continuing activities and statutory profit was 10.1 cents, up 4.1%.

Expenses have increased by 7.9% reflecting:

- increased lottery tax inline with revenue;
- the currency impact in our GBP denominated UK Talarius operation;
- increased lotteries marketing spend (both traditional and online) reflecting the additional activity associated with the strong jackpot run and the launch of Set for Life;
- increased marketing spend in wagering, noting the corresponding period last year did not incorporate any meaningful UBET brand activity;
- costs associated with the now discontinued merger discussions with Tabcorp.

The Directors have again maintained a strong dividend payout ratio of 94.6%, declaring an interim dividend of 9.5 cents per share totalling \$139.1 million payable on 31 March 2016.

Lotteries

Revenue was up 9.6% to \$1.1 billion. Earnings before interest and tax (**EBIT**) was up 11.3% to \$164.7 million. There were 24 jackpots (18 in the previous corresponding period or pc) with a total value of \$730m (\$485 million in the pc), resulting in an average jackpot value of \$30.4 million which was 12.9% higher than the pc.

Wagering

Our wagering operation maintained the turnover growth trend reported at our AGM in October 2015, with turnover for the period up 3.0% (compared with a 0.9% decline in the pc). Revenue was down 3.9% - derived from a 15.2% blended win-rate down from 16.3% in the previous corresponding period. This outcome was consistent with the trend advised in October 2015 at our AGM. Our win-rate reflects a combination of factors including the migration from pari-mutuel to fixed price; some results running against the book and a more competitive positioning in the market. The economic environment in regional Queensland, also affected wagering's performance.

The wagering operation achieved an EBITDA margin of 23.6% and is consistent with our stated range. Again, as indicated at our AGM in October 2015, the previous corresponding period's margin was significantly higher when our margin benefited from the new Queensland fiscal arrangements starting six months earlier than the committed marketing uplift. The change in the fiscal structure, and the factors outlined above resulted in EBIT of \$68.3 million (\$82.6 million in the previous corresponding period).

Gaming - Maxgaming

Revenue was up 1.5% to \$59.6 million, benefiting from the continual introduction of value-adding products and services. Margin improvement in the business has seen EBIT for the period reach \$26.5 million, up 3.9%.

Review of operations (continued)

Gaming - Maxgaming (continued)

As stated in the 2015 Annual Report, the Maxgaming NSW licence is due to expire on 30 November 2016 and the New South Wales Government has commenced a competitive market process for a new licence. Irrespective of the outcome of this competitive process, we have over the last year been working with the New South Wales Government to establish appropriate transitional arrangements to continue to provide the CMS service for a transitional 12-month post-licence period, on similar commercial terms to those currently in place.

Gaming - Bytecraft

Bytecraft revenue increased by 0.9% to \$51.8 million. EBIT improved considerably from a loss of \$0.2 million to a profit of \$2.0 million as the business continued to exit a number of non-core and largely unprofitable contracts.

Gaming - Talarius

Talarius has continued its improved performance achieving revenue growth of 29.9%, reaching A\$77.1 million from a combination of organic sales growth, contributions from acquisitions and favourable foreign exchange movements. EBIT for the period increased from A\$2.9 million to A\$5.3 million, up 79.2%, and 56.4% on a same currency basis.

Discontinued Operation

Legal Proceedings

Expiry of gaming operator's licence

On 26 June 2014 the Supreme Court of Victoria (Supreme Court) found in favour of the Company in the proceedings commenced by it against the State of Victoria (State) for compensation on the expiry of its gaming operator's licence on 15 August 2012. The Supreme Court ordered the State to pay the Company \$451.2 million plus interest of \$89.3 million with the total amount received subject to applicable tax. The Supreme Court's decision was unanimously upheld by the Victorian Court of Appeal on 4 December 2014.

The matter is subject to appeal by the State to the High Court of Australia and the appeal was heard on 11 November 2015. The amount received has been treated as unearned income and a current liability in the Group's accounts. If the judgment of the Supreme Court is set aside on appeal, the Company will be required to pay back \$540.5 million plus interest and costs to the State.

At present it is not possible to ascertain with certainty what amount of interest and costs would be payable to the State by the Company if the judgment of the Supreme Court was set aside on appeal. However it would be reasonable to assume interest of approximately \$17.0 million after tax could have been payable if judgment had been set aside as at 31 December 2015.

While it is not known when the judgment of the High Court of Australia will be delivered, judgment is anticipated to be delivered this financial year.

