# Tatts Group Limited
# ABN 19 108 686 040

# ASX Half-year information – 31 December 2009

25 February 2010

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

### TATTS GROUP LIMITED HALF YEAR REPORT

### FOR HALF-YEAR ENDED 31 DECEMBER 2009

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 2009 (Appendix 4D)
2. Directors' Report and Interim Financial Report for the half year ended 31 December 2009

DIVIDEND

The Directors have declared a fully franked interim dividend of 10.0 cents per share, to be paid on 6 April, 2010. The record date for the purpose of determining entitlements is 9 March 2010.

The Company's Dividend Reinvestment Plan (**DRP**) will operate for the interim dividend. To participate in the DRP for this interim dividend, those shareholders who have not already done so will need to lodge a DRP Notice of Election with Computershare Investor Services Pty Ltd by the end of the record date, 9 March 2010. The price at which shares are issued under the DRP is the daily volume weighted average market price of the Company's shares sold in the ordinary course of trading on the ASX during the ten trading days commencing on the second trading day after the dividend record date. Shares issued under the DRP will rank equally with existing ordinary shares from the date of issue. Currently there is no discount applicable on the price of shares issued under the DRP. There is no foreign conduit income attributed to the dividend. Information about the DRP can be found on the Company's website at www.tattsgroup.com/investors.

The information contained in this release should be read in conjunction with the Company's most recent annual financial report.

Penny Grau.

**Penny Grau**
**General Counsel and Company Secretary**

# Tatts Group Limited
# ABN 19 108 686 040

# Half Yearly Report and Accounts
# 31 December 2009

**Tatts Group Limited**
**ABN 19 108 686 040**
**Half-year ended 31 December 2009**
**(Previous corresponding period:**
**Half-year ended 31 December 2008)**

**Results for Announcement to the Market**

| | Period to 31 December 2008 $'000 | | **Period to 31 December 2009 $'000** | **% change** |
|---|---|---|---|---|
| **Revenue** from ordinary activities | 1,596,473[1] | To | **1,615,161** | **1.2%** |
| **Profit** from ordinary activities after tax attributable to members | 144,733 | To | **144,961** | **0.2%** |
| **Net profit** for the period attributable to members | 144,733 | To | **144,961** | **0.2%** |

| **Dividend/distributions** | Amount per security | Franked amount per security | Amount $'000 | Date Paid/ Payable |
|---|---|---|---|---|
| **Current year to 30 June 2010** | | | | |
| Interim dividend | 10.0 cents | 10.0 cents | 127,564 | 6/4/10 |
| | | | | |
| **Prior year to 30 June 2009** | | | | |
| Final dividend | 11.0 cents | 11.0 cents | 139,707 | 2/10/09 |
| Interim dividend | 10.0 cents | 10.0 cents | 126,536 | 3/4/09 |

**Record date** for determining entitlement to the interim dividend is 9 March 2010.

**Explanation of revenue**
[1]Prior year comparative has been restated to treat South Africa as discontinued operations.

For further commentary 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 10.0 cents per share (2008: 10.0 cents per share) represents a payout ratio of 88.0%. There is no change over the previous corresponding period.

**NTA Backing**

| | 31 December 2009 | 31 December 2008 |
|---|---|---|
| Net tangible asset backing* | (51) cents per share | (57) cents per share |

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

**Controlled entities acquired or disposed of**
Refer to Note 5 and Note 6 of the Interim Financial Report.

**Tatts Group Limited**
**Appendix 4D information**

**Additional dividend/distributions information**
The Directors have announced an interim dividend of 10.0 cents per share to be paid on 6 April 2010.

Dividend Reinvestment Plan (DRP)

The Company's Dividend Reinvestment Plan (**DRP**) will operate for the interim dividend. To participate in the DRP for this interim dividend, those shareholders who have not already done so will need to lodge a DRP Notice of Election with Computershare Investor Services Pty Ltd by the end of the record date, 9 March 2010. Information about the DRP can be found on the Company's website at www.tattsgroup.com/investors.

