

**2**  
**INNOVATIVE**  
**1**  
**6**



# 2 FORWARD THINKING 6

## OUR COMMITMENT TO INNOVATION CONTINUES TO DELIVER

In FY16, we again achieved results by adapting our products, brands, business practices, skill-sets and sales channels.

Not content with business as usual, we are creating new opportunities to deliver growth for the company as we chase our goal to be the world's best gambling group.

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**2**  
**STRONG**  
**FINANCIALS**  
**6**

CONTINUING OPERATIONS  
**NPAT** up 3.8%  
**\$263.4**  
MILLION

GROUP REVENUE  
**\$2.93**  
BILLION  
up 4.4% on FY15

**EBIT** **\$419.6**  
MILLION  
up 1.3% on FY15



# 2016 DIGITAL

## Digital Sales

LOTTERIES	WAGERING
↑ 32.2%	↑ 22.5%
13.5% of FY16 sales	30.2% of FY16 sales



**1.5** MILLION  
TOTAL APP DOWNLOADS

**3.6** MILLION  
AVERAGE MONTHLY VISITORS TO  
LOTTERIES AND WAGERING WEBSITES

# CHAIRMAN'S LETTER

THE SUCCESS OF OUR DIGITAL  
INITIATIVES AND LOTTERIES'  
SUPERB PERFORMANCE DROVE  
OUR STRONG RESULTS

## DEAR SHAREHOLDERS,

On behalf of the Tatts Board, I look forward to welcoming you to our Annual General Meeting on Thursday, 27 October 2016, at the Brisbane City Hall, and, as always, if you are unable to join us on the day, you can listen to the proceedings online at [www.tattsgroup.com](http://www.tattsgroup.com).

Looking back on financial year 2016, it is clear that the success of our digital initiatives and Lotteries' superb performance drove our strong results. Growth in digital sales was nothing short of outstanding, with Lotteries lifting 32.2% and Wagering digital sales up 22.5%. These outcomes are category leading.

Our Lotteries team is widely recognised as a global industry leader and innovator, and continues to go from strength-to-strength. The team delivered record-breaking performance on the back of an excellent jackpot run, with revenue, EBITDA and EBIT at new all-time highs.

UBET, which has been in the market a little over 12 months, achieved 4.1% turnover growth compared to a turnover decline of 0.9% in FY15, giving confidence that the new brand, digital platforms, and retailing initiatives are starting to capture market share in the highly competitive wagering space.

Our Gaming unit recently rebranded as MAX, successfully divested Talarius, our UK slots operation. This action allows the repositioning of this business unit as a purely B2B operation predominantly focused on providing monitoring and other services to gaming operators.

## OPERATIONAL PERFORMANCE – POWERED BY LOTTERIES AND DIGITAL EXCELLENCE

The excellent result delivered by our Lotteries operation, coupled with our strongest ever digital sales in both Lotteries and Wagering, underwrote a 4.4% increase in Group revenues reaching \$2.93 billion. At NPAT level we produced a continuing operations result of \$263.4 million up 3.8% on the prior year. At a statutory level, after tax profit was down 7.2% impacted by both the State of Victoria winning its appeal in our long running and now concluded pokies compensation litigation, and the loss arising on the sale of Talarius.

The Managing Director's Report on page 12, discusses our operational performance in more detail.

## INCREASED DIVIDENDS + TSR OUTPERFORMANCE

Our strong continuing operations NPAT result, coupled with a long-standing commitment to maintain a high dividend payout ratio, has seen your Board determine a final dividend of 8.0 cents per share (FY15: 7.5 cents).

This takes the total dividend paid for the 2016 financial year to 17.5 cents per share, an increase of 6.1% over FY15. This represents a 97.3% payout of our continuing operations profits, and maintains our long-standing policy of dividend payout ratios exceeding 90% of NPAT. In fact, this is the tenth year since listing on the ASX that our dividend payout has exceeded 90% on a continuing operations basis.

It is also of note that we again outperformed the ASX200 index and our immediate peers on the important investor metric of total shareholder return (**TSR**). TSR for FY16 from a combination of dividends and share price growth was 8.0%, compared to the ASX200 TSR of 1.1%.

## POKIES COMPENSATION CLAIM CONCLUDED

After years of legal action to enforce our rights following the expiry of the Group's Victorian gaming operator's licence, the High Court upheld the State of Victoria's appeal in March 2016, with the result that Tatts repaid the state \$540.5 million, plus interest of \$26.6 million (pre-tax).

Given that the case was on two occasions decided in our favour by the Victorian Supreme Court and the Victorian Court of Appeals, the result in the High Court was disheartening. However, it has not impacted our ability to maintain a high dividend payout ratio or our ability to grow the business.

## SUSTAINABILITY – ON THE RIGHT PATH

As Australia's largest non-casino gambling group, Tatts takes its responsibilities as a corporate citizen very seriously. We respect and understand that our licences and authorities to operate are privileges granted by government, and come with significant responsibility and obligation.

We have made considerable progress in the areas of diversity, development of our people, safety and environmentally sustainable business practices. Detailed reporting on our actions and achievements in this regard can be found in our Sustainability Report on page 32.

As an organisation we have a long and proud history of contributing in a very meaningful way to both the communities in which we operate and to the industry partners upon whom we depend. Our support to our communities is multi-faceted. Most significant is our financial contribution to the broader community via our tax contribution in all the states and territories in which we operate, together with the funds provided directly to the racing industry. In addition to our corporate taxes, in FY16 we paid a total of \$1.41 billion to state and territory governments and industry partners in the form of lottery taxes, wagering tax, racing industry product fees and race information fees. The most significant of these contributions in the year were:

- Queensland \$381.3 million
- New South Wales \$357.1 million
- Victoria \$422.1 million

Our commitment however goes significantly beyond our tax contribution. We are a very active supporter of a range of charitable causes and programs which are discussed further in our Sustainability Report. We remain focused on ways we can do more, and this year we established a new division within Tatts specifically focused on fund raising activities for the charitable and not-for-profit sector. Our aim is to supply innovative products and technology solutions that are capable of making a real difference to charitable organisations in their fund raising endeavours.

Over the last few years we have been working to improve our sustainability reporting to you, and are pleased that the Australian Council of Superannuation Investors has recognised our efforts by raising its rating of our reporting to the second highest category.

