Tatts Group

MEDIA RELEASE

TATTS MAINTAINS PROFITS AND DIVIDENDS

Half Year Results FY2010

	31 December 2009 A$m	Movement % on pcp
REVENUE [1]	1615.3	1.2
EBITDA [1]	278.6	(3.2)
EBIT [1]	223.9	(5.7)
NPAT - Group	145.0	0.2
Earnings per Share	11.4 cents	(0.4)
Dividend per Share	10.0 cents	0.0

[1] Excludes South African gaming, which has been treated as discontinuing.

Tatts Group Chief Executive Dick McIlwain said that the results for the first half of the 2010 financial year have demonstrated that good balance sheet management had enabled the company to maintain its profits and dividends in a difficult period.

He noted that the Group's wagering and lottery businesses continued to grow notwithstanding the impact of the Federal Government's stimulus payment in 2008.

"The comparative performance of the Group was always going to be clouded by the impact of the Federal Government stimulus payment in late 2008 and the cost of complying with a significant change to gaming machine operations in Victoria incurred in the first half of FY2010," Mr McIlwain said.

Mr McIlwain was particularly encouraged by the performance of the venue and service support businesses of Maxgaming and Bytecraft. He said that they continue to build their revenue base and that the profits from them will accelerate as revenues increase and expenses stabilise.

The longer term sales growth rates for both wagering and lotteries have reflected the increase in household disposable income (HDI). Meanwhile, gaming machine revenues have struggled to record any substantial first half growth over the last three years.

Mr McIlwain said that Tatts Pokies' expenses were inflated in the first half as a result of a requirement to bring forward the anticipated annual expenditure on games needed to comply with new maximum bet limits in Victoria. Full year FY2010 expenses are expected to be marginally lower than those in FY2009.

Completion of the sale of the Group’s South African gaming business and a major re-sizing of the UK gaming machine business, Talarius, will change the profile of Tatts’ international activities. Mr McIlwain observed that Talarius’ revenue growth was largely the result of two acquisitions in the 2009 financial year. Nevertheless, in a tough economic environment the original business is showing signs of growth and loss making venues are being closed as part of a plan to deliver better quality and more profitable outcomes in the 2011 financial year.

The outlook for the immediate future is promising according to Mr McIlwain. He said that the Group will deliver better operating outcomes in the second half now that the most powerful elements of last year’s Federal Government’s stimulus packages and the requirement to bring forward expenditure in a number of the Group’s businesses have passed.

Mr McIlwain reiterated that the Group has a portfolio of secure long term licences with few exceptions. These licences and the strength and stability of Tatts’ business model support a high dividend payout ratio. Tatts declared a fully franked interim dividend of 10 cents per share payable on 6 April to shareholders who are registered holders at 9 March 2010. A Dividend Reinvestment Plan (DRP) is again available to shareholders who elect to participate by 9 March 2010.

Business profile:

Wagering

	31 December 2009 A$m	Reported % on pcp
REVENUE	**312.0**	**0.8**
Expenses	233.0	1.5
EBITDA	**78.9**	**(1.3)**
Depreciation & Amortisation	9.4	8.1
EBIT	**69.6**	**(2.5)**

- The business remains solid with turnover growth at or around HDI and the four year revenue growth rate (seeing through stimulus and equine influenza) of around 4.5%;
- Fixed odds betting sales grew by 60% to the end of November when TAB Sportsbet operated the fixed odds book. Year to date growth has accelerated to 70% since the introduction of the TattsBet service;
- Migration from TAB Sportsbet to TattsBet fixed price betting will accelerate in the second half as the business moves into FY2011 with some margin dilution being offset by natural growth;
- This first half saw some $0.5M in overlapping costs required to migrate to the company's TattsBet fixed odds book management service, with the full year effect of this removing some $2.5M in pool fees;
- Annual field maintenance savings of around $250,000 are expected after implementation costs as a result of the transfer of field services activity to Bytecraft in January;
- Re-structuring costs, from a decision to streamline the management structure and rationalise call centres, of $330,000 in the first half and around $1.0M in the second half, are expected to result in a full year ongoing benefit of $1.6M.

Lotteries

	31 December 2009 A$m	Reported % on pcp
REVENUE	**527.8**	**8.9**
Expenses	468.5	8.1
EBITDA	**59.4**	**16.0**
Depreciation & Amortisation	5.9	26.9
EBIT	**53.4**	**14.9**

- The business will not sustain the current growth rates. The three year underlying growth rate has been around 3% after normalising for the Ozlotto jackpot run in late FY2009;
- Current growth rates will decline in FY2010 as the business begins to cycle the massive Ozlotto jackpot run over the last three weeks of FY2009;
- The Tatts lottery system will be deployed to agents in Victoria and related jurisdictions around the middle of 2010 and will create cost savings in the next financial year following the end of the third party supply contract;
- Bids for the NSW Lotteries business are being assessed by the NSW Government with an announcement expected in the near future.