**Associates and Joint ventures entities**
The Group continues to have a 50% ownership in each of LH Developments Pty Ltd and George Adams Pty Ltd and Prizac Investments Pty Ltd (Splash). The results of these operations are not material to the Group.

Penny Grau.

Penny Grau
Company Secretary

25 February 2010

# Tatts Group Limited
# ABN 19 108 686 040
# Directors’ Report and Interim Financial Report
# 31 December 2009

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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 2009 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*.

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 2009.

**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
Richard McIlwain
Robert Bentley
Lyndsey Cattermole AM
Brian Jamieson
Julien Playoust
Kevin Seymour AM

**Review of operations**

The six months to 31 December 2009 saw the Group increase profit after tax by 0.2% to $145.0 million, a great outcome considering the extraordinarily positive impact the Government stimulus package had on all retail spending in the previous corresponding period. Group revenue from continuing operations increased by 1.2% to $1,615.2 million. Basic earnings per share from continuing operations were 11.3 cents, down 0.9% on the previous corresponding period.

The Directors have continued to reward their shareholders by maintaining a high dividend payout ratio of 88.0%, declaring an interim dividend of 10.0 cents per share payable on 6 April 2010.

Further operational results and commentary are provided below.

***Tatts Pokies***
Tatts Pokies revenue and other income of $639.4 million is down 4.6% on the previous corresponding period, contributing to a 13.2% reduction in Earnings Before Interest and Tax (**EBIT**) to $101.4 million. EBIT in the six months to 31 December 2009 was impacted by one-off costs of $5.2 million incurred to comply with the regulatory change to a $5 maximum bet, with the decline accentuated by the strong previous corresponding period that benefited from the Government stimulus payments in December 2008. Depreciation and amortisation increased by $3.5 million as a result of the required capital expenditure during the period (completing existing jackpot licensing arrangements and the maximum bet regulatory change requirements) and the short depreciation timeframe until the end of the licence period for these and last year's capital expenditures.

***UNiTAB Wagering***
The six months to 31 December 2009 saw UNiTAB Wagering revenue increase to $312.0 million, up 0.8% on the previous corresponding period. EBIT for the period was down 2.5% over the previous corresponding period, to $69.6 million after absorbing additional costs during the period in establishing an internal fixed odds betting capability. The period saw some migration from the totalisator to the in-house fixed odds betting service TattsBet, with fixed odds betting revenue up 32.3% to $18.8 million.

***Tatts Lotteries***
Tatts Lotteries achieved revenue of $527.8 million, up 8.9% over the previous corresponding period. EBIT for Tatts Lotteries was up 14.9% to $53.4 million. This business again benefited from favourable jackpot activity during the period. The six month period started strongly, with Powerball reaching an $80 million jackpot in July and the result was assisted by an additional Superdraw falling into this period. Tatts Lotteries also benefited from the ongoing growth in the Monday/ Wednesday lottery product which was launched in Victoria in October 2008.

***Maxgaming***
Revenue in Maxgaming reached $61.9 million for the six month period to 31 December 2009, up 5.2% on the previous corresponding period, with EBIT of $21.4 million up 5.2%. Maxgaming continues to deliver strong margins whilst continuing to invest in products and services to position the business to protect and grow its revenue.

***Bytecraft***
Bytecraft Systems revenue grew 9.9% over the previous corresponding period to reach $38.0 million for the six months to 31 December 2009. Third party revenue grew 16.4% during the six month period and will provide an ongoing growth profile. Initial start-up costs incurred to facilitate this future growth in third party revenue, together with increased depreciation, contributed to EBIT being down 1.5% for the period to $2.0 million.

***International***
The International segment now principally comprises the European Gaming Group operations in the United Kingdom. Following the announcement of an agreement reached for the disposal of the Company's South African gaming operations, which is currently expected to be completed in the second half of the financial year, the South African gaming operations are reported in discontinued operations.