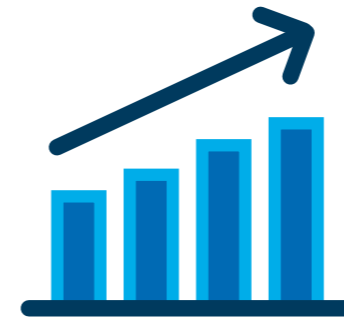
## THE FUTURE – WELL PLACED FOR GROWTH

We remain determined in our resolve to seek ways to maximise the value of our unique portfolio of gambling assets and the proprietary technology platforms that support these businesses.

To this end, we are not fixated on one particular path or approach, but are acutely aware of the need to ensure each of our businesses is performing optimally, that the licences supporting each business are secure, and, in some cases, to reposition certain of our operations to maximise value for our shareholders.

We have demonstrated what can be accomplished by implementing this strategy in the turn around and subsequent divestment of Talarus, our UK slots operation. A further example of this approach and our desire to release value for our shareholders was our initiation of discussions with Tabcorp in 2015 about a merger of equals, even though this did not ultimately proceed. Other transformational opportunities have been and will be considered by your Board whenever they arise.

Our businesses also have the potential to grow from 'bolt-on' acquisitions. The planned acquisition of Victorian and New Zealand monitoring operations currently underway, which (if completed), will seamlessly integrate with our other monitoring operations, is a fine example, as was our previous mid-stream assumption of the Victorian Instant Scratch-Its lottery licence. We are also one of a limited group that has the capability to compete for



TOTAL SHAREHOLDER RETURN FOR FY16 FROM A COMBINATION OF DIVIDENDS AND SHARE PRICE GROWTH WAS 8.0% COMPARED TO THE ASX200 TSR OF 1.1%

international lottery opportunities as they present themselves. In these processes our bidding position is enhanced by holding proprietary and proven technology solutions, both in retail and digital environments, and having highly experienced management and an operational and regulatory compliance track record of excellence.

Beyond transformational and acquisition actions, we also have a strong opportunity to continue organically growing our businesses. With the established and ongoing success of our digital initiatives, the introduction of new products, the enhancement of our retail position, and leveraging the benefits flowing from an omni-channel presence, we have a powerful engine for growth.

## REGULATORY ENVIRONMENT – POSITIVE OUTLOOK

The regulatory outlook for our businesses has improved in a number of important respects.

Firstly, we commend the Federal Government for its leadership in determining to retain and enhance the provisions of the *Interactive Gambling Act 2001* to stamp out 'click-to-call' in-play betting products and other illegal betting activities. Tatts has, for some time, held serious concerns about the behaviour of a number of foreign and domestic betting operators who use tricky and deceitful means to circumvent, at the least, the spirit of Australian laws and community expectations. In taking this stance, the government has drawn a line in the sand and demonstrated its commitment to Australian jobs, Australian businesses, and Australian values over companies based in offshore tax havens, such as Gibraltar, that engage in predatory and exploitative behaviour, while returning virtually nothing to the broader Australian economy.

The second positive movement in the regulatory environment is the gradual awakening of state and territory governments to the taxation leakage occurring with certain wagering companies operating out of virtually tax free jurisdictions. When considering the \$1.41 billion in lotteries and wagering tax and duty Tatts pays to state and territory governments and industry partners, it is an issue of significance to the fiscal position of these jurisdictions if other operators are circumventing the tax and duty system for their own financial benefit, and/or deceiving customers as to the nature of their product offering.

## OUR WINNING TEAM

Achieving our vision of becoming the world's best gambling company requires truly amazing people. We are fortunate to have a highly engaged, driven and passionate team. We actively encourage our team members to 'challenge, re-think and refresh' the way we conduct our business, thereby creating a culture of innovation and reinvigoration. On behalf of the Board and all shareholders, I would like to acknowledge the commitment of the entire Tatts team towards delivering our vision and thank them for all their efforts over the last year.

Sincerely,

**HARRY BOON**  
Chairman

# MANAGING DIRECTOR'S REPORT

THE TEAM REMAINS JUST AS EXCITED ABOUT THE POTENTIAL OF ALL OUR BUSINESSES AS WE WERE THREE YEARS AGO AT THE COMMENCEMENT OF OUR RENEWAL JOURNEY

## > Operating & Financial Review

### FY16 PROVED TO BE ANOTHER SUCCESSFUL YEAR AT TATTS.

Our lotteries operation delivered record results; our digital initiatives over the last few years are now driving exceptionally strong sales growth; a number of our key licences and authorities to operate were re-secured; UBET proved its ability to attract customers in a crowded market returning to turnover growth; and we successfully launched several new brands and products. All-in-all, our business renewal program is delivering, it positions us well for future growth, and has at its core a focus on maximising the value from our unique portfolio of gambling assets.

We achieved a healthy 3.8% lift in after tax profits on a continuing operations basis. At a statutory level, after tax profit was down 7.2% impacted by both the State of Victoria winning its appeal in our long running and now concluded pokies compensation litigation, and the loss arising on the sale of our UK slots operation, Talarius.

As a team, we remain just as excited about the potential of all our businesses as we were at the commencement of our renewal journey some three years ago. The mantra for the entire team at Tatts is to 'challenge, re-think and refresh' how we conduct our businesses, as we continue on our quest to innovate and re-invigorate. This cultural mindset is an essential element for our future successes.

Before reviewing our Group financial performance and position, I will first provide a 'year in a snapshot' view of FY16, including looking at the game-changing actions, initiatives and innovations undertaken by the team. I will then move to dive deeper into the performance of our three operating units (Lotteries, Wagering and Gaming) looking at the key achievements in the year, and will then wrap up with some of the key actions planned for the year ahead.

Our Annual General Meeting in October will be another opportunity to provide further insights, and to outline a number of the new initiatives and innovations in the pipeline. I hope that you can join us in October for this event in person or online.

# FY16 Snapshot

## BUSINESS SUCCESS

Our Lotteries operation was the standout performer in FY16. Across the board, this business achieved record-breaking performances with revenue, EBITDA, EBIT, operating margins, digital sales, and jackpots, all at all-time highs. This exceptional performance was the result of the many innovations put in place over the past three years, including:

- new products;
- game re-configuration and positioning;
- focus on our digital channel;
- improved customer relationship management actions; and
- excellent brand, promotional and retail positioning of all our lottery products.