Tatts Pokies

	31 December 2009 A$m	Reported % on pcp
REVENUE	**639.4**	**(4.6)**
Expenses	523.4	(3.4)
EBITDA	**116.0**	**(9.4)**
Depreciation & Amortisation	14.6	31.3
EBIT	**101.4**	**(13.2)**

- Still to cycle growth generated by the Government stimulus in January 2009 and again in March and April;
- Operating expenditure on new games increased from $1.6M in the pcp to $5.2M. This includes the cost of complying with the regulatory change to a $5 maximum per spin. Second half expenditure will be less than $0.5M to produce annual expenditure on new games comparable with FY2009.
- EBIT has been weighed down by the full impact of depreciation on EGMs purchased in FY2009 and the renewal of the hyperlink jackpot licence ($3M). A further $1M in depreciation will cycle through the second half accounts.
- Capital expenditure (excluding new venue construction costs) is likely to decline from $20M this financial year to $6M in FY2011 and $3M in FY2012 at a time when depreciation and amortisation in the year is expected to rise from $30M to $34M in FY2011 and $36M in FY2012. The combination of lower capital expenditure and higher depreciation will produce exceptionally strong cash flows during this period.
- This business will cease operating in August 2012. No provision has been made for recovering any value from residual assets.

Maxgaming

	31 December 2009 A$m	Reported % on pcp
REVENUE	**61.9**	**5.2**
Expenses	28.0	7.1
EBITDA	**33.9**	**3.7**
Depreciation & Amortisation	12.6	1.2
EBIT	**21.4**	**5.2**

- Solid and sustainable growth as sales from Simplay and MaxReports lifted revenue from loyalty systems and venue information systems by 18% and 11% respectively.
- EBITDA/revenue margins have remained strong and will build now that revenue from the NSW links business has settled at a more sustainable level.
- Employee costs are down 6% on the corresponding period.

Bytecraft

	31 December 2009 A$m	Reported % on pcp
REVENUE	**38.0**	**9.9**
Expenses	35.0	10.2
EBITDA	**3.0**	**6.1**
Depreciation & Amortisation	1.0	24.8
EBIT	**2.0**	**(1.5)**

- The revenue pipeline which caused the additional expenditure in the first half has begun to emerge and is expected to add new externally sourced revenue of at least $0.2M monthly by the end of the current half;
- Bytecraft has taken over the UNiTAB Wagering's field services activity to create new non-margin income of $1.7M for the current half.

Talarius

	31 December 2009 A$m	Reported % on pcp
REVENUE	**52.1**	**(4.4)**
Expenses	49.0	6.6
EBITDA	**3.1**	**(63.6)**
Depreciation & Amortisation	6.4	(21.5)
EBIT	**(3.3)**	**(921.2)**

- A consolidation strategy has begun with a program to close 34 loss making sites within the current half;
- Benefit to profit is expected to be in the vicinity of £3.0M per annum with estimated implementation costs of around £9.2M;
- Growth still subdued although like for like venue sales improving in most weeks since October.

South Africa

	31 December 2009 A$m	Reported % on pcp
REVENUE	**20.7**	**7.1**
Expenses	17.0	1.5
EBITDA	**3.7**	**43.3**
Depreciation & Amortisation	1.8	(5.5)
EBIT	**1.9**	**192.4**

- This business is in the process of being sold within the current half.

Balance Sheet

- Benefitting from a relatively low interest rate of 4.9% for the first half, resulting in net finance cost savings of $12.2M compared to last year;
- Net debt at 31 December was $628M ($734M at the same time last year). Interest cover at 31 December was 12.5 times and the debt to EBITDA ratio was just 1.14 times;
- Net debt position improving as strong cash generation continues;
- Capacity to fund a potential NSW Lotteries acquisition with debt facilities;
- Potential to win gaming machine monitoring by Maxgaming and wagering by UNiTAB Wagering in Victoria is not expected to demand any significant additional borrowings;
- Dividend payout ratio (88% for the first half) is sustainable;
- Group capital expenditure of $48M in the first half is expected to be lower in the current half, with an expected full year spend of less than $80M;
- The depreciation charge for the Group is expected to be around $110M for FY2010.

KEY BUSINESS MEASURES

Wouldn't you rather be with friends?