At 31 December 2009, the European Gaming Group comprised 218 venues housing 8,650 electronic gaming machines throughout the United Kingdom. The ongoing poor economic conditions in the United Kingdom have continued to impact the European Gaming Group, with revenue for the period down 4.4% to $52.1 million, and EBIT down $3.7 million to a $3.3 million loss.

**Balance Sheet**

Net debt (excluding prize reserves) in the Group's balance sheet was $628 million at 31 December 2009. The average interest rate for the Group for the six month period to 31 December 2009 was 4.9%, resulting in financing costs being $13.1 million below the previous corresponding period.

Cash flow from the Group remains strong supporting the ongoing dividend payment profile. Capital expenditure remains well controlled. Despite incurring one-off costs to meet regulatory requirements and machine licensing payments, capital expenditure of $47.9 million remains well below the depreciation and amortisation charges for the half-year.

The South African assets and liabilities have been reclassified as held for sale.

**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 2009.

**Rounding of amounts to nearest thousand dollars**
The Company is of a kind referred to in Class Order 98/0100 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 to the nearest thousand dollars in accordance with that Class Order.

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

Harry Boon
Chairman

Richard McIlwain
Chief Executive & Managing Director

Melbourne
25 February 2010

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers**
**ABN 52 780 433 757**

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## Auditor's Independence Declaration

As lead auditor for the review of Tatts Group Limited for the half-year ended 31 December 2009, 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.

Con Grapsas
Partner
PricewaterhouseCoopers

Melbourne
25 February 2010

| | Half-year 2009 $'000 | Half-year 2008 $'000 |
|---|---|---|
| **Revenue from continuing operations** | 1,615,161 | 1,596,473 |
| Statutory outgoings | | |
| Government share | (726,748) | (711,033) |
| Venue share/commission | (307,427) | (311,433) |
| Product and program fees | (98,646) | (95,945) |
| **Other income** | 90 | 162 |
| **Other expenses from ordinary activities** | | |
| Employee expenses | (81,674) | (76,970) |
| Operating fees and direct costs | (38,298) | (31,997) |
| Telecommunications and technology | (16,209) | (17,331) |
| Marketing and promotions | (17,204) | (15,668) |
| Information services | (6,484) | (5,916) |
| Property expenses | (27,220) | (26,061) |
| Restructuring costs | (588) | (1,246) |
| Other expenses | (15,994) | (15,195) |
| Share of net loss of associates and joint ventures accounted for using the equity method | (149) | - |
| Profit before interest, income tax, depreciation and amortisation | 278,610 | 287,840 |
| Depreciation and amortisation | (54,742) | (50,375) |
| Interest income | 4,157 | 5,094 |
| Finance costs | (21,469) | (34,573) |
| **Profit before income tax** | 206,556 | 207,986 |
| Income tax expense | (62,485) | (63,041) |
| Profit from continuing operations | 144,071 | 144,945 |
| Profit from discontinued operations | 1,372 | 211 |
| **Profit for the half-year** | 145,443 | 145,156 |
| **Profit is attributable to** | | |
| Ordinary equity holders of Tatts Group Limited | 144,961 | 144,733 |
| Non-controlling interest | 482 | 423 |
| | 145,443 | 145,156 |
| **Earnings per share for profit from continuing operations attributable to the ordinary equity shareholders of the Company:** | Cents | Cents |
| Basic earnings per share | 11.3 | 11.4 |
| Diluted earnings per share | 11.3 | 11.4 |
| **Earnings per share for profit attributable to the ordinary equity holders of the Company:** | Cents | Cents |
| Basic earnings per share | 11.4 | 11.4 |
| Diluted earnings per share | 11.4 | 11.4 |