Our Wagering operation 'clocked up' its first full reporting year operating under the new UBET banner, and pleasingly saw momentum return to the business. For the first time since FY13 (a year that benefited from the acquisition of Tote Tasmania) we achieved turnover growth, demonstrating our ability to attract customers to the UBET brand and product offering. In no small way this performance was driven by our digital initiatives. UBET also achieved cut-through in the important areas of brand awareness and customer loyalty.

In our Gaming unit—now renamed 'MAX'—Maxgaming (our monitoring and value-add services division) for the third consecutive year increased revenue and achieved a solid lift in EBIT in FY16. Bytecraft (the unit's 'break and fix' service operation), having undergone a business restructure over prior years, demonstrated the benefit of that strategy by improving profitability in FY16.

## DIGITAL INITIATIVES

Worthy of a separate mention is the power of the Group's digital initiatives. We have put together an expert team of digital marketers and empowered them with market-leading technology solutions. This has been a multi-year exercise that is now demonstrating the value of the investment. We have delivered our strongest ever digital performance in lotteries with a 32.2% lift in digital sales, and this channel in FY16 represented 13.5%<sup>1</sup> of total lottery sales. In wagering, an outstanding 22.5% lift in digital sales generated a record 30.2% (FY15: 25.7%) of our wagering sales for FY16.

## RESULTS

On an overall Group level our continuing operations result provides the best representation of our performance—removing the impact of both the now concluded Victorian pokies compensation litigation, and the sale of our UK-based slots business, Talarius, which are included in discontinued operations. NPAT from continuing operations was up 3.8% to \$263.4 million driven by the excellent results delivered by our Lotteries team. Statutory NPAT was down 7.2% to \$233.8 million.

1. Consistent with prior years this excludes South Australia - if South Australia is included, digital sales grew 33.0% and represented 12.7% vs 10.4% in FY15.

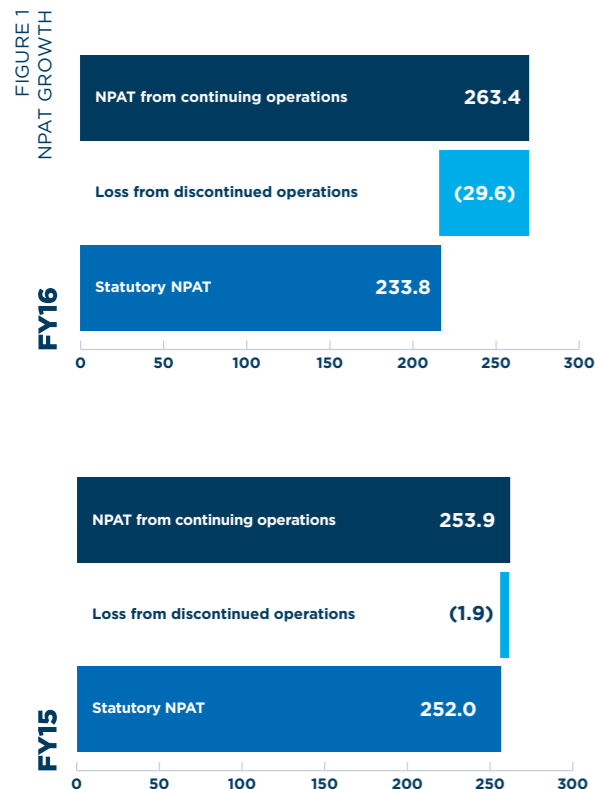
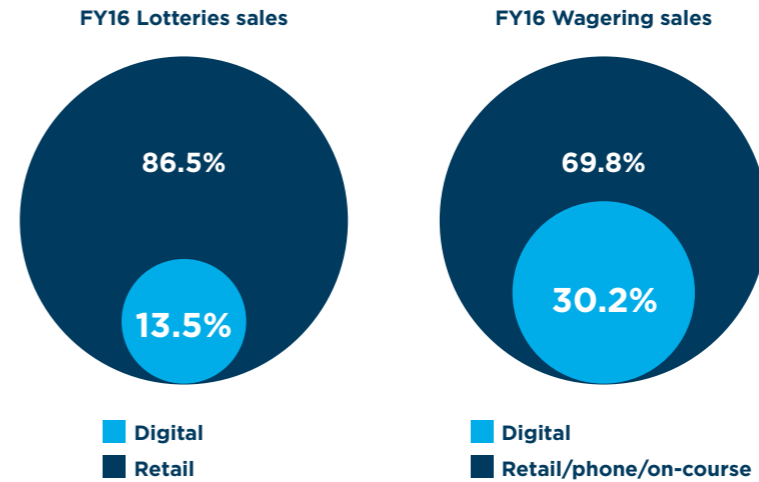


FIGURE 2  
LOTTERIES & WAGERING  
SALES CHANNELS



## SIGNIFICANT BUSINESS OUTCOMES

Beyond the strong financial outcomes, we achieved a number of other significant business outcomes in the year, including:

- winning the exclusive monitoring rights to circa 97,000 gaming machines in New South Wales for a further 16 years;
- launching the first new draw lottery game in Australia in 20 years, Set for Life;
- releasing our first lotteries dedicated app with an impressive 1.3 million downloads to-date;
- launching our national umbrella lottery brand, 'the Lott';
- retaining the top search position in Google 95% of the time for lottery related keyword searches;
- rolling out digital point-of-sale advertising systems in our lottery outlets - with 153 stores up and running providing the opportunity to tailor offers to customers based on jackpot or other significant events, such as Mother's day;
- conducting a new marketing innovation competition ('Pitched Perfect') which saw two teams win \$250,000 marketing budgets to develop their novel marketing ideas. The first concept, the highly successful #winningfeeling social media campaign, went live in FY16 reaching more than 1.6 million customers;

- winning the exclusive wagering retail licence in the Northern Territory for a further 20 years;
- UBET now appearing consistently on the first page of Google search results;
- upgrading 162 wagering outlets to the new UBET experience, delivering 8.4% turnover growth compared to existing wagering retail stores in the same geographic areas.

