

ASX Announcement

Tatts Sells UK Slots Business

Brisbane, 27 June 2016 - Tatts has sold its interest in Talarus Limited, its United Kingdom based slots business, to Novomatic UK Limited.

HEADLINES

Talarus Divestment:

- * Tatts UK slots business sold to Novomatic
- * Net proceeds and cash receipts £111m (A\$210m)
- * Economic benefit transfers with effect on 19 March 2016
- * Divestment to result in an accounting loss in FY16 circa A\$50m

Tatts Trading Update (Post Divestment):

- * FY16 NPAT (continuing ops – excluding Talarus) expected range \$255m to \$265m (vs. analysts \$259m to \$282m)
- * Lotteries revenues (YTD 31 May 2016) up 8.7% and EBITDA margin 16.1%
- * Wagering turnover (YTD 31 May 2016) up 4.2%; blended win-rate 14.8%; EBITDA margin 22.1%
- * Online sales (YTD 31 May 2016) up 33.3% for lotteries and 22.9% for wagering

COMMENTARY

The sale of Talarus will result in Tatts deriving net proceeds and cash receipts (after transaction costs) of £111m (A\$210m), which will be used to repay existing GBP denominated debt facilities.

The sale has been completed on terms which result in Novomatic obtaining the economic benefit of the business on 19 March 2016.

Commenting on the transaction, Tatts' CEO and Managing Director, Robbie Cooke, said:

"The sale of Talarus follows three years of intense effort to improve the performance of a business that struggled since its acquisition by Tatts back in 2008.

Our patience in repositioning the business, has seen it become a very attractive asset in a highly competitive gaming segment in the UK, and has provided a path to maximising shareholder value. As a large international gaming group, Novomatic is the logical acquirer of the business – its established UK position, deep industry knowledge and synergy opportunities makes it a natural owner of the asset.

I am pleased to say this step completes the transformation of Tatts' gaming unit to a pure B2B business, entirely focused on providing gaming monitoring and other services to gaming operators".

Financial Impact and Trading Update

Talarius contributed approximately A\$6.2m (less than 2%) of Tatts' EBIT in FY15, and the sale after repaying debt facilities will not have a material impact on continuing earnings per share for the Group.

Tatts' FY16 results will include the contribution from Talarius as a discontinued operation up to 19 March 2016 (being the effective date of the sale), thus affecting a true comparison against the previously reported FY15 result where Talarius was part of our continuing operations. With a similar year-on-year impact, the divestment will result in a non-cash accounting charge in the FY16 financial results of approximately A\$50m which will be reported as a loss in discontinued operations.

Subject to audit and based on preliminary estimates for June 2016 together with the overall group trading performance for the 11 months to 31 May 2016, it is expected that continuing operations NPAT (excluding Talarius) will be in the range of **\$255m to \$265m** (vs. analyst range \$259m to \$282m which includes a full year contribution from Talarius).

Statutory NPAT is expected to differ from continuing operations NPAT due to the following non-recurring items:

- An \$18.6m after tax interest charge which was foreshadowed following the successful appeal by the State of Victoria to the High Court relating to Tatts' Victorian pokies licence;
- Approximately \$4m in legal fees relating to the above legal proceedings;
- An approximate \$50m accounting loss incurred on the sale of Talarius;
- The trading result for Talarius being reported as part of discontinued operations.

Subject to audit and based on preliminary estimates for June 2016 together with the overall group trading performance for the 11 months to 31 May 2016, and including the full impact of the high court decision and sale of Talarius, it is expected that Tatts will have a net debt position of approximately \$1.05b.

For the Group's continuing operations, the following interim commentary is provided in relation to FY16 (this commentary will be expanded when announcing the Group's audited full year results on 18 August 2016):

- Lotteries revenue growth (to 31 May 2016) was up 8.7% on pcp;
- Lotteries online growth up 33.3% (to 31 May 2016) – to represent 13.5%¹ of all sales;
- Lotteries EBITDA margin (to 31 May 2016) 16.1% steady with pcp;
- Wagering turnover (to 31 May 2016) up 4.2%;
- Wagering blended win rate (to 31 May 2016) – 14.8% vs. 16.0% in the pcp;
- Wagering EBITDA margin 22.1% vs. target 23.5%;
- Wagering online growth up 22.9% – to represent 30.1% of all sales.

¹ Consistent with prior years this excludes South Australia, if South Australia were included, online sales represent 12.8% of all sales.

Based on the above estimates, the board intends maintaining Tatts' current dividend policy of paying out approximately 90% of continuing operations NPAT and currently intends declaring a fully franked final dividend to be paid in October 2016.

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