Balance sheet

Net debt (excluding prize reserves) was \$523.7 million at period's end, (\$679.5 million in the pcp). Financing costs reduced to \$20.6 million from \$29.1 million in the previous corresponding period, reflecting the decrease in funding costs for the Group following the refinancing initiatives in the current and previous corresponding period and the benefits of the cash received in the Victoria Pokies Compensation case in June 2014.

Directors have again maintained a strong dividend payout ratio, supported through continued strong cash flow generation by the Group. Total capital expenditure for the period was \$39.3 million. Depreciation and amortisation of \$43.0 million includes \$12.3 million of amortisation of licences and rights to operate.

Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7 for the half-year ended 31 December 2015.

Rounding of amounts to nearest thousand dollars

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 and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off in accordance with that Class Order to the nearest thousand dollars.

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



Robbie Cooke
Managing Director and CEO



Brian Jamieson
Director

Brisbane
18 February 2016



Auditor's Independence Declaration

As lead auditor for the review of Tatts Group Limited for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'Steven Bosiljevac', with a long horizontal stroke extending to the right.

Steven Bosiljevac
Partner
PricewaterhouseCoopers

Brisbane
18 February 2016

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Tatts Group Limited
Half-Year Report
Consolidated income statement
Period ended 31 December 2015

| | Notes | Dec 2015 \$'000 | Dec 2014 \$'000 |
|-----------------------------------------------------------------------------------------------------------------------------|-------|--------------------------------|-----------------------|
| Revenue from continuing operations | | 1,607,087 | 1,508,805 |
| Statutory outgoings | | | |
| Government share | | (723,697) | (661,671) |
| Venue share/commission | | (230,081) | (218,364) |
| Product/program fees | | (107,103) | (107,932) |
| Other income | | 162 | 80 |
| Expenses | | | |
| Employee expenses | | (113,641) | (105,407) |
| Operating fees and direct costs | | (36,268) | (34,791) |
| Telecommunications and technology | | (19,367) | (18,920) |
| Marketing and promotions | | (32,892) | (25,918) |
| Information services | | (10,019) | (9,729) |
| Property expenses | | (31,586) | (28,799) |
| Restructuring expenses | | (3,869) | (375) |
| Other expenses | | (22,168) | (20,867) |
| Profit before interest, income tax, depreciation and amortisation | | 276,558 | 276,112 |
| Depreciation and amortisation | | (42,988) | (45,012) |
| Interest income | | 2,932 | 4,158 |
| Finance costs | | (23,485) | (33,280) |
| Profit before income tax | | 213,017 | 201,978 |
| Income tax expense | | (65,150) | (62,785) |
| Profit from continuing operations | | 147,867 | 139,193 |
| (Loss)/Profit from discontinued operation | 5 | (860) | 609 |
| Profit attributable to owners of Tatts Group Limited | | 147,007 | 139,802 |
| | | Cents | Cents |
| Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company: | | | |
| Basic earnings per share | | 10.1 | 9.7 |
| Diluted earnings per share | | 10.1 | 9.7 |
| Earnings per share for profit attributable to the ordinary equity holders of the Company: | | | |
| Basic earnings per share | | 10.1 | 9.7 |
| Diluted earnings per share | | 10.0 | 9.7 |

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

Tatts Group Limited
Half-Year Report
Consolidated statement of comprehensive income
Period ended 31 December 2015

| | Dec 2015 \$'000 | Dec 2014 \$'000 |
|---------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Profit for the Half-Year | 147,007 | 139,802 |
| Other comprehensive income | | |
| <i>Items that may be reclassified to profit or loss</i> | | |
| Changes in the fair value of available-for-sale financial assets | (158) | (214) |
| Changes in the value of net investment hedges | 745 | (4,303) |
| Changes in the value of cross currency interest rate swaps | 1,420 | 5,532 |
| Changes in the value of interest rate swaps | 743 | (748) |
| Exchange differences on translation of foreign operations | (553) | 1,862 |
| Changes in the value of forward foreign exchange contracts | (114) | 93 |
| Income tax relating to these items | (567) | (1,409) |
| Other comprehensive income for the Half-Year, net of tax | 1,516 | 813 |
| Total comprehensive income for the Half-Year | 148,523 | 140,615 |
| Total comprehensive income for the half-year attributable to owners of Tatts Group Limited arises from: | | |
| Continuing operations | 149,383 | 140,006 |
| Discontinued operation | (860) | 609 |
| | 148,523 | 140,615 |