As touched upon earlier, the disappointment in the year was the High Court of Australia's decision to uphold the State of Victoria's appeal in our compensation action relating to our now discontinued Victorian pokies business. We have repaid the State of Victoria \$540.5 million plus interest of \$26.6 million (pre-tax).

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# > Group Financial Performance

## TRANSACTIONAL ACTIVITIES

We maintained a rational and disciplined approach in managing our portfolio of gambling assets, perhaps best demonstrated by the strategy we implemented in relation to our UK slots operation, Talarius. With a single-minded focus, we turned this long-term loss making operation around, achieving a first-time positive contribution in FY14, and building on this performance over the following two years. Our strategy and patience in repositioning this business created a highly attractive asset in the extremely competitive UK gambling market. This ultimately provided a path to maximising shareholder value, with net proceeds of £111 million being released on divestment.

The sale of Talarius also delivered on our strategy to transform our gaming division into a pure B2B business, predominantly focused on providing gaming monitoring and other services to gaming operators. This has culminated in the launch of our new gaming brand, MAX, in August 2016. In parallel, we have been carefully assessing opportunities to extend our gaming operation's B2B footprint, which explains the exclusive confirmatory due diligence process being undertaken in relation to Victorian and New Zealand monitoring businesses.

Transactionally, our logic in initiating the nil-premium merger of equals discussions with Tabcorp in mid-2015, was the product of our quest for shareholder value creation, given the significant efficiencies the combination was capable of releasing. The additional attraction from the merger was the potential for the enlarged entity to embark on meaningful business expansion activities outside the Australian marketplace.

## LEGISLATIVE AND REGULATORY ENVIRONMENT

FY16 saw significant and positive (for our business) legislative decisions at both federal and state levels relating to wagering in Australia.

In April 2016, responding to the recommendations of the O'Farrell review, the Federal Government indicated that it viewed the 'click-to-call' in-play betting products offered by some wagering operators in Australia as breaching the spirit of the *Interactive Gambling Act 2001 (IGA)*. The Federal Government agreed in principle to all of the recommendations of the O'Farrell review, and is expected to enact legislation in the near future to give effect to these recommendations.

In June 2016, the Government of South Australia announced that it would introduce a point of consumption tax from 1 July 2017 on all wagering activity by South Australian residents, regardless of where that service is based. Although limited details exist to-date on how the legislation will be enacted or enforced, we are encouraged by this decision.

We fully support these decisions by the Federal and South Australian governments. The foreign-owned wagering operators in Australia have enjoyed many years of minimal taxation, putting significant financial pressure on legitimate local operators, such as UBET, to compete against them. We hope the Federal Government's goal to 'introduce disruption measures to curb illegal offshore gambling activity' will level the playing field somewhat, allowing UBET to fairly compete.

A further regulatory development came about in July 2016 when the NSW Government decided to ban greyhound racing from 1 July 2017. While this decision will have a minimal impact on our earnings, it highlights the need for all codes of racing to operate with integrity and for all industry participants to embrace initiatives that ensure rogue elements do not damage racing's long-term sustainability.

## GROUP REVENUE

At a Group level, revenue was up an impressive 4.4% on FY15 at \$2.93 billion.

Our Lotteries operation was the standout contributor to the result, achieving revenue growth of 8.2% in its own right. The result benefited from our jackpot games Oz Lotto and Powerball reaching a record 45 jackpots at \$15 million or more; the addition of Set for Life and the expanded Lucky Lotteries games; and a solid performance by our Instant Scratch-Its portfolio.

Fourteen months post the launch of our UBET brand, we have seen encouraging performance in this operation. Turnover was up 4.1% compared to a 0.9% decline in FY15, and the important measure of customer brand awareness is gaining traction in what continues to be a crowded segment. Although turnover was up, revenue was down 3.6% with the business offering more competitive pricing in its fixed-price book, coupled with the continuing migration of customers from tote to the lower yielding fixed-price products, and the usage of customer rewards and bonus programs.

Maxgaming delivered increased revenue of 1.3%, while Bytecrafter's 11.3% decline in revenue came as it exited most of its unprofitable service contracts, a move validated by improved profitability.

## GROUP EBITDA

Group EBITDA of \$494.8 million was 0.8% up on FY15's result.

Again, Lotteries was the biggest contributor to this result, with EBITDA increasing 10.2% and the margin increasing from 15.9% to 16.2%.

Wagering's margin performance at 21.9% fell short of our target of 23.5%, which saw EBITDA fall 13.2%. As mentioned, this result was impacted by a combination of a migration from tote to lower yield fixed-price betting, being more responsive to the market in pricing our fixed-price book, and from our usage of customer rewards and bonus. We will continue to fine-tune our event-based marketing campaigns in FY17, but expect EBITDA margins to reflect the actuality of our operating environment for the foreseeable future.

Both our Gaming businesses improved on their FY15 EBITDA performances. Maxgaming was up 0.1%, while Bytecrafter was up 23.0%.

THIS EXCEPTIONAL  
DIGITAL PERFORMANCE  
WAS THE RESULT OF THE  
MANY INNOVATIONS PUT  
IN PLACE OVER THE PAST  
THREE YEARS

INC  
LOTTERIES  
EASE

# Group Financial Position

## GROUP EBIT

EBIT from continuing operations was up 1.3% in FY16 to \$419.6 million. Total Group depreciation and amortisation amounted to \$75.2 million, down 2.2% on FY15 due to lower depreciation in our Lotteries and Maxgaming operations. Finance costs were down 20.5% to \$46.4 million due to the refinancing in September on improved terms, coupled with the interest rate environment.

## GROUP NET PROFIT

Group profit after tax from continuing operations lifted 3.8% to \$263.4 million (FY15: \$253.9 million).

Group after tax profits on a statutory basis declined 7.2% to \$233.8 million (FY15: \$252.0 million), noting that the FY16 result includes the impact of both the now concluded Victorian pokies compensation litigation, and the sale of our UK-based slots business, Talarius, which are included in discontinued operations.

The Group remains in a position of financial strength, reinforced by the FY16 financial performance, coupled with our committed debt facilities (as at 30 June 2016) totalling \$1.80 billion, of which \$1.11 billion has been utilised. When netted against the Group's cash holdings (excluding prize reserves), Group net debt amounted to \$1.04 billion.

