

Tatts Group Announces Half-year Results

Strong Performances by Tatts' Lotteries and Wagering Operations

Brisbane – 21 February 2013, half-year results announced by Tatts Group Limited (ASX: TTS) this morning highlight the very strong trading performance of lotteries (revenue up 20%) and wagering (revenue up 7%).

The result includes only six weeks contribution from the now discontinued Victorian gaming machine business, Tatts Pokies and the absence of a full six month contribution distorts any comparison of today's result with the same period last year.

Profit after tax for the half-year was \$128.3 million - down 23% due to the cessation of the Tatts Pokies business (which concluded on 15 August 2012). On a like-for-like basis, excluding the distorting impact of the Tatts Pokies operations, profit after tax from continuing operations was \$108.7 million - up 26% as shown below.

Summary of Results (for more detail see Appendix A)

Results presented on a "statutory" basis (including the Tatts Pokies operations):

	H1 FY13	H1 FY12	% change from corresponding pe
Revenue	\$1.71 billion	\$1.97 billion	↓14%
EBITDA	\$299.6 million	\$335.7 million	↓11%
EBIT	\$241.3 million	\$282.9 million	↓15%
NPAT (statutory)	\$128.3 million	\$166.9 million	↓23%

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

Results presented on a "continuing operations basis" (excluding the Tatts Pokies operations):

	H1 FY13	H1 FY12	% change from corresponding pe
Revenue	\$1.55 billion	\$1.33 billion	↑16%
EBITDA	\$248.4 million	\$214.5 million	↑16%
EBIT	\$206.7 million	\$167.1 million	↑24%
NPAT (continuing operations)	\$108.7 million	\$86.4 million	↑26%

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

H1 FY13 Highlights

- ★ Lotteries revenues up 20% to \$1.1 billion - driven by an exceptional and sustained run of jackpots (OzLotto and Powerball)
- ★ 52% growth in lotteries online revenue – representing 8% of all lotteries revenue
- ★ Wagering revenues up 7% to \$344.9 million – benefiting from improved win rates and contribution from TOTE Tasmania
- ★ Migration of pari-mutuel to fixed price betting continues (revenues up 31% for fixed price and down 1.9% for pari-mutuel)
- ★ 22% growth in wagering online sales – representing 19% of all wagering sales
- ★ Acquired exclusive management rights for SA Lotteries and wide area keno
- ★ Compensation claim lodged following expiry of Victorian Gaming Operator Licence

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Commentary

The Tatts Group today reported a statutory half-year result of \$128.3 million in after tax profits (H1 FY12: \$166.9 million). Strong revenue growth from the Group's lotteries and wagering operations (up 20% and 7% respectively) translated into a 38% uplift in EBIT from its lotteries division and 13% from its wagering unit. Despite these strong performances the Group's after tax result was down 23% due to the absence of a full period contribution from Tatts Pokies. Tatts' Managing Director and CEO, Robbie Cooke said:

"The Group has performed very strongly in the first half with our lotteries operations being the standout, achieving an exceptional 20% lift in revenues. Lotteries benefited from an unusual and sustained run of jackpots in both our Oz Lotto and Powerball games and from efficiencies of scale that are visible in the margin improvement achieved by our lotteries team. Wagering also outperformed with a 7% lift in revenues, driven from improved win rates and the contribution by TOTE Tasmania which has been fully integrated to our wagering platform following its acquisition in March 2012."

Cooke continued:

"Whilst our headline reported profit has reduced on a same half basis – this should not come as a surprise given the well understood closure of our Victorian Tatts Pokies business following the expiry of the licence underpinning that business. Tatts Pokies in the same period last year accounted for 32% of our revenues so its absence causes a significant change in our business composition and makes period-on-period comparisons not particularly useful.

With Tatts Pokies now out of the mix, focus rightly moves to our continuing operations. Looking at our overall continuing business, and excluding Tatts Pokies for comparison purposes, the team has achieved a lift in revenues of 16%, which has driven a 24% increase in EBIT and a very healthy 26% uplift in continuing business NPAT (\$108.7 million). It is from this continuing operations perspective that you can obtain a much clearer view of what Tatts will look like on a "go-forward" basis."