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

| | **Half-year 2009 $'000** | Half-year 2008 $'000 |
|---|---|---|
| **Profit for the half-year** | 145,443 | 145,156 |
| **Other comprehensive income** | | |
| Changes in the fair value of available-for-sale financial assets | 1,813 | (580) |
| Changes in the value of net investment hedges | 26,781 | (782) |
| Changes in the fair value of interest rate swaps | 665 | (26,339) |
| Gain on realisation of interest rate swaps | - | (2,365) |
| Changes in the fair value of forward exchange contracts | (1,231) | (457) |
| Exchange differences on translation of foreign operations | (29,215) | 2,210 |
| Income tax relating to components of other comprehensive income | - | (26) |
| **Other comprehensive income for the half-year, net of tax** | (1,187) | (28,339) |
| **Total comprehensive income for the half-year, net of tax** | 144,256 | 116,817 |
| **Total comprehensive income is attributed to** | | |
| **Ordinary equity holders of Tatts Group Limited** | 143,774 | 116,394 |
| **Non-controlling interest** | 482 | 423 |
| | 144,256 | 116,817 |

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

| | 31 December 2009 $'000 | 30 June 2009 $'000 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | 353,852 | 373,761 |
| Trade and other receivables | 122,169 | 158,138 |
| Inventories | 8,000 | 7,001 |
| | 484,021 | 538,900 |
| Assets classified as held for sale | 19,368 | - |
| Total current assets | 503,389 | 538,900 |
| | | |
| **Non-current assets** | | |
| Trade and other receivables | 104 | 89 |
| Investments accounted for using the equity method | 10,663 | 8,605 |
| Available-for-sale financial assets | 31,428 | 29,241 |
| Property, plant and equipment | 271,279 | 302,328 |
| Investment properties | 14,798 | 14,939 |
| Intangible assets | 3,268,432 | 3,310,964 |
| Deferred tax assets | 34,810 | 40,405 |
| Other non-current assets | 1,772 | 1,707 |
| Total non-current assets | 3,633,286 | 3,708,278 |
| | | |
| **Total assets** | **4,136,675** | **4,247,178** |
| | | |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Trade and other payables | 369,230 | 462,987 |
| Interest bearing liabilities | 2,599 | 3,473 |
| Derivative financial instruments | 1,825 | 594 |
| Tax liabilities | 28,813 | 29,249 |
| Provisions | 18,099 | 18,205 |
| | 420,566 | 514,508 |
| Liabilities directly associated with assets classified as held for sale | 5,439 | - |
| Total current liabilities | 426,005 | 514,508 |
| | | |
| **Non-current liabilities** | | |
| Trade and other payables | 39,156 | 43,484 |
| Interest bearing liabilities | 867,316 | 904,255 |
| Derivative financial instruments | 8,067 | 8,733 |
| Deferred tax liabilities | 177,332 | 176,718 |
| Provisions | 3,677 | 4,054 |
| Total non-current liabilities | 1,095,548 | 1,137,244 |
| | | |
| **Total liabilities** | **1,521,553** | **1,651,752** |
| | | |
| **Net assets** | **2,615,122** | **2,595,426** |
| | | |
| **EQUITY** | | |
| Contributed equity | 2,347,231 | 2,333,193 |
| Reserves | (2,907) | (2,829) |
| Retained profits | 270,998 | 265,744 |
| Parent entity interest | 2,615,322 | 2,596,108 |
| Non-controlling interest | (200) | (682) |
| | | |
| **Total equity** | **2,615,122** | **2,595,426** |