The strong cash generative nature of our business underpins the continuing improvement in our balance sheet position. The Group's capital management planning seeks to ensure ongoing access to funds to support our business strategies, while appropriately rewarding shareholders. Despite not maintaining a public credit rating, our target is a balance sheet consistent with an investment grade rating.

Throughout FY16, we have undertaken capital management activities that have positioned the Group well, delivering value to shareholders principally through lower financing costs and other operational savings. In this regard the following are of particular note:

- in terms of the Group's debt maturity profile, we renegotiated the \$350 million debt tranche maturing in March 2016 to a September 2020 maturity date on improved terms;
- all our GBP denominated debt was repaid on the sale of Talarius;
- the last of our revenue generating pokies properties in Victoria was exited. This reduced unallocated revenue (per our segment note) by \$3.1 million.

The \$540.5 million received from the State of Victoria in FY14 relating to the pokies compensation litigation plus the \$26.6 million interest benefit (pre-tax) derived from the funds, was repaid in March 2016. As previously reported, the Victorian pokies compensation monies significantly enhanced the Group's debt position in prior years, with the proceeds progressively applied to repay debt as it matured.

Net debt is comfortably serviceable considering the Group's cash flow, profitability and future opportunities. Our net debt to EBITDA ratio now sits at 2.3 times, which was also 2.3 times at 30 June 2015 (excluding the pokies compensation receipt that has now been repaid to the State of Victoria).

Forecast capex requirements for FY17 indicate a likely full-year capex spend in the vicinity of \$90.0 million (FY16: \$71.3 million). This excludes the licence payment to Racing Queensland in July 2016, and the second instalment for the Maxgaming NSW monitoring rights.

GROUP FINANCIAL PERFORMANCE

	FY16 \$M	FY15 \$M		CHANGE %
<b>Total revenue and other income</b>	<b>2,928.1</b>	2,803.9	^	4.4%
State government share	(1,370.9)	(1,271.5)	^	7.8%
Venue share/ commission	(436.7)	(417.0)	^	4.7%
Product and program fees	(202.7)	(203.1)	v	0.2%
Other expenses	(423.0)	(421.3)	^	0.4%
<b>Total expenses</b>	<b>(2,433.3)</b>	(2,312.9)	^	5.2%
<b>EBITDA</b>	<b>494.8</b>	491.0	^	0.8%
Depreciation and amortisation	(75.2)	(76.9)	v	2.2%
<b>EBIT</b>	<b>419.6</b>	414.1	^	1.3%
Net interest expense	(41.1)	(50.9)	v	19.2%
<b>Profit before tax</b>	<b>378.5</b>	363.3	^	4.2%
Income tax	(115.1)	(109.4)	^	5.2%
<b>Net profit after tax (continuing operations)</b>	<b>263.4</b>	253.9	^	3.8%
Loss from discontinued operations	(29.6)	(1.9)	^	1,480.6%
<b>Net profit after tax (statutory)</b>	<b>233.8</b>	252.0	v	7.2%

# B GROUND E AKING

LOTTERIES  
RECORD  
REVENUE

EBITDA AND EBIT IN FY16

**45**  
**JACKPOTS**  
AT \$15 MILLION OR MORE  
(FY15: 34 JACKPOTS)

5 17  
24  
AVERAGE JACKPOT POOL OF  
**\$28.8**  
**MILLION**  
(FY15: \$25.3 MILLION)

DIGITAL SALES GREW **32.2%**

DIGITAL SALES NOW **13.5%**  
OF LOTTERIES TOTAL SALES



**236**   
NEW  
MILLIONAIRES

# Lotteries Review

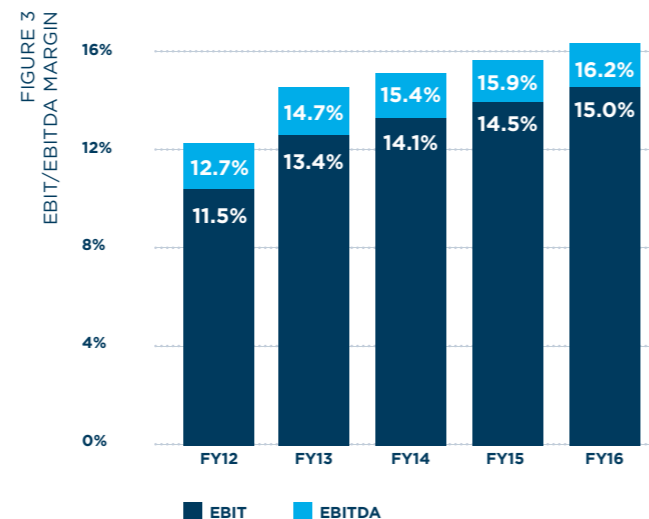
## FY16 LOTTERIES HIGHLIGHTS

- Record revenue, EBITDA and EBIT outcomes produced:
  - Revenue up 8.2% to \$2.14 billion
  - EBITDA up 10.2% to \$345.5 million
  - Record EBIT of \$320.0 million up 11.3%
- An all-time high of 45 jackpots at \$15 million or more (FY15: 34)
- Achieved average jackpot pools of \$28.8 million (FY15: \$25.3 million)
- 236 customers made millionaires
- Successful launch of Australia's first new draw lottery game in 20 years – Set for Life
- Launch of Australia's official lottery umbrella brand – 'the Lott'
- Exceptional 32.2% growth in digital sales, with this channel representing 13.5% of lotteries sales (FY15: 11.1%)<sup>1</sup>
- New 'the Lott' app downloaded on 1.3 million devices
- Launch of new retail digital point-of-sale system
- \$1.19 billion paid to state and territory governments in lotteries taxes (FY15 \$1.10 billion)

## LOTTERIES PERFORMANCE

Our lotteries operation delivered another excellent set of results, all the more impressive given we were cycling over a strong prior year. Revenue was up an impressive 8.2% to \$2.14 billion across our portfolio of games, but notably getting a major boost from the very strong jackpot run in both our Oz Lotto and Powerball games. All up, a total of 45 jackpots at or above the \$15 million mark were achieved compared to the 34 in the prior year, with a significant lift in the average value of the jackpot pool to \$28.8 million (FY15: \$25.3 million). An impressive 10.2% lift in EBITDA was achieved, reaching a record \$345.5 million with a 16.2% margin (up from 15.9% in FY15). This operating leverage flowing through to EBIT which lifted 11.3% to \$320.0 million with a 15.0% margin (up from 14.5% in FY15) as shown in Figure 3.

