

MEDIA RELEASE

Tatts Group Limited (TTS) - 1H FY12

A GOOD HALF!

Overview

The first half of the 2012 financial year was a pretty good one. It has allowed us to showcase the benefits gained from the re-positioning strategies discussed when we announced the full year results last August, and has set the scene for adding Tote Tasmania to the TattsBet wagering portfolio in March.

Tatts Lotteries' exceptional performance continues to provide a window to the future. They have become the centre piece of a business that has re-invented itself over the last five years. The irony that Tatts Group has gone back more than 100 years to place lotteries at the forefront of its business hasn't escaped anyone with an interest in the Tattersall's legacy. More importantly, Tatts, without Tatts Pokies, will become a more secure and reliable gambling business which can safely operate away from the glare of the controversy generated by poker machine operations.

The more notable features of the results from 1HFY12 are:

- Revenue up 4.1%;
- EBIT up 7.6%;
- NPAT up 11.3%;
- Announcement of Tote Tasmania acquisition;
- TattsBet's emergence from a period of transition;
- Talarius' first period of actual turnover growth in three years;
- Bytecraft's rapid growth from external customers;
- Interim Dividend of 11.0 cents per share (10.5 cents last year)

	31-Dec-11 A\$m	Reported % on pcp
REVENUE	1973.6	4.1
EBITDA	335.7	3.5
EBIT	282.9	7.6
NPAT	166.9	11.3
Earnings per Share	12.6	8.6
Dividend per Share	11.0	4.8

The Businesses

Tatts Lotteries

	31-Dec-11 A\$m	Reported % on pcp
REVENUE	878.0	6.8
Expenses	768.2	6.6
EBITDA	109.8	8.4
Depreciation & Amortisation	11.1	19.4
EBIT	98.7	7.3

The very strong performance by Lotteries was underpinned by Saturday lotto sales and an unprecedented jackpot roll by the NSW Lotteries' draw lottery.

Saturday lotto more than covered the poor jackpot sequence in the big jackpot games. Neither Oz Lotto nor Powerball produced a normal jackpot sequence. Revenue after prizes and before taxes was up a remarkable 6.8%.

EBITDA for the reporting period was almost \$110M including technical costs. These costs will decline once Tatts' lottery system replaces a third party operating system in NSW this April. The consequent re-structuring costs of approximately \$3.5M will be borne in the second half of the current financial year.

It is expected that the previously announced sale of SA Lotteries by the South Australian Government will be concluded late in 2012 or early 2013. It presents Tatts with an opportunity to further develop its lottery business within Australia.

Tatts Pokies

	31-Dec-11 A\$m	Reported % on pcp
REVENUE	645.0	1.6
Expenses	523.9	1.9
EBITDA	121.1	0.6
Depreciation & Amortisation	5.3	(68.0)
EBIT	115.8	11.7

Growth and an ongoing reduction in costs have produced the anticipated lift in profits from the Victorian gaming machine business. Tatts' orderly exit strategy from this business has produced opportunities for gaming venues to reinvest in their gaming floors. They are able to trade machines they have contracted to acquire from Tatts to buy new machines.

The certainty provided to venues by Tatts' exit strategy has also produced some unexpected benefits. A small number of venues have taken the opportunity to sign with Tatts Pokies to secure a seamless transition to a self-reliant and self-managed position within the gaming sector after August.

EBIT margin has benefited from the reduced depreciation that followed commitments from venues to acquire their machines next August.

TattsBet

	31-Dec-11 A\$m	Reported % on pcp
REVENUE	321.1	2.2
Expenses	239.8	1.8
EBITDA	81.3	3.3
Depreciation & Amortisation	9.8	(1.2)
EBIT	71.5	3.9

The reporting period was notable for the ongoing development of the fixed odds betting business. It grew at a more sustainable rate. The improved win rate from fixed odds race wagering has shown that the dilution in revenue margins as totalisator win and place betting migrated to fixed odds can be managed.

Meanwhile, sports betting win rates declined during the reporting period. The comparable period last year delivered very high win rates on a successful FIFA World Cup campaign and less predictable results during the domestic football season.

The second half promises stronger revenue and profit growth. In particular, January last year produced a relatively poor outcome as a result of natural disasters in Queensland. This doesn't look like being a significant factor in the second half of the current financial year.

Also, the acquisition of the Tasmanian TAB, Tote Tasmania, will have some bearing on the results for the second half. Tote Tasmania will become part of the TattsBet portfolio in March and is expected to produce sales in the vicinity of \$250M annually. Re-structuring costs in the order of \$10M are expected to be brought to account before June 30.

It is worth noting that TattsBet's wagering business produced 38% of Tatts Group's EBITDA in the reporting period after removing the profits generated by Tatts Pokies. It will be an important, rather than dominant, contributor to EBITDA after Tatts Pokies ceases operations.