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

| | Attributable to ordinary equity holders of Tatts Group Limited | | | | | |
|---|---|---|---|---|---|---|
| | **Contributed equity** | **Reserves** | **Retained earnings** | **Total** | **Non-controlling interest** | **Total equity** |
| Balance at 1 July 2008 | 2,321,082 | 2,745 | 254,553 | 2,578,380 | (521) | 2,577,859 |
| Total comprehensive income for the half-year | - | (28,339) | 144,733 | 116,394 | 423 | 116,817 |
| Transactions with owners in their capacity as owners: | | | | | | |
| Dividends provided or paid | - | - | (132,861) | (132,861) | (690) | (133,551) |
| Other | - | - | - | - | (33) | (33) |
| Share based payments | - | 734 | - | 734 | - | 734 |
| | - | 734 | (132,861) | (132,127) | (723) | (132,850) |
| Balance at 31 December 2008 | 2,321,082 | (24,860) | 266,425 | 2,562,647 | (821) | 2,561,826 |
| Balance at 1 July 2009 | 2,333,193 | (2,829) | 265,744 | 2,596,108 | (682) | 2,595,426 |
| Total comprehensive income for the half-year | - | (1,187) | 144,961 | 143,774 | 482 | 144,256 |
| Transactions with owners in their capacity as owners: | | | | | | |
| Dividend Reinvestment Plan issues | 14,038 | - | - | 14,038 | - | 14,038 |
| Dividends provided or paid | - | - | (139,707) | (139,707) | - | (139,707) |
| Share based payments | - | 1,109 | - | 1,109 | - | 1,109 |
| | 14,038 | 1,109 | (139,707) | (124,560) | - | (124,560) |
| Balance at 31 December 2009 | 2,347,231 | (2,907) | 270,998 | 2,615,322 | (200) | 2,615,122 |

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

| | **Half-year 2009 $'000** | Half-year 2008 $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from customers (inclusive of GST) net of prizes paid/cash returns to customers | 1,635,097 | 1,635,785 |
| Payments to suppliers and employees (inclusive of GST) | (237,233) | (240,258) |
| Payments to Government | (767,351) | (707,283) |
| Payments to venues/commission | (313,203) | (317,611) |
| Payments for product and program fees | (93,560) | (102,776) |
| | 223,750 | 267,857 |
| Interest received | 5,943 | 9,062 |
| Interest paid | (18,682) | (33,844) |
| Income taxes paid | (60,593) | (57,765) |
| **Net cash inflow from operating activities** | 150,418 | 185,310 |
| **Cash flows from investing activities** | | |
| Payments for purchase of subsidiary, net of cash acquired | - | (13,329) |
| Payments for interests in and loans to joint venture entities | (2,432) | (4,000) |
| Payments for other assets | (90) | (147) |
| Payments for property, plant and equipment | (27,489) | (27,496) |
| Payments for investment properties | - | (40) |
| Payments for intangibles | (15,934) | (4,060) |
| Proceeds from sale of property, plant and equipment | 662 | 884 |
| Proceeds from available-for-sale financial assets | - | 341 |
| **Net cash outflow from investing activities** | (45,283) | (47,847) |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | 9,289 | 18,981 |
| Repayment of borrowings | (3,179) | (10,126) |
| Dividends paid | (125,671) | (132,861) |
| Dividends paid to non-controlling interests | - | (690) |
| **Net cash outflow from financing activities** | (119,561) | (124,696) |
| Net increase / (decrease) in cash and cash equivalents | (14,426) | 12,767 |
| Cash and cash equivalents at beginning of half-year | 373,010 | 250,770 |
| Effect of exchange rate movements in cash and cash equivalents | (2,871) | 782 |
| **Cash and cash equivalents at end of the half-year** | 355,713 | 264,319 |

**Reconciliation of Cash**
The above figures are reconciled to cash and cash equivalents in the balance sheet at the half-year as follows:

| | Half-year 2009 $'000 | Half-year 2008 $'000 |
|---|---|---|
| Cash balances as per balance sheet | 353,852 | 264,319 |
| Bank overdrafts | (1,343) | - |
| | 352,509 | 264,319 |
| Discontinuing operations (Note 5 (c)) | 3,204 | - |
| Cash balances per statement of cash flows | 355,713 | 264,319 |

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

## Note 1 Basis of preparation of interim half-year report

This general purpose financial report for the interim half-year reporting period ended 31 December 2009 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 2009 and any public announcements made by the Group 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 financial period, except where set out below. Where appropriate, comparative amounts have been reclassified to ensure consistency with the current reporting period.