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

Tatts Group Limited
Half-Year Report
Consolidated balance sheet
As at 31 December 2015

| | Notes | Dec 2015 \$'000 | June 2015 \$'000 |
|--------------------------------------|-------|-----------------------|------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 495,026 | 421,638 |
| Trade and other receivables | | 131,410 | 80,621 |
| Inventories | | 3,049 | 3,718 |
| Derivative financial instruments | | - | 80 |
| Assets classified as held for sale | | 2,405 | 2,400 |
| Other current assets | 7 | 51,394 | 47,598 |
| Total current assets | | 683,284 | 556,055 |
| Non-current assets | | | |
| Trade and other receivables | | 822 | 116 |
| Available-for-sale financial assets | | 19,629 | 19,394 |
| Property, plant and equipment | | 217,600 | 210,230 |
| Derivative financial instruments | | 94,350 | 76,075 |
| Intangible assets | | 4,632,374 | 4,652,545 |
| Deferred tax assets | | 8,104 | 9,524 |
| Other non-current assets | | 1,402 | 1,402 |
| Total non-current assets | | 4,974,281 | 4,969,286 |
| Total assets | | 5,657,565 | 5,525,341 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 675,617 | 598,508 |
| Interest bearing liabilities | 6 | - | 333,168 |
| Derivative financial instruments | | 126 | 461 |
| Tax liabilities | | 22,582 | 25,622 |
| Provisions | | 18,939 | 18,999 |
| Other current liabilities | 7 | 591,862 | 588,066 |
| Total current liabilities | | 1,309,126 | 1,564,824 |
| Non-current liabilities | | | |
| Trade and other payables | | 164,933 | 178,849 |
| Interest bearing liabilities | 6 | 932,564 | 585,359 |
| Deferred tax liabilities | | 211,543 | 208,173 |
| Derivative financial instruments | | 5,873 | 6,247 |
| Provisions | | 3,191 | 3,324 |
| Retirement benefit obligations | | 7,502 | 7,493 |
| Total non-current liabilities | | 1,325,606 | 989,445 |
| Total liabilities | | 2,634,732 | 2,554,269 |
| Net assets | | 3,022,833 | 2,971,072 |
| EQUITY | | | |
| Contributed equity | 8 | 2,854,416 | 2,841,366 |
| Other reserves | | (8,713) | (9,978) |
| Retained earnings | | 177,130 | 139,684 |
| Total equity | | 3,022,833 | 2,971,072 |

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

Tatts Group Limited
Half-Year Report
Consolidated statement of changes in equity
Period ended 31 December 2015

| | Notes | Attributable to owners of Tatts Group Limited | | | Total equity \$'000 |
|-----------------------------------------------------------------------|-------|--------------------------------------------------|-----------------------------|--------------------------------|---------------------------|
| | | Contributed equity \$'000 | Other reserves \$'000 | Retained earnings \$'000 | |
| Balance at 1 July 2014 | | 2,748,417 | (8,762) | 96,380 | 2,836,035 |
| Adjustment from change in accounting policy | | - | - | (4,374) | (4,374) |
| Restated total equity at the beginning of the financial period | | 2,748,417 | (8,762) | 92,006 | 2,831,661 |
| Profit for the year | | - | - | 139,802 | 139,802 |
| Other comprehensive income | | - | 813 | - | 813 |
| Total comprehensive income for the half-year | | - | 813 | 139,802 | 140,615 |
| Transactions with owners in their capacity as owners: | | | | | |
| Dividend Reinvestment Plan issues | 8 | 32,373 | - | - | 32,373 |
| Dividends provided for or paid | | - | - | (78,914) | (78,914) |
| Employee performance rights | | 2,201 | (637) | - | 1,564 |
| Employee share options | | 702 | (954) | 878 | 626 |
| | | 35,276 | (1,591) | (78,036) | (44,351) |
| Balance at 31 December 2014 | | 2,783,693 | (9,540) | 153,772 | 2,927,925 |
| Balance at 1 July 2015 | | 2,841,366 | (9,978) | 139,684 | 2,971,072 |
| Profit for the year | | - | - | 147,007 | 147,007 |
| Other comprehensive income | | - | 1,516 | - | 1,516 |
| Total comprehensive income for the Half-Year | | - | 1,516 | 147,007 | 148,523 |
| Transactions with owners in their capacity as owners: | | | | | |
| Dividend Reinvestment Plan issues | 8 | 11,268 | - | - | 11,268 |
| Dividends provided for or paid | 4 | - | - | (109,561) | (109,561) |
| Employee performance rights | | 1,782 | (251) | - | 1,531 |
| | | 13,050 | (251) | (109,561) | (96,762) |
| Balance at 31 December 2015 | | 2,854,416 | (8,713) | 177,130 | 3,022,833 |

