

A landmark year for Tatts Group

Record lotteries profit, online migration and lower funding costs converge

Brisbane, 21 August 2014 – Record lotteries earnings, continuing migration online and capturing the benefits of the interest rate cycle drove a 7.8% lift in before tax profits (from continuing operations) for the Tatts Group. The significance of this performance heightens when considering it cycled over last year's exceptional run of Oz Lotto and Powerball jackpots, and coincided with this year's investment 'ramp-up' in Tatts' wagering business.

The result capped off a landmark year for Tatts, with the Group having recently secured its exclusive Queensland wagering franchise, whilst simultaneously being awarded \$540.5 million in its long running Victorian pokies compensation claim (which is subject to appeal).

Whilst profit before tax from continuing operations increased 7.8%, a seemingly anomalous 0.3% decline in after tax profits occurred (to \$226.6 million). This outcome being entirely due to a one-off \$16.2 million tax benefit occurring in FY13 distorting the comparative base. Excluding this one-off benefit, like-for-like after tax profit in FY14 increased by 7.3%. Somewhat disappointingly this strong underlying performance was cruelled by a loss in the Group's challenge to the Victorian Treasurer's determination to impose a health benefit levy. This saw an illogical \$42.6 million levy charged to the Group's discontinued pokies business for the final 46 days that business operated in FY13 - well exceeding the \$29 million EBITDA generated by the business that year. The levy significantly impacted Tatts' statutory net profit after tax, which fell 19.0% to \$200.4 million.

Tatts' lotteries division lifted earnings before interest and tax by 0.8% from revenues that were down 4.3% - this result was assisted by a full year's contribution from SA Lotteries offsetting the challenge posed by FY13's exceptional jackpot sequence. Wagering revenues were down 2%, consistent with the Group's half-year performance and reflective of the competitive landscape. Wagering earnings before interest and tax was down 7.4% in-line with the flagged reinvestment in Tatts' wagering operations – reflecting an operating margin consistent with the level indicated at half-year. The injection of resources into Tatts wagering unit - traversing marketing, branding, retailing, online and bookmaking disciplines - is designed to position the Group to fight-back against the swarm of online competitors.

On the basis of this strong performance in the year and maintaining its commitment to a high dividend payout ratio, Tatts' Board has determined a final dividend of 5.5 cents per share – representing a 95.9% payout of statutory profits.

FY14 Snapshot

- * **7.8% increase in profit before tax (continuing operations) to \$326.6m**
- * **Queensland wagering franchise secured and positioned to reinvest for growth – with lower wagering tax rates and race field fee offsets preserved**
- * **Pokies compensation litigation win (subject to appeal) - \$540.5m applied to reduce debt**
- * **Benefit of interest rate cycle captured – finance costs down 15.8%**
- * **36 jackpots \$15m and above - averaging \$25.7m per 1st division jackpot (FY13: 39 averaging \$29.0m)**
- * **Integration of SA Lotteries complete – entire network now on proprietary lotteries system**
- * **Wagering renewal program well advanced**
- * **22.9% of all wagering sales online (FY13: 20.2%)**
- * **9.4% of all lotteries sales online (FY13: 8.2%) (excluding SA)**
- * **Monday Lotto launched in Queensland**
- * **'Autoplay' purchase feature introduced for lotteries online**
- * **Multi-jurisdictional Instant Scratch-its introduced**
- * **SA Lotteries website released**
- * **Tatts.com App launched in all markets – downloaded on circa. 332,000 devices**
- * **Talarius positive profit contribution for first time since acquisition**

Summary of Results (for more detail see Appendix A)

	FY14	FY13		% change*
Revenue and other income	\$2,868.3 million	\$2,950.4 million	↓	2.8%
EBITDA	\$498.4 million	\$490.2 million	↑	1.7%
EBIT	\$414.5 million	\$406.1 million	↑	2.1%
Profit before tax (continuing operations)	\$326.6 million	\$303.1 million	↑	7.8%
NPAT (continuing operations)	\$226.6 million	\$227.4 million	↓	0.3%
NPAT (statutory)	\$200.4 million	\$247.3 million	↓	19.0%

* Percentages based on full reported numbers (i.e. non-rounded source data).

Commentary

The Tatts Group this morning reported its full year result for 2014 that was driven by record lotteries earnings, a continuing strong migration to the online channel in both its lotteries and wagering operations, and by capturing the benefits of the interest rate cycle.

The Group's underlying performance was strong, delivering a 7.8% lift in profit before tax on a continuing operations basis at \$326.6 million (FY13: \$303.1 million). Somewhat counter intuitively, after tax profits from continuing operations for the Group declined 0.3% to \$226.6 million (FY13: \$227.4 million) – this being entirely due to a \$16.2 million tax benefit from the Group's Queensland lotteries acquisition which lifted the FY13 result. Excluding this one-off benefit, like-for-like after tax profit in FY14 increased by 7.3%.

The Group's statutory NPAT (which includes the performance of the now discontinued Victorian pokies business) was \$200.4 million compared with \$247.3 million in FY13. This 19.0% reduction is the direct consequence of the unfavourable decision in the challenge to the Victorian Treasurer's determination to impose a \$42.6 million health benefit levy upon Tatts' discontinued pokies business. The levy related to FY13 and exceeded the \$29 million in EBITDA generated from the pokies business that year. This impost savaged the Group's statutory result. 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.