**Changes in accounting policies**

The Group has changed some of its accounting policies as the result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009. The affected policies and standards are:

- Principles of consolidation – revised AASB 127 *Consolidated and Separate Financial Statements* and changes made by AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate*
- Business combinations – revised AASB 3 *Business Combinations*
- Segments – new AASB 8 *Operating Segments*
- Presentation of Financial Statements – revised AASB101 *Presentation of Financial Statements*

**(a) Principles of consolidation**

AASB 127 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. This is different to the Group's previous accounting policy where transactions with minority interests were treated as transactions with parties external to the Group.

The standard also specifies the accounting when control is lost. Any remaining interest in the entity must now be remeasured to fair value and a gain or loss is recognised in profit or loss. This is consistent with the entity's previous accounting policy if significant influence is not retained.

The Group will in future allocate losses to the non-controlling interest in its subsidiaries even if the accumulated losses should exceed the non-controlling interest in the subsidiary's equity. Under the previous policy, excess losses were allocated to the parent entity.

Lastly, dividends received from investments in subsidiaries, jointly controlled entities or associates after 1 July 2009 are recognised as revenue even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a result of the dividend payment. Under the entity's previous policy, these dividends would have been deducted from the cost of the investment.

The changes have been implemented prospectively from 1 July 2009. There has been no impact on the current period. There have also been no transactions whereby an interest in an entity is retained after the loss of control of that entity, no transactions with non-controlling interests and no dividends paid out of pre-acquisition profits.

### (b) Business combinations

AASB 3 (revised) continues to apply the acquisition method to business combinations, but with some significant changes.

All payments to purchase a business are now recorded at fair value at the acquisition date, with contingent payments classified as debt and subsequently remeasured through the income statement. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net assets.

If the Group recognises acquired deferred tax assets after the initial acquisition accounting there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

The changes have been implemented prospectively from 1 July 2009. There has been no impact on the current period.

### (c) Segment reporting

The Group has applied AASB 8 Operating Segments from 1 July 2009. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

The changes have been implemented from 1 July 2009 and where necessary comparative information has been restated. There has been minimal impact as reportable segments disclosed were already consistent with the information provided internally to management. 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 Chief Executive.

## Note 2 Segment Information

### Segment information provided to the Chief Executive of the Group

| Half-year 2009 | Tatts Pokies $'000 | Tatts Lotteries $'000 | UNiTAB Wagering $'000 | Maxgaming $'000 | Bytecraft Systems $'000 | Intern'l/ Business Dev't $'000 | Unallocated $'000 | Inter-segment eliminations $'000 | Total Continuing Operations $'000 | Discontinued Operations Note 5 $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total segment revenue and other income** | **639,388** | **527,842** | **311,982** | **61,907** | **38,000** | **52,243** | **1,091** | **(17,202)** | **1,615,251** | **20,659** | **1,635,910** |
| EBITDA | 115,967 | 59,361 | 78,944 | 33,941 | 2,972 | 2,686 | (15,261) | - | 278,610 | 3,683 | 282,293 |
| Depreciation & Amortisation | (14,553) | (5,926) | (9,361) | (12,561) | (1,012) | (6,395) | (4,869) | (65) | (54,742) | (1,829) | (56,571) |
| **EBIT** | **101,414** | **53,435** | **69,583** | **21,380** | **1,960** | **(3,709)** | **(20,130)** | **(65)** | **223,868** | **1,854** | **225,722** |
| **Half-year 2008** | | | | | | | | | | | |
| **Total segment revenue and other income** | **669,915** | **484,495** | **309,636** | **58,842** | **34,582** | **54,977** | **1,038** | **(16,850)** | **1,596,635** | **19,289** | **1,615,924** |
| EBITDA | 127,976 | 51,182 | 79,993 | 32,730 | 2,801 | 8,261 | (15,103) | - | 287,840 | 2,570 | 290,410 |
| Depreciation & Amortisation | (11,087) | (4,668) | (8,658) | (12,409) | (811) | (8,149) | (4,453) | (140) | (50,375) | (1,936) | (52,311) |
| **EBIT** | **116,889** | **46,514** | **71,335** | **20,321** | **1,990** | **112** | **(19,556)** | **(140)** | **237,465** | **634** | **238,099** |