In combination, the sales performance of Powerball and Oz Lotto was up 13.0% off the back of the exceptional jackpot run. Unsurprisingly, and as a direct consequence, our largest game by sales, Saturday Lotto, had a softer sales outcome—down 6.1%. This dynamic demonstrates the value and importance of our carefully balanced portfolio of lottery games. We saw the reverse outcome in FY15, a period when Oz Lotto and Powerball delivered softer jackpot outcomes and our Saturday game outperformed—the balanced suite of games counters the volatility that can arise from jackpot games.



## SUCCESSFUL BRAND LAUNCHES



LOTTERIES FINANCIAL PERFORMANCE	FY16	FY15	CHANGE	
	\$M	\$M		%
Revenue	2,139.5	1,976.7	▲	8.2%
EBITDA	345.5	313.6	▲	10.2%
EBIT	320.0	287.5	▲	11.3%

Set for Life, launched on 3 August 2015, has exceeded our internal targets in its first year of operation. As hoped, the game has captured the attention of a younger demographic, especially the 18-45 year-olds, paying out for nine winners to-date across the country. This game is now our fifth largest game by sales, and perhaps most impressively is accomplishing 22.9% of its sales through our digital channel—outperforming all of our other lotteries games in this respect. Lucky Lotteries—which was repositioned as a multi-jurisdictional game in March 2015—has continued to perform well in FY16, with 13.9% of its sales now coming from outside its original home jurisdiction of New South Wales, and 17.5% of its sales via our digital channel.

Sales growth was further bolstered by the solid performance from our portfolio of Instant Scratch-Its games, their sales being up 6.3% on FY15.

Our continued focus on our digital sales channel saw us deliver our best ever result, with a very strong 32.2% lift in digital sales, which now represents 13.5%<sup>1</sup> of total lottery sales. This outstanding result was driven from initiatives that included:

- behavioural segmentation of our extensive database;
- trigger based in-app messaging campaigns;
- dynamic deep-linking to our app;
- integration with Facebook and a step-up in our Facebook campaigns;
- improvements to our digital purchase funnel; and
- leveraging the capabilities of our market-leading CRM system.

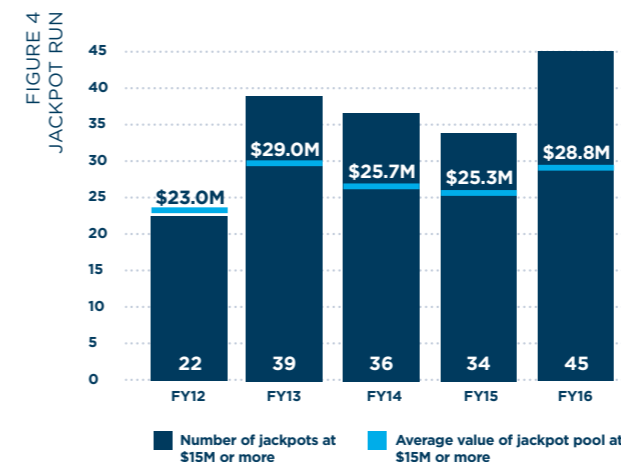
The key metrics in FY16 which demonstrate the traction our lottery operation is achieving online were:

- 1.3 million 'the Lott' app downloads (FY15: 0.7 million);
- 2.2 million registered online customers (FY15: 1.7 million);
- 18.4 million emails sent out to customers;
- Facebook marketing campaigns that reached an audience of 7.6 million Australians, and 10% of app downloads generated from Facebook mobile campaigns;
- 1.6 million mobile messages sent to customers generating \$15.0 million in sales;
- 1.6 million customers reached through the new #winningfeeling campaign;
- an average of 3.0 million customers accessing the Lott website on a monthly basis to check winning numbers and draw results;
- maintained the top Google ranking for lottery keyword searches—95% of the time throughout FY16.

Our retail network—which is, and will remain, our largest source of sales—achieved 5.4% sales growth in the year. We launched a number of retail specific initiatives in the year including a very successful retail only, combined promotion with News Corp for our Set for Life game designed to drive customers to their nearest lottery agent. The success of this campaign will see us initiate further promotions of this nature. The launch and installation of our new digital point-of-sale system (DigiPOS) into 153 venues is another innovation designed to lift sales for our retail network.

As mentioned above, we achieved a lift in our EBITDA and EBIT margins at 16.2% (up from 15.9% in FY15) and 15.0% (up from 14.5% in FY15) respectively (as shown in Figure 3). Our margin growth although impressive, was suppressed in the year by a number of one-off costs including:

- launch costs for Set for Life and Lucky Lotteries;
- re-introduction of Instant Scratch-Its to Victoria; and
- 'the Lott' launch costs.



1. Consistent with prior years this excludes South Australia – if South Australia is included, digital sales grew 33.0% and represented 12.7% vs 10.4% in FY15.

TOTAL  
TURNOVER  
GREW **4.1%**  
IN FY16

W  
A  
G  
E  
R  
I  
N  
G  
**UBET**

162 new UBET branded retail stores rolled out, generating 8.4% turnover growth



Fixed-price sales on racing and sports grew by

**24.1%**

DIGITAL SALES GREW **22.5%**

DIGITAL SALES NOW **30.2%** OF WAGERING TOTAL SALES



AWARDED

**20 year**

EXCLUSIVE RETAIL LICENCES  
IN THE NORTHERN TERRITORY

# Wagering Review

## FY16 WAGERING HIGHLIGHTS

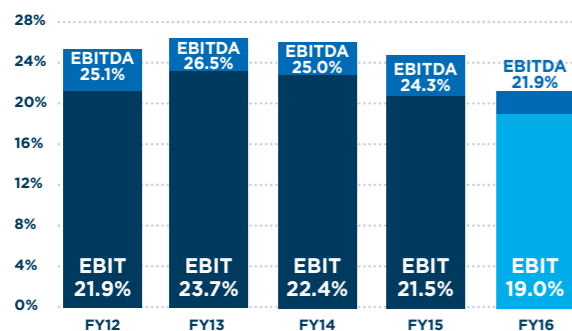
- Turnover growth of 4.1% compared to a decline of 0.9% in FY15
- Exceptional growth in digital sales lifting 22.5%, with this channel now representing 30.2% of wagering sales (FY15: 25.7%)
- 162 new UBET branded retail stores, which generated 8.4% turnover growth
- 9% spontaneous brand recognition
- 25,000 new digital customers acquired
- Awarded a new exclusive 20-year tote licence and fixed-price betting licence for retail operations in the Northern Territory
- 24.1% increase in fixed-price sales to \$1.97 billion
- \$222.9 million paid to state and territory governments and racing industry (FY15: \$224.3 million)