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

Tatts Group Limited
Half-Year Report
Consolidated statement of cash flows
Period ended 31 December 2015

| | Notes | Dec 2015 \$'000 | Dec 2014 \$'000 |
|-----------------------------------------------------------------------------------------|-------|-----------------------|-----------------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) net of prizes paid/cash returns to customers | | 1,618,444 | 1,574,366 |
| Payments to suppliers and employees (inclusive of GST) | | (292,425) | (264,509) |
| Payments to Government | | (700,753) | (712,810) |
| Payments to venues/commission | | (230,081) | (218,364) |
| Payments for product and program fees | | (106,433) | (105,385) |
| | | <u>288,752</u> | <u>273,298</u> |
| Other revenue | | 9 | 17 |
| Interest received | | 3,057 | 2,917 |
| Interest paid | | (22,863) | (30,747) |
| Income taxes paid | | (64,570) | (46,233) |
| Net cash inflow from operating activities | | <u>204,385</u> | <u>199,252</u> |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (30,423) | (32,289) |
| Payments for intangibles | | (1,584) | (4,529) |
| Proceeds from sale of property, plant and equipment and investment properties | | - | 17 |
| Proceeds/(payments) from sale of available-for-sale assets | | (397) | 9,990 |
| Net cash (outflow) from investing activities | | <u>(32,404)</u> | <u>(26,811)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issues of shares | | - | 626 |
| Dividends paid net of Dividend Reinvestment Plan | | (98,293) | (46,541) |
| Repayment of borrowings | | - | (320,000) |
| Net cash (outflow) from financing activities | | <u>(98,293)</u> | <u>(365,915)</u> |
| Net increase in cash and cash equivalents | | 73,688 | (193,474) |
| Cash and cash equivalents at the beginning of the financial year | | 421,638 | 687,118 |
| Effects of exchange rate changes on cash and cash equivalents | | (300) | (829) |
| Cash and cash equivalents at end of half-year | | <u>495,026</u> | <u>492,815</u> |

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

1 Summary of significant accounting policies

(a) Basis of preparation

This general purpose Interim Financial Report for the half-year reporting period ended 31 December 2015 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This Interim Financial Report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2015 and any public announcements made by Tatts Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

(b) New and amended standards adopted by the Group

There are no accounting standards applicable for the first time for the 31 December 2015 half-year report.

Other than those disclosed in the 2015 Annual Report, there are no 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.

2 Fair value measurements

(a) Fair value of financial assets and liabilities

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

(i) On-Balance Sheet

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

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

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

(ii) Off-Balance Sheet

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

2 Fair value measurements (continued)

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

(iii) Derivative financial instruments

For forward foreign exchange contracts, the fair value is to be taken to the unrealised gain or loss at balance sheet date calculated by reference to the current forward exchange rates for contracts with similar remaining maturity profiles, adjusted for relevant credit risk.

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

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

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

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

(b) Fair value hierarchy

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

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

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

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

(i) Recognised fair value measurements

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2015.

| At 31 December 2015 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|------------------------------------------|-------------------|-------------------|-------------------|-----------------|
| Recurring fair value measurements | | | | |
| Financial assets | | | | |
| Cross currency interest rate swaps | - | 94,350 | - | 94,350 |
| Available-for-sale financial assets | - | 19,629 | - | 19,629 |
| Total financial assets | - | 113,979 | - | 113,979 |
| Financial liabilities | | | | |
| Forward foreign exchange contracts | - | 5,999 | - | 5,999 |
| Total financial liabilities | - | 5,999 | - | 5,999 |

2 Fair value measurements (continued)

(b) Fair value hierarchy (continued)

| At 31 December 2014 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|------------------------------------------|-------------------|-------------------|-------------------|-----------------|
| Recurring fair value measurements | | | | |
| Financial assets | | | | |
| Cross currency interest rate swaps | - | 57,999 | - | 57,999 |
| Available-for-sale financial assets | - | 19,147 | - | 19,147 |
| Total financial assets | - | 77,146 | - | 77,146 |
| Financial liabilities | | | | |
| Interest rate swap contracts | - | 8,998 | - | 8,998 |
| Total financial liabilities | - | 8,998 | - | 8,998 |

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

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

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2015.