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

| | Half-year 2009 $'000 | Half-year 2008 $'000 |
|---|---|---|
| EBIT from continuing operations | 223,868 | 237,465 |
| Interest income | 4,157 | 5,094 |
| Finance costs | (21,469) | (34,573) |
| **Profit before income tax from continuing operations** | **206,556** | **207,986** |

## Note 3 Dividends

| | Half-year 2009 $'000 | Half-year 2008 $'000 |
|---|---|---|
| **Ordinary shares** | | |
| Final dividend for year ended 30 June 2009 of 11.0 cents (2008 – nil cents) | 139,707 | - |
| Special dividend for the year ended 30 June 2009 of nil cents (2008 – 10.5 cents) per fully paid share paid on 3 October 2009 | - | 132,861 |
| | 139,707 | 132,861 |

**Dividends not recognised at the end of the half-year**
In addition to the above dividends, since the end of the half-year the Directors have determined an interim dividend of 10.0 cents per fully paid ordinary share (2008 – 10.0 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 6 April 2010 out of the retained profits at 31 December 2009, but not recognised as a liability at the end of the half-year, is $127,564,144.

## Note 4 Contributed equity issued

| | **2009 Shares** | 2008 Shares | **2009 $'000** | 2008 $'000 |
|---|---|---|---|---|
| **Issue of ordinary shares during the half-year** | | | | |
| Dividend Reinvestment Plan issues | **5,570,683** | - | **14,038** | - |

## Note 5 Discontinued operations

**Current period – Carentan Investments Pty Ltd and its controlled entities**

**(a) Description**

On 2 November 2009, Wintech Investments Pty Ltd, a wholly owned subsidiary of the Group, entered into an agreement to sell Carentan Investments Pty Ltd and its controlled entities to GPI Slots Pty Ltd for 170 million Rand. Carentan Investments Pty Ltd and its controlled entities provide gaming operations throughout South Africa. The sale is subject to conditions and regulatory approval, which were yet to be finalised at 31 December 2009. As a result only the results of operations are included in the profit from discontinued operations detailed below. It is expected that the sale will complete by 30 June 2010.

**(b) Financial performance and cash flow information**

The financial performance and cash flow information presented is for the six month period to 31 December 2009 and the corresponding comparative period.

| | **Half year 2009 $'000** | Half year 2008 $'000 |
|---|---|---|
| Revenue | 20,659 | 19,289 |
| Expenses | (18,805) | (18,655) |
| EBIT | 1,854 | 634 |
| Interest income | 100 | - |
| Finance costs | (2) | (3) |
| Profit before income tax | 1,952 | 631 |
| Income tax expense | (580) | (420) |
| Profit after income tax of discontinued operations | 1,372 | 211 |
| | | |
| Net cash inflow from ordinary activities | 2,672 | 1,195 |
| Net cash outflow from investing activities | (2,741) | (1,813) |
| Net cash inflow/(outflow) from financing activities | - | (581) |
| Effect of exchange rate changes on cash and cash equivalents | (171) | 786 |
| Net decrease in cash generated by Carentan and its controlled entities | (240) | (413) |