## WAGERING PERFORMANCE

Fourteen months into the launch of UBET, our wagering operation is showing encouraging signs in a crowded and competitive market. With our renewal actions well in train, we remain strongly positioned in the Australian market:

- the second largest Australian wagering operation by revenue
- the leading blended win-rate in the segment
- the third most profitable wagering operation in Australia
- maintaining one of the highest EBITDA margins in the segment

FIGURE 5  
EBITDA/EBIT  
MARGIN



Pleasingly we were able to improve our turnover position with our wagering operation reporting turnover growth for the first time in three years, with a 4.1% lift compared to a 0.9% decline in FY15 and a 0.3% decline in FY14 (see Figure 7).

Our turnover position was greatly assisted by the very strong digital outcomes achieved in the year. The outstanding 22.5% increase in our digital sales, saw a record 30.2% of our wagering turnover (FY15: 25.7%) generated from our digital channels in FY16. This growth is ahead of our immediate peer set in Australia and supports the focus placed on the UBET digital platform. This outstanding result was driven from initiatives that included:

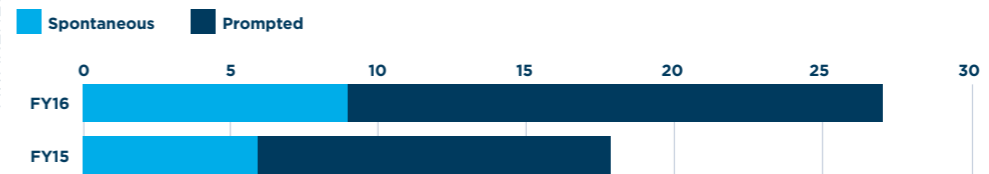
- the introduction of A/B testing<sup>1</sup>;
- commencing our first affiliate partnership;
- promoting a 'sign up' bonus in eligible jurisdictions;
- leveraging real time in app messaging;
- launching a new affiliates marketing platform;
- introducing event-based automation for mobile push and SMS campaigns;
- developing a 'best offer' model across sport and racing enabling delivery of personalised content and offers to customers via email and mobile channels; and
- leveraging the capabilities of our market-leading CRM system.

The key metrics in FY16 which demonstrate the traction our wagering operation is starting to achieve online are:

- 163,000 UBET app downloads (FY15: 41,000);
- \$2.6 million given back to customers in loyalty rewards (FY15: \$0.2 million);
- 2.4 million emails sent out to customers (FY15: 1.9 million);
- \$3.6 million offered to customers through event driven dynamic bet offers (FY15: nil);
- Circa 700,000 mobile messages sent to customers (FY15: 200,000).

<sup>1</sup> Sometimes called split testing, this involves comparing two versions of a web page or app to see which one performs better.

FIGURE 6  
UBET BRAND  
AWARENESS



Our UBET brand position continues to build in the Australian market with our spontaneous brand awareness increasing to 9% up from 6% in FY15. A similar profile was achieved in terms of our prompted brand awareness with awareness lifting from 22% in FY15 to reach 27% in FY16.

Our turnover performance was achieved despite continuing retail softness in some of our geographies that continued to be impacted by regionally specific issues. Most significantly, regional Queensland continued to be challenged by the commodities downturn and drought. In combination, these factors continued to 'bite' with turnover in this region down 5.8% on last year. South East Queensland lifted retail sales 1.7% on the prior period. Overall, our retail network showed a 1.5% decline in sales (compared to a decline of 2.4% in FY15). Running against this trend, the 162 revitalised UBET retail outlets produced 8.4% turnover growth compared to outlets with older branding in their immediate geographical vicinity. Phone-based sales, as expected, continued to decline (down 7.7%), however the increase in digital sales more than offset this decline, outpacing the decline in phone sales by a factor of ten.

The continued rollout of rebranded UBET retail stores into FY17 (a target of 270 in the year), installation of new generation cash-handling self-service terminals, and the associated expansion of our 'UBET Live' in-venue in-play betting modules, make us confident that we can bring our retail network into growth.

Fixed-price sales on racing and sports continued to display an impressive growth profile, lifting 24.1% in aggregate, and now exceed total sales generated from the traditional tote products. Racing continues to dominate the fixed-price book, comprising 83.6% of the book (FY15: 82.6%), with sports making up the remainder at 16.4% (FY15: 17.4%). Following the introduction of our more compelling and expansive sports offering under UBET, we have had strong growth in the American-based sports of basketball, American football and baseball. These growth sports now represent 24.4% of our total sports book, up from 19.3% in FY15.

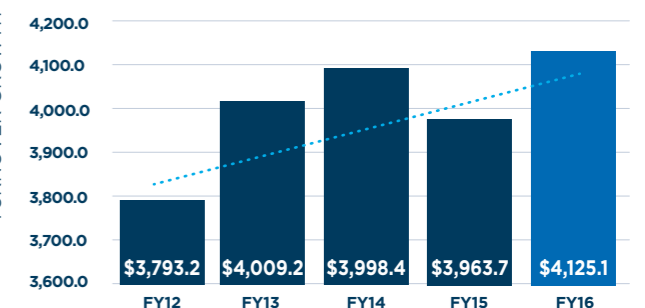
The year saw the business achieve an overall lower blended win-rate of 14.8% (FY15: 16.0%) being the reality of operating in a very competitive market and this blended rate including the cost of rewards and bonuses provided to customers. The win-rate also reflects the migration from higher margin parimutuel offers to fixed-price—fixed-price sales on racing and sports increased 24.1% while parimutuel betting declined 11.7%. We expect the decline in win-rate to stabilise, noting that UBET continues to sit at the top of the range compared to our Australian competitor cohort, which ranged from 3-15%. The resultant impact of the win-rate position was a 3.6% reduction in revenue to \$609.9 million (FY15: \$632.9 million).