More detailed commentary with respect to each of the Group's operating divisions is set out below:

Tatts Lotteries

The 21 jackpots at or above the \$15 million mark (compared with nine in the same period last year) well and truly offset the initial challenge at the start of the year caused by the extra "megadraw" in H1 FY12. The record Oz Lotto first division prize pool of \$112 million on Melbourne Cup day in November 2012 significantly assisted in driving the 20% increase in lottery revenues.

EBITDA and EBIT margins grew as this strong revenue growth readily "dropped" through to profit. These improved margins underscore the efficiencies from scale available in our lotteries business as the benefits of completing the integration of

NSW Lotteries were fully derived in this half-year. Our success in growing margins following each lottery acquisition provided additional confidence when adding the SA Lotteries business to the Group's portfolio of lottery operations in December 2012. Tatts Lotteries now operates in all Australian jurisdictions apart from Western Australia.

The commencement on 11 December 2012 of the 40-year management agreement over SA Lotteries, with limited integration costs, is on track to deliver earnings per share growth in the second half of FY13. This immediate contribution will take another step-up in 18 months time when our in-house lottery operating software replaces the third party system currently in use.

We also extended our lottery operations in the Northern Territory under a 20-year arrangement with the Northern Territory Government in June 2012. Improved revenue margins are being produced by decoupling the Northern Territory operations from a permit previously issued on the back of the lower margin Victorian lottery business.

The strong performance achieved also rewarded the 4,200 plus agents selling our products. Our agents in the half-year generated sales commission \$31.1 million higher than the same period last year, representing a 23% increase in commissions.

TattsBet

A full 6 month contribution from TOTE Tasmania, strong growth in fixed price betting, the continuing shift to the more cost effective online channel and improved win rates for both fixed price and pari-mutuel betting, have all assisted in driving TattsBet's performance. Revenue growth for the half was up 7%. Most satisfying is the conversion of this growth to profit resulting from a combination of strong cost management and scale benefits. EBITDA and EBIT for the half grew by 11% and 13% respectively.

TOTE Tasmania has performed to our acquisition model targets and is positively contributing to the Group. Revenue quality from this business continues to improve each month and win rates are now approaching those achieved in our other markets. The first anniversary of our acquisition of this business will be reached on 27 March 2013.

Our total retail network of more than 1,250 venues remains a very powerful sales generator delivering 69% of our wagering sales. The position of this retail business has been reinforced by the recent Federal Court decision which in effect protects our retail exclusivity under existing licences.

This half has seen TattsBet lift to a new plateau. Our opportunity going forward is to continue to innovate while also seeking to optimise our service delivery costs and extending our customer reach through our online channels.

Tatts Online

Tatts Online operates *Tatts.com*. It offers registered customers a completely integrated account that enables wagering punters and lottery players to gain access to all our services online in a single session from a single purse.

Demand for *Tatts.com* was stretched when the 2012 Melbourne Cup and the \$112 million Oz Lotto draw coincided on November 6. In excess of 170,000 account holders used the *Tatts.com* site to purchase a lottery entry or place a bet on Melbourne Cup day and more than 43,000 new single purse accounts were created on that day alone. Our TattsBet iPhone and Android apps handled close to \$1 million in wagering sales from more than 8,500 users during the day.

The total number of *Tatts.com* account holders now exceeds 1.2 million of which 736,000 have chosen to gain access to the single purse since it became available in October 2011. We believe there is significant potential in this integrated online customer management model that responds to user demand and reduces service delivery costs.

The growth of the Group's online channels is pleasing, with a 52% increase in lotteries online revenue (representing 8% of all lottery revenue) and wagering online sales lifting by 22% (comprising 19% of all wagering sales).

Maxgaming

The Group's gaming venue services division, Maxgaming, leverages additional value-adding services off government mandated electronic monitoring requirements for gaming machine venues. The business has responded to a slight decline in revenues by adjusting costs and developing additional product opportunities to protect profit margins. This is a critical part of managing this reliable and important B-to-B business.

The dynamic nature of Maxgaming's operating environment is best demonstrated by the shift in demand from linked jackpot services to stand-alone alternatives, and the lift in demand for web-based reporting and customer loyalty systems. More recent interest has been in the development of Wi-Fi enabled mobile applications for gaming staff and ticket-in-ticket-out play. Clearly, floor management efficiency remains a significant priority for venues.