**(c) Carrying amounts of assets and liabilities as at 31 December 2009 held for sale were:**

| | **Half year 2009 $'000** |
|---|---|
| Cash | 3,204 |
| Receivables | 2,010 |
| Inventories | 256 |
| Property, plant and equipment | 10,831 |
| Intangibles | 352 |
| Deferred tax assets | 2,422 |
| Other assets | 293 |
| **Total assets** | 19,368 |
| | |
| Payables | 5,086 |
| Tax liabilities | 315 |
| Provisions for employee benefits | 38 |
| **Total liabilities** | 5,439 |
| | |
| **Net assets** | 13,929 |

## Note 6 Business combinations

**Prior period acquisitions**

**(a) Winners Amusements Limited**

On 2 October 2008, Talarius Limited, a wholly owned subsidiary of the Group, acquired 100% of Winners Amusements Limited and its controlled entity, Palma Leisure Limited for total consideration of $9,938,000. Details of the fair values of the assets and liabilities acquired and the goodwill arising are disclosed in the 30 June 2009 Tatts Group Annual Report.

There have been adjustments to the fair values of fixed assets and trade creditors disclosed in the 30 June 2009 Tatts Group Annual Report. The fair value of these items has decreased by $82,000 and $110,000 respectively, resulting in a decrease in goodwill of $192,000. Final goodwill of $10,957,000 has been recognised on the acquisition.

**(b) CentreRacing**

On 1 December 2008, NT TAB Pty Ltd, a wholly owned subsidiary of the Group, acquired the business of CentreRacing and the software of Wagering and Gaming Software Pty Ltd for total consideration of $3,121,000. Details of the fair values of the assets and liabilities acquired and the goodwill arising are disclosed in the 30 June 2009 Tatts Group Annual Report. There have been no further fair value adjustments to these amounts in the current period, and final goodwill of $3,221,000 has been recognised on acquisition.

**(c) National Leisure**

On 9 June 2009, Talarius Limited acquired 100% of National Leisure Limited together with the assets of two further gaming venues operated by that entity for total consideration of $27,166,000. Details of the preliminary fair values of the assets and liabilities acquired and the goodwill arising are disclosed in the 30 June 2009 Tatts Group Annual Report. There have been no changes to the preliminary fair values in the current period, and preliminary goodwill of $26,888,000 has been recognised on acquisition.

## Note 7 Contingent liabilities

The Group had contingent liabilities at 31 December 2009 in respect of:

**Bank Guarantees**

Guarantees in respect of bank facilities drawn down but not included in the accounts of the Group are $1,639,000 (June 2009: $1,864,000).

## Note 8 Events occurring after reporting date

Subsequent to the end of the period, the European Gaming Group has closed 34 gaming venues in the United Kingdom. Negotiations have commenced with the landlords of these leaseholds to determine the optimal completion of lease requirements. The total costs of these closures have been initially estimated at £9.2m. Costs will include onerous lease costs, dilapidation costs, and the write down of certain assets including gaming machines. The actual timings of these costs will be met over a number of years, depending on the outcome of those landlord negotiations. The full year benefits to profit are expected to be around £3.0m. The financial effects of the above restructure have not been brought to account at 31 December 2009.

**Directors' declaration**

In the Directors' opinion:

(a) the financial statements and notes set out on pages 8 to 18 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 2009 and of its performance for the half-year ended 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 the Directors.

| | |
|---|---|
| Harry Boon | Richard McIlwain |
| Chairman | Chief Executive & Managing Director |

Melbourne
25 February 2010

PRICEWATERHOUSECOOPERS

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## 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 which comprises the balance sheet as at 31 December 2009, and income statement, the statement of comprehensive income, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Tatts Group Limited Group (the consolidated entity). The consolidated entity comprises both Tatts Group Limited (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 and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001.* This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 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 2009 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. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. 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.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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## Independent auditor's review report to the members of Tatts Group Limited (continued)

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

*Independence*

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

*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 2009 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

PricewaterhouseCoopers

Con Grapsas
Partner

Melbourne
25 February 2010