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

(i) Recurring and non-recurring fair value measurements

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

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

Specific valuation techniques used to value financial instruments include:

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

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

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

3 Segment information

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

3 Segment information (continued)

Segment information provided to the Managing Director/Chief Executive Officer

The segment information provided to the Managing Director/Chief Executive Officer for the reportable segments for the half-year ended 31 December 2015 is as follows:

| Half-Year Dec 2015 | Lotteries \$'000 | Wagering \$'000 | Maxgaming \$'000 | Bytecraft Systems \$'000 | Talariaus \$'000 | Unallocated \$'000 | Intersegment eliminations \$'000 | Total Continuing Operations \$'000 | Discontinued Operation (Note 5) \$'000 | Consolidated \$'000 |
|----------------------------------------|---------------------|--------------------|---------------------|--------------------------------|---------------------|-----------------------|----------------------------------------|---------------------------------------------|-------------------------------------------------|------------------------|
| Total segment revenue and other income | 1,109,119 | 325,963 | 59,629 | 51,750 | 77,063 | 31 | (16,306) | 1,607,249 | - | 1,607,249 |
| EBITDA | 177,636 | 76,900 | 32,490 | 3,037 | 10,983 | (24,488) | - | 276,558 | (976) | 275,582 |
| Depreciation and amortisation | (12,918) | (8,583) | (5,970) | (1,044) | (5,665) | (8,808) | - | (42,988) | - | (42,988) |
| EBIT | 164,718 | 68,317 | 26,520 | 1,993 | 5,318 | (33,296) | - | 233,570 | (976) | 232,594 |

| Half-Year Dec 2014 | Lotteries \$'000 | Wagering \$'000 | Maxgaming \$'000 | Bytecraft Systems \$'000 | Talariaus \$'000 | Unallocated \$'000 | Intersegment eliminations \$'000 | Total Continuing Operations \$'000 | Discontinued Operation (Note 5) \$'000 | Consolidated \$'000 |
|----------------------------------------|---------------------|--------------------|---------------------|--------------------------------|---------------------|-----------------------|----------------------------------------|---------------------------------------------|-------------------------------------------------|------------------------|
| Total segment revenue and other income | 1,012,367 | 339,212 | 58,753 | 51,288 | 59,336 | 3,199 | (15,270) | 1,508,885 | - | 1,508,885 |
| EBITDA | 161,096 | 91,783 | 32,558 | 957 | 8,394 | (18,676) | - | 276,112 | 870 | 276,982 |
| Depreciation and amortisation | (13,082) | (9,212) | (7,032) | (1,167) | (5,427) | (9,092) | - | (45,012) | - | (45,012) |
| EBIT | 148,014 | 82,571 | 25,526 | (210) | 2,967 | (27,768) | - | 231,100 | 870 | 231,970 |

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

3 Segment information (continued)

Other segment information

Adjusted EBIT

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

| | Half-Year Dec 2015 \$'000 | Half-Year Dec 2014 \$'000 |
|------------------------------------------------------------|----------------------------------------------|------------------------------------|
| Adjusted EBIT from continuing operations | 233,570 | 231,100 |
| Interest income | 2,932 | 4,158 |
| Finance costs | (23,485) | (33,280) |
| Profit before income tax from continuing operations | 213,017 | 201,978 |

4 Dividends

(a) Ordinary shares

| | 2015 \$'000 | 2014 \$'000 |
|---------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| Final dividend for the year ended 30 June 2015 of 7.5 cents per share paid on 5 October 2015 (2014: 5.5 cents paid on 6 October 2014) | 109,561 | 78,914 |

Dividends not recognised at the end of the reporting period

In addition to the above dividends, since the end of the half-year the Directors have determined an interim dividend of 9.5 cents per fully paid ordinary share (2015: 9.0 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 31 March 2016 out of the retained profits at 31 December 2015, but not recognised as a liability at the end of the half-year, is \$139.1 million (2015: \$130.2 million).