	1H 2010	1H 2009	Change
Number of Venues	251	256	-5
Number of EGM's at 31 December	13,243	13,341	-0.7%
NMR per EGM per day (average)	$260	$272	-4.4%
% of EGM's linked	46.5%	46.1%	+0.4%

	Meetings		TAB QLD		SA TAB		NT TAB	
	1H10 #	1H09 #	Share %	Change %	Share %	Change %	Share %	Change %
CODE								
Gallops	1,498	1,339	74.0	-0.7	67.6	-0.9	71.1	-1.8
Harness	953	889	10.9	-0.1	15.1	0.3	12.6	1.3
Greyhound	1,365	1,350	15.2	0.8	17.3	0.6	16.3	0.5
	3,816	**3,578**						
STATE								
- Qld	529	514	24.0	-0.4	16.0	-0.3	17.5	-0.8
- Vic	887	891	31.5	-0.3	33.4	-0.3	30.3	-0.3
- NSW	828	809	24.5	0.3	23.1	0.3	23.3	0.3
- SA	286	285	7.1	-0.3	12.5	-0.5	8.1	-0.4
- NT	64	62	0.3	0.0	0.3	0.0	3.8	0.2
- WA	379	375	6.3	-0.2	7.5	-0.3	9.4	-0.3
- Other(inc NZ)	843	642	6.3	0.9	7.1	1.1	7.7	1.3
Total	**3,816**	**3,578**						

	TAB QLD		SA TAB		NT TAB	
Distribution Network	**Sites**	**%**	**Sites**	**%**	**Sites**	**%**
Agencies & Branches	129	22.9	55	30.0	9	23.1
Pub/Club/Satellites	588	48.7	287	49.7	40	35.9
On-course	60	3.6	0	0.0	3	6.1
Telebet/Internet	3	24.8	2	20.3	2	34.9
Product Shares	**% Share**	**Change**	**% Share**	**Change**	**% Share**	**Change**
Win/Place	58.9	-4.1	61.7	-1.7	61.1	-3.9
Trifecta	17.3	-0.4	16.6	0.1	18.5	-0.4
Quinella/Exacta/Any2	6.8	-0.4	7.2	-0.9	6.2	-1.1
Multiples	5.1	0.3	4.9	0.4	3.5	0.3
First4	1.5	0.3	1.1	0.3	1.5	0.1
FootyTAB	0.1	0.0	0.0	0.0	0.0	0.0
Fixed Odds	10.3	4.3	8.5	1.8	9.2	5.0

TATTS LOTTERIES

	1H 2010	1H 2009	Change
Major Product Sales ($million) * - Saturday lotto - Powerball - Super 7's Oz Lotto - Instant Lotteries **	 $220.0m $118.0m $83.0m $52.7m	 $217.4m $87.2m $84.4m $52.2m	 +1.2% +35.3% -1.6% +1.1%
Number of Outlets	2,176	2,169	+0.3%
Oz Lotto Jackpot weeks at and above $15 m	9	7	+28.6%
Powerball Jackpot weeks at and above $15m	6	4	+50.0%
Internet Sales ($million)	$50.9m	$33.1m	+53.8%

* Player expenditure net of prizes
** Instant Lotteries sales refer to Queensland, Tasmania and Northern Territory only

maxgaming

	Queensland		New South Wales		Northern Territory	
Full Year (Machine Numbers)	**1H 2010**	**1H 2009**	**1H 2010**	**1H 2009**	**1H 2010**	**1H 2009**
Monitoring	34,947	33,993	98,111	98,769	1,185	1,176
MIS	33,755	32,853	-	-	1,000	982
Jackpot Linked	15,788	15,242	3,689	4,061	475	440
Loyalty Linked	17,945	16,931	-	-	-	-

BYTECRAFT

Revenue %	1H 2010	1H 2009	Change
Tatts Group Customers	44.6%	47.7%	-3.1%
External Customers	55.4%	52.3%	+3.1%

Tatts International

Talarius	1H 2010	1H 2009	Change
Number of AGC Venues	218	200	+9.0%
Number of EGM's in operation	8,650	7,868	+9.9%
NMR per EGM per day (average) *	£17.60	£18.39	-4.3%

*Gross revenue per day after Return To Player

South African Gaming	1H 2010	1H 2009	Change
Number of Venues ▪ Western Cape ▪ KZN	 194 146	 197 112	 -1.5% +30.4%
Number of EGM's ▪ Western Cape ▪ KZN	 919 705	 912 517	 +0.8% +36.4%
NMR per EGM per day (ave) – Rand ▪ Western Cape ▪ KZN	 R574 R334	 R570 R363	 +0.7% -8.0%