In announcing the result Robbie Cooke, Tatts' CEO and Managing Director, said:

"Outperforming the Group's FY13 result was never going to be an easy task given the exceptional run of lotto jackpots in that year, coupled with the investment 'ramp-up' this year 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, online migration and lower funding costs drive our performance".

Commenting on the year's landmark outcomes in securing the significant Queensland wagering franchise and winning the long running pokies compensation claim, he continued:

"Securing long-term exclusive sport and racing wagering licences in Queensland with optimised operating structures well positions Tatts in what is an increasingly competitive space. Significantly, the new arrangements provide for lower wagering tax outcomes and retain the right to offset race field fees against product fees, enabling us 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. The financial firepower, this enhanced deal provides, will be reinvested in driving the performance of our Queensland wagering business in FY15 and beyond.

Success in our claim for compensation in Victoria following the loss of our pokies licence, saw the Supreme Court award Tatts judgment of \$540.5 million. This decision does no more than uphold a contract signed by the State back in 1995. This agreement led to the State receiving substantial additional licence fees from Tatts from the conduct of the 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 our licence. The decision merely holds the State to the terms of their contract."

In considering new initiatives launched in the year Cooke commented:

"A range of new products and initiatives were successfully launched in the year. Our lotteries team rolled out multi-jurisdictional scratch-it tickets, Monday Lotto in Queensland, the Autoplay feature enabling customers to set perpetual online entries, a new South Australian website and the trial of the convenience fuel retail channel in Victoria seeking to expand the category.

Our wagering renewal program is well advanced and touches all areas of our operation. The deliverables to date include the significant expansion in our bookmaker numbers enabling the launch of our 24/7 fixed-price betting service on all racing codes and upon a wider range of sports. It has seen the recruitment of a dedicated eight person wagering marketing team, the engagement of a leading advertising agency and the creation of a new wagering brand ready for launch that will provide a seamless customer experience across all our sales channels. The program has lifted our online team to now comprise 52 digital evangelists who have been working on our next generation wagering site, which is close to launch. Work in progress also includes a new retail experience, a new sports betting platform, enhanced self-service terminals and a rewards program."

In discussing the Group's outlook he said:

"With a pipeline of exciting initiatives for launch, the Group is well positioned for a successful FY15. The year has commenced strongly from a trading perspective - with both wagering and lotteries off to a great start.

Wagering revenue is up 4% with racing up 2.8% and sports up 17.8%, benefiting from the Soccer World Cup that finished in July 2014. Lotteries is benefiting from a strong run of jackpots, which sees Powerball at a very exciting \$70 million tonight. This year we have had six jackpots at or above \$15 million with 1st division pools averaging \$35.8 million – this compares very favourably to the same time last year when we had four jackpots at an average value of \$30.0 million.

Our new wagering web site and brand will launch in the year, which will attract a lift in marketing spend. This spend will be offset, to an extent, by the reduced wagering tax in our core Queensland market. The investment we are making in our wagering business to drive growth will bring a further small contraction in our wagering EBITDA margin. Our focus remains on repositioning our wagering business for growth and capturing the sales momentum considered available in our markets.

The other feature in our performance this year will be the circa \$12 million p.a. interest benefit that arises by virtue of the pokies compensation win. This builds upon the reduction achieved in FY14 in our funding costs. It should however be noted this additional benefit remains subject to appeal outcomes in the pokies compensation litigation."

With the benefit of the strong result the Tatts Board determined a final dividend of 5.5 cents per share – taking the total dividend paid in respect of 2014 financial year to 13.5 cents representing a 95.9% payout of our profits on a statutory basis and 84.8% payout on a continuing operations basis. The Group has retained the dividend reinvestment plan this year offering participating shareholders a 1.5% discount.

Further Detailed Analysis

FOR MORE DETAIL AND DISCUSSION ON TATTS GROUP'S RESULT PLEASE REFER TO THE MANAGING DIRECTOR'S REPORT CONTAINED IN THE ANNUAL REPORT RELEASED TODAY AND AVAILABLE ON TATTSGROUP.COM

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APPENDIX A

	FY14 \$'000	FY13 \$'000		% change
Total revenue and other income	2,868.3	2,950.4	↓	2.8%
Government share	(1,289.9)	(1,376.4)	↓	6.3%
Venue share/commission	(413.1)	(414.2)	↓	0.3%
Product and program fees	(187.2)	(191.5)	↓	2.3%
Other expenses	(479.7)	(478.1)	↑	0.3%
Total expenses	(2,369.9)	(2,460.2)	↓	3.7%
EBITDA	498.4	490.2	↑	1.7%
Depreciation	(83.9)	(84.1)	↓	0.2%
EBIT	414.5	406.1	↑	2.1%
Interest income	1.9	3.7	↓	47.9%
Finance costs	(89.8)	(106.7)	↓	15.8%
PBT	326.6	303.1	↑	7.8%
Income tax	(100.0)	(75.7)	↑	32.1%
Net profit after tax (from continuing operations)	226.6	227.4	↓	0.3%
(Loss)/profit from discontinued operations	(26.2)	19.9	↓	231.4%
Net profit after tax (statutory basis)	200.4	247.3	↓	19.0%