Talarius

	31-Dec-11 A\$m	Reported % on pcp
REVENUE	37.4	(7.7)*
Expenses	33.4	(5.9)
EBITDA	4.0	(20.3)
Depreciation & Amortisation	4.9	(0.7)
EBIT	(0.9)	(1917.7)

* Currency converted at 65p to the AUD in the reported period compared with 61p for the previous corresponding period.

Gross gaming machine income for the seven four week periods included in the reporting period was up 1% on a same currency basis. This is the first growth for a full reporting

period since we took control of this business over three years ago. Unfortunately, a VAT increase early in 2011 swallowed the benefit to revenue from this growth. Talarius cycled the VAT increase in January and is now recording both turnover and revenue growth.

The reported EBITDA in GBP was £2.6M compared with £3.0M last year. This decline is less than the £580K in additional VAT paid during the period. The numbers reported above in AUD are impacted by a weaker GBP against the AUD. It is worth noting that the borrowings used to support Tatts' investment in Talarius are held in GBP and provide a natural balance sheet hedge.

Business conditions in the UK have been extremely difficult over the last three years. Adjustments to the cost structure, a careful and considered approach to gaming floor renewal, system automation, and a relocation to a smaller head office in Milton Keynes will combine with recent and proposed regulatory changes to improve the company's UK business model. Clearly, this business looks better in the future and provides Tatts with a sustainable toehold in a foreign market.

Maxgaming/Bytecraft

Maxgaming	31-Dec-11 A\$m	Reported % on pcp
REVENUE	58.2	(2.8)
Expenses	25.0	(6.3)
EBITDA	33.2	0.1
Depreciation & Amortisation	12.3	(5.0)
EBIT	20.9	3.3

Maxgaming performed well in a difficult market. The lack of appetite amongst gaming venues for value adding gaming services at a time of considerable political uncertainty around the operations of poker machines has made it difficult to grow revenue and profit.

The outcome for the half is an example of a skilfully managed business which hasn't lost sight of the need to be ready for the opportunity to re-engage with gaming venues throughout NSW, Queensland and the NT once the political controversy surrounding the future of gaming machines settles.

Bytecraft	31-Dec-11 A\$m	Reported % on pcp
REVENUE	49.5	12.0
Expenses	46.4	14.6
EBITDA	3.1	(16.5)
Depreciation & Amortisation	0.7	30.7
EBIT	2.4	(24.9)

Bytecraft has grown rapidly in the meantime. The sales growth from outside the Tatts businesses has seen revenue up 12%. Costs have suffered from growing pains and a little

indigestion. A charge of \$530K in bad debts ruined what could have been an excellent result.

Bytecraft has won a major Telstra contract. This contract will commence in April and will involve the maintenance of almost 22,000 payphones around Australia. It is expected to generate sales revenue of in excess of \$25M annually and push Bytecraft's revenue from external sources to 75% in FY13.

Technology



TattsBet's and Tatts Lotteries' customer accounts were merged in October. The complexity of this task saw internet services disrupted for a day and some short term inconvenience to customers.

This brief and short term inconvenience was certainly worth the effort to draw together 200,000 TattsBet and 500,000 lottery active accountholders into the one place and provide them with seamless internet access to a full range of Tatts' wagering and lotteries services. This is just the first step in a major overhaul of the way Tatts delivers its services. New wagering and lottery products are being developed for Tatts' internet and mobile phone services and will be released over the next 18 months.

The company takes considerable pride in its ability to control and deliver operating systems without any material reliance on third party providers. This is an important competitive advantage which can only come from the employment of more than 300 highly skilled and professional information technology staff.

Corporate

The cash generated by the business reduced net debt levels to \$1,154.6M at 31 December, down from \$1,189.8M at 30 June 2011 and \$1,236.2M at 31 December 2010. This is after paying \$10.3M on signing for the purchase of Tote Tasmania, and generated a net debt/EBITDA ratio of 1.88 times at calendar year end.

The strong cash generation of the business, cash retention from the Dividend Reinvestment Plan (DRP), the cash in excess of \$60M to be received in August 2012 from the sale of the gaming machines, and the available debt within existing facilities, provide flexibility going forward. Tote Tasmania and potentially South Australia Lotteries are able to be funded from cash and existing debt facilities.

Capital expenditure is on track to come in around the \$75M figure indicated for this financial year, with depreciation and amortisation expected to be around \$105M given the accelerated depreciation on the Queensland lottery terminals due to the earlier than scheduled replacement next financial year.

Interest expense of \$52.8M was higher than last year due to the higher average interest rates including margins, with an average rate for this half of 7.1%. Interest expense (including amortised finance costs) for the year is not expected to exceed \$105M.