Despite the 2% decline in revenue the business has delivered EBIT growth of 14% (assisted by reduced depreciation). A considered approach to managing expenses and the continuing investment in innovative services is driven by a management team that anticipates better than most the shifts in demand and the consequent need to adjust costs.

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Bytecraft

Our Bytecraft operation provides fully managed end-to-end technical support services nation-wide and has a reputation for delivery that makes it a powerful competitor in its preferred markets. Bytecraft has suffered a significant case of growing pains as a result of contract set up costs for a major new contract and restructuring charges following the exit from a number of expired contracts. For these reasons, strong revenue growth of 22% did not translate into profit during the reporting period.

Talarius

Talarius, our UK based Adult Gaming Centre (gaming machine) operation and online gaming business had a more positive end to the reporting period, offsetting the softness arising when the Olympic Games and the Queen's Golden Jubilee celebrations in the UK temporarily distracted its customer base. This late uplift coincided with the completion of the rollout of eight new motorway sites, the acquisition of a small group of gaming venues in Cornwall, and stronger returns from *quicksilver.co.uk*.

Despite the slow start at the beginning of the half, Talarius achieved overall revenue growth of 6%.¹ The online interactive games offered through *quicksilver.co.uk*, increased revenues by 15%.¹ Revenues from Adult Gaming Centres rose 5%.¹ The business however continued to underperform expectations with EBITDA of \$3.33 million (being down from last year's result of \$3.98 million) and an EBIT loss of \$1.38 million (H1 FY12: \$(0.93) million).

Discontinued Operation – Tatts Pokies

Revenue and other income of \$185.4 million (H1 FY12: \$ 639.9 million) and EBIT of \$34.7 million (H1 FY12: \$115.8 million) was derived from six weeks of Tatts Pokies trading and revenue from the monitoring transition operations that ceased on 15 February 2013. Included in EBIT was the profit on sale of gaming machines for \$23.6 million partially offset by the goodwill write off of \$15.6 million.

The Group's exit from its Victorian gaming machine operations is complete apart from the contribution being made by a small group of technology and administrative staff employed on the transitional arrangements that came to an end in February.

The half-year result includes provision for the Victorian Government's Health Benefit Levy which has been calculated on a pro rata basis referable to the 46 days in the period that the Group operated gaming machines under its Victorian Gaming Operator Licence. The Group has yet to be advised by the Victorian Government of the exact amount of the Levy for the period.

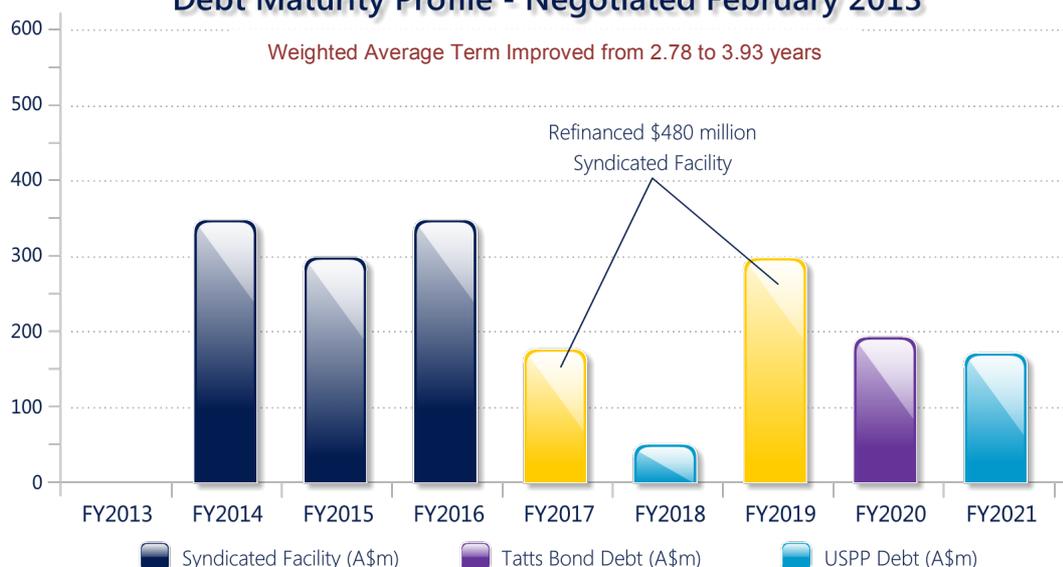
¹ On a transactional currency basis (i.e. GBP)

No amount has been included in the Company's accounts for the claim for compensation from the Victorian Government following the expiry of its Gaming Operator Licence. This action is currently listed in the Victorian Supreme Court for trial in October 2013. The legal costs associated with this claim are being expensed as they are incurred.