5 Discontinued Operation

(a) Expiry of gaming operator's licence

On 26 June 2014 the Supreme Court found in favour of the Company in the proceedings commenced by it against the State for compensation on the expiry of its gaming operator's licence on 15 August 2012. The Supreme Court ordered the State to pay the Company \$451.2 million plus interest of \$89.3 million with the total amount received subject to applicable tax. The Supreme Court's decision was unanimously upheld by the Victorian Court of Appeal on 4 December 2014.

The matter is subject to appeal by the State to the High Court of Australia and the appeal was heard on 11 November 2015. The amount received has been treated as unearned income and a current liability in the Group's accounts. If the judgment of the Supreme Court is set aside on appeal, the Company will be required to pay back \$540.5 million plus interest and costs to the State.

(b) Results

| | Dec 2015 \$'000 | Dec 2014 \$'000 |
|----------------------------------------------------------|-----------------------|-----------------------|
| Revenue | - | 1,601 |
| Expenses | (976) | (731) |
| (Loss)/Profit before income tax | (976) | 870 |
| Income tax benefit/(expense) | 116 | (261) |
| (Loss)/Profit after income tax of discontinued operation | (860) | 609 |

6 Interest bearing liabilities

| | Dec 2015 \$'000 | June 2015 \$'000 |
|--------------------------------------------|-----------------------|------------------------|
| Current | | |
| Unsecured | | |
| Bank loans | - | 333,168 |
| Total current interest bearing liabilities | - | 333,168 |

6 Interest bearing liabilities (continued)

| | Dec 2015 \$'000 | June 2015 \$'000 |
|----------------------------------------|-----------------------|------------------------|
| Non-current Unsecured | | |
| Bank loans | 421,671 | 91,725 |
| Tatts Bonds | 192,478 | 192,164 |
| Loan notes (US Private Placement) | 318,415 | 301,470 |
| Total unsecured non-current borrowings | 932,564 | 585,359 |

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

7 Other current liabilities

| | Dec 2015 \$'000 | June 2015 \$'000 |
|---------------------------------------|-----------------------|------------------------|
| SA Lotteries monies held in trust (i) | 51,394 | 47,598 |
| Unearned income (ii) | 540,468 | 540,468 |
| | 591,862 | 588,066 |

(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 found in favour of the Company in the proceedings commenced by it against the State for compensation on the expiry of its gaming operator's licence on 15 August 2012. Refer Note 5 for further information.

8 Contributed equity issued

Share capital

| | Dec 2015 Shares | Dec 2014 Shares | Dec 2015 \$'000 | Dec 2014 \$'000 |
|-----------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Issue of ordinary shares during the half-year | | | | |
| Share options issues | - | 244,650 | - | 702 |
| Performance rights issues | 533,336 | 855,708 | 1,782 | 2,201 |
| Dividend Reinvestment Plan issues | 3,183,005 | 10,212,249 | 11,268 | 32,373 |
| | 3,716,341 | 11,312,607 | 13,050 | 35,276 |

9 Contingent liabilities

Contingent liabilities

The Group had contingent liabilities at 31 December 2015 in respect of:

Bank Guarantees

Guarantees in respect of bank facilities drawn down but not included in the accounts of the Group are \$3.7 million (June 2015: \$3.4 million).

9 Contingent liabilities (continued)

Gaming operator's licence compensation payment

As discussed in Note 5(a), there is a risk that the State will be successful in their appeal resulting in the decision of the Supreme Court being set aside in which case the Company will be required to pay back the \$540.5 million presently held as unearned income (refer Note 7(ii)) plus interest and costs.

At present it is not possible to ascertain with certainty what amount of interest and costs would be payable to the State by the Company if the judgment of the Supreme Court was set aside on appeal. However it would be reasonable to assume interest of approximately \$17.0 million after tax could have been payable if judgment had been set aside as at 31 December 2015.

10 Events occurring after the reporting period

In the opinion of the Directors there have been no material matters or circumstances which have arisen between 31 December 2015 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.


In the Directors' opinion:

- (a) the Interim Financial Report and notes set out on pages 8 to 20 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year on that date; and
- (b) there are reasonable grounds to believe that Tatts Group Limited will be able to pay its debts as and when they become due and payable.

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



Robbie Cooke
Managing Director and CEO



Brian Jamieson
Director

Brisbane
18 February 2016



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Tatts Group Limited (the company), which comprises the consolidated balance sheet as at 31 December 2015, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Tatts Group Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Tatts Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Steven Bosiljevac', with a long horizontal stroke extending to the right.

Steven Bosiljevac
Partner

Brisbane
18 February 2016