Corporate expenses as a percentage of revenue continue to be maintained below 1.1%.

Tatts' normal tax rate remains essentially unchanged, with this half year's tax expense reduced by a one-off refund associated with the 2007 sale of Bytecraft Entertainment.

Dividend

An interim dividend of 11.0 cents per share has been determined, a 4.8% increase on last year's interim, and representing a payout ratio of 88.4% of reported profit. The DRP is again operating on this interim dividend, with a 1.5% discount applied. The dividend will be fully franked and is payable on 4 April 2012, with an ex-dividend date of 29 February and a Record Date of 6 March.

Outlook

The outlook for the second half of the current financial year is encouraging. Nothing we can see suggests that our first half performance is not sustainable into the second half, largely because of our confidence in the foundations laid for each of the businesses over the past two years. Additionally, the results for the second half of the previous financial year were affected by two very significant weather events in Queensland during January.

Just to repeat, there will be some once only re-structuring costs associated with the replacement of the third party lottery system in NSW with the Tatts system and the integration of Tote Tasmania during the second half of the current financial year. These costs will be offset to some extent with the anticipated earnings from Tote Tasmania.

Finally, the Tatts Group business model offers a range of gambling services. It continues to be somewhat surprising that many analysts, journalists and investors see Tatts as a wagering company. This is incorrect! Tatts will always be far more than a wagering company while wagering represents less than 25% of its EBITDA. Even after the end of the Tatts Pokies business, wagering's share of group EBITDA is expected to be around 38%.

KEY BUSINESS MEASURES



	1H 2012	1H 2011	Change
Major Product Sales (\$million) *			
- Saturday lotto	\$379.7m	\$335.3m	+13.3%
- Powerball	\$119.6m	\$128.1m	-6.6%
- Super 7's Oz Lotto	\$136.9m	\$148.6m	-7.9%
- Instant Lotteries **	\$84.6m	\$82.2m	+2.9%
Number of Outlets	3,741	3,809	-1.8%
Oz Lotto Jackpot weeks at and above \$15 m	8	9	-1
Powerball Jackpot weeks at and above \$15m	1	3	-2
Internet Sales Revenue *	\$53.4m	\$42.3m	+26.2%

* Player expenditure net of prizes

** Instant Lotteries sales refer to New South Wales, Queensland, Tasmania and Northern Territory and the Australian Capital Territory only



Revenue	1H12 Revenue (\$m)	1H11 Revenue (\$m)	% Change
Totalisator	239.5	245.0	-2.2%
Fixed Price Racing	51.0	36.3	+40.5%
Fixed Price Sport	12.2	16.3	-25.1%
Other	18.3	16.6	+10.2%
Total Revenue	321.1	314.2	+2.2%

Fees and Taxes	1H12 (\$m)	1H11 (\$m)
Racing Industry Fees	102.5	99.6
Government Taxes	56.0	55.4
Total	158.5	155.0

Wagering Sales by Channel	1H12 Sales (\$m)	1H11 Sales (\$m)	% Change
Retail	1,276.3	1,278.9	-0.2%
Internet	297.9	280.1	+6.4%
Phone	169.7	187.5	-9.5%
On-course	57.1	48.9	+16.7%
Total Sales	1,801.0	1,795.4	+0.3%

Totalisator Product Share	1H12 % of Sales	1H11 % of Sales
Win/Place	54.1	54.3
Exotics	45.9	45.7
Total	100.0	100.0

Fixed Price Product Share	1H12 % of Revenue	1H11 % of Revenue
Racing	80.7	69.0
Sport	19.3	31.0
Total	100.0	100.0



Wouldn't you rather be with friends?

	1H 2012	1H 2011	Change
Number of Venues	248	248	-
Number of gaming machines at 31 December	13,227	13,238	-0.1%
Net Machine Revenue (NMR) per gaming machine per day (average)	\$265	\$259	+2.3%
% of gaming machines linked	45.2%	48.2%	-3.0%

maxgaming

Machine Numbers	Queensland		New South Wales		Northern Territory	
	1H12	1H11	1H12	1H11	1H12	1H11
Monitoring	34,355	34,657	96,752	97,282	1,166	1,190
MIS	33,747	34,271	-	-	1,000	1,000
Jackpot Linked	14,047	14,695	3,025	3,282	479	471
Loyalty Linked	18,563	18,366	-	-	-	-



Revenue %	1H 2012	1H 2011	Change
Tatts Group Customers (%)	39.2%	45.5%	-6.3%
External Customers (%)	60.8%	54.5%	+6.3%



	1H 2012	1H 2011	Change
Number of AGC Venues	168	170	-2
Number of gaming machines in operation	7,371	7,394	-0.3%
NMR per gaming machine per day (average) *	£18.72	£18.59	+0.7%

* Gross revenue per day after Return To Player.