Corporate

Following the debt funding of the acquisition of the management rights for the SA Lotteries, the Group has successfully negotiated with and received a commitment from its banking syndicate to refinance the bank loan tranches classified as current which total \$489 million (due to expire in March and June this year). The new facilities of \$480 million will be in three and five year tranches and will improve Tatts' debt maturity profile from 2.78 years to 3.93 years as shown below.

Debt Maturity Profile - Negotiated February 2013



The Group's debt / EBITDA ratio is expected to peak at 2.8 times in the current financial year, well within its covenants and at a very manageable level given the nature of Tatts' business. Given the Group's strong operating cash flows, the anticipated continued operation of the dividend reinvestment plan and some expected sales of investment properties, it is expected that this ratio will reduce to historical levels.

Capex for the full year is expected to be around \$60 million as Tatts continues to invest in its network including the roll-out of the lottery system terminal replacement program in Queensland. Depreciation and amortisation is expected to be in the

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vicinity of \$85 million for the full year. The Group's interest expense will increase in the second half due to the additional debt following the acquisition of the management rights to operate the SA Lotteries.

Dividend

With the benefit of the strong result Tatts' Board announced an interim dividend of 8.0 cents per share (H1 FY12: 11.0 cents). This dividend reflects a final contribution from Tatts Pokies and represents a payout ratio of 86% that is consistent with the interim dividend ratio last year (H1 FY12: 88%). The Group has a track record of strong dividend payout ratios and the current intention of the Board is to maintain that record.

Looking Forward

The Group has had a positive start to the second half.

TattsBet's performance in January has seen wagering sales and revenues growth continue very much in line with the first half. Pleasingly, win rates have continued to improve when compared to the same period last year. Out-performance will become more challenging once the business cycles the anniversary of the TOTE Tasmania acquisition (27 March).

Similarly the Group's lotteries operation has had a good start to the second half benefiting in particular from the contribution of SA Lotteries. The revenue lift from this acquisition will be partially offset by higher interest costs as noted above. In considering the likely second half performance of the lotteries operation it would be unreasonable to expect a similar jackpot run to the exceptional levels experienced in the first half.

The Group's other continuing operations in January traded at similar levels to the first half.

For further information or to arrange an interview with Robbie Cooke (Managing Director/Group CEO) or Neale O'Connell (Chief Financial Officer):

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Appendix A

	H1 FY13 Actual (\$'000)	H1 FY12 Actual (\$'000)	Change on pcp
Total revenue and other income (from continuing operations)	\$1,545,741	\$1,333,699	↑16%
Government share	\$(738,044)	\$(630,185)	↑17%
Venue share/commission	\$(214,170)	\$(182,561)	↑17%
Product and program fees	\$(102,355)	\$(102,508)	Flat
Other expenses from continuing operations	\$(242,748)	\$(203,902)	↑19%
Total expenses (continuing operations)	\$(1,297,317)	\$(1,119,156)	↑16%
EBITDA (from continuing operations)	\$248,424	\$214,543	↑16%
Depreciation	\$(41,743)	\$(47,423)	↓12%
EBIT (from continuing operations)	\$206,681	\$167,120	↑24%
Interest income	\$2,105	\$2,945	↓29%
Finance costs	\$(51,081)	\$(52,764)	↓3%
PBT (from continuing operations)	\$157,705	\$117,301	↑34%
Income tax	\$(48,976)	\$(30,875)	↑59%
NPAT (from continuing operations)	\$108,729	\$86,426	↑26%
NPAT (profit from discontinued operations*)	\$19,589	\$80,453	↓76%
NPAT (statutory basis)	\$128,318	\$166,879	↓23%

*Discontinued operations = Tatts Pokies operation