Our FY16 EBITDA margin of 21.9% fell short of our targeted EBITDA margin of 23.5% for the year. This reflected the significant lift in marketing spend; the dynamic bet offers to customers in the second half of FY16; and the blended win-rate outcome. The reality is that UBET needs to remain competitive in terms of its fixed-book prices on offer relative to the market, and to build customer loyalty through its loyalty scheme and dynamic bet offers. As a result, we expect EBITDA margins to be reflective of the actuality of our operating environment for the foreseeable future.

Finally, the competitive process in the Northern Territory for the new Totalisator Licence and the extension of the fixed-price licence was concluded during FY16 with Tatts awarded 20-year exclusive retail licences.

WAGERING FINANCIAL PERFORMANCE	FY16 \$M	FY15 \$M	CHANGE %
Turnover	4,125.1	3,963.7	4.1%
Net win-rate	14.8%	16.0%	1.2%
Revenue	609.9	632.9	3.6%
EBITDA	133.3	153.5	13.2%
EBIT	115.7	135.9	14.8%

FIGURE 7  
WAGERING  
TURNOVER GROWTH



# Gaming Review

FOR THE THIRD  
CONSECUTIVE YEAR,  
MAXGAMING HAS  
LIFTED REVENUE

## FY16 GAMING HIGHLIGHTS

### MAXGAMING HIGHLIGHTS

- Revenue growth of 1.3%
- EBIT growth of 2.1%
- Entry into a 15-year contract to monitor 97,000+ gaming machines in New South Wales
- Retention of +80% share of gaming machine monitoring in Queensland
- New South Wales state-wide links game, Megabucks, showing strong revenue growth
- Ticket-in-ticket-out solution installed on 6,590 machines in Queensland driving strong revenue outcomes

### BYTECRAFT HIGHLIGHTS

- Business restructure undertaken in FY15 has transformed performance
- EBITDA growth of 23.0%
- EBIT growth of 77.1%

The sale of our UK-based slots operation (Talarus) completes the transformation of our gaming division to a pure B2B business, predominantly focused on providing monitoring and other services to gaming operators. The business now has two separate but related businesses discussed below.

### MAXGAMING PERFORMANCE

Maxgaming is the Group's Australian gaming venue services unit. Founded on the provision of government-mandated electronic monitoring systems to gaming venues in New South Wales, Queensland and the Northern Territory, Maxgaming has a unique position in its markets to leverage this network, and certain infrastructure, to provide additional value-add services to its contracted venues.

Maxgaming was awarded the exclusive right to monitor all hotel- and club-based gaming machines in New South Wales until 2032, together with a one-year extension to our current monitoring arrangements until 30 November 2017. In addition to the revenue generated from exclusive monitoring in New South Wales, Maxgaming is able to provide services such as online authorisations for machine movements, testing, loyalty and membership, venue reporting, and other workflow management products.

For the third consecutive year, Maxgaming has lifted revenue (following three years of decline) growing revenue in FY16 by 1.3% to \$118.4 million. This performance benefited from an annual increase in our monitoring fees along with value-add product sales in the year including our Ticket-in-Ticket-out (TITO)<sup>1</sup> solution in Queensland, which has been particularly well-received. TITO is now installed on 6,590 (FY15: 5,365) machines in Queensland and revenue from this product has lifted by 60.1% over the prior year.

In addition, our new \$250,000 base-level state-wide linked jackpot in New South Wales has performed well. The higher jackpot offering has generated renewed interest from venues and customers alike in this long-established product. An Australian record for a state-wide linked jackpot was triggered in April 2016 at \$658,304. The Megabucks jackpot is now up and running in more than 120 clubs with more than 330 gaming machines linked. Revenue on this product grew 55.9% in FY16.

Increased technology costs in the business slightly lowered our EBITDA margin however it remains at a very healthy 54.7% (FY15: 55.3%). With the current monitoring fee structure being retained under the new New South Wales monitoring arrangements, we are confident we can maintain these excellent margins in our business. EBIT lifted 2.1% with the run-down of existing monitoring systems in New South Wales which are now fully depreciated. Depreciation and amortisation is expected to increase in FY17 as we rollout a new monitoring system in New South Wales.

### BYTECRAFT PERFORMANCE

Bytecraft is the provider of a nationwide fully managed time-critical, end-to-end technical support service to a portfolio of ASX top-50 companies, and other everyday brands. Bytecraft has undergone a business restructure over prior years to return to profitability. This has seen the business exit (or not renew) a number of unprofitable and/or non-core contracts, and a clear focus on winning new contracts in our core areas of gaming and network infrastructure.

The 11.3% decline in revenue reflects this strategy, as does the reduction in externally sourced revenue (which in FY16 represented 64.6% of total revenue compared to 69.8% in FY15). Bytecraft continued to undertake internally sourced work on a no-margin basis, which ultimately had a negative impact on the division's stand-alone profitability.

EBITDA lifted 23.0% to \$3.4 million (FY15: \$2.8 million). The strategy of exiting unprofitable contracts, and the resultant downsizing of our team and cost-base in some areas, resulted in this lift in EBITDA off a lower revenue base. EBIT improved 77.1% to a \$1.0 million (FY15: \$0.6 million).

GAMING  
FINANCIAL  
PERFORMANCE

	FY16 \$M	FY15 \$M	CHANGE %
<b>Revenue</b>			
- Maxgaming	118.4	116.8	▲ 1.3%
- Bytecraft	92.3	104.0	▼ 11.3%
<b>EBITDA</b>			
- Maxgaming	64.7	64.6	▲ 0.1%
- Bytecraft	3.4	2.8	▲ 23.0%
<b>EBIT</b>			
- Maxgaming	52.4	51.3	▲ 2.1%
- Bytecraft	1.0	0.6	▲ 77.1%

1. TITO is a solution for inserting, printing and redeeming tickets from gaming machine to gaming machine.

# Managing Director's Report (CONTINUED)

## DISCONTINUED OPERATIONS

The \$29.6 million loss from discontinued operations in the year comprises:

- an interest charge in the amount of \$26.6 million arising from the successful appeal by the State of Victoria to the High Court of Australia in Tatts' compensation action arising from our now discontinued pokies business in Victoria;
- legal fees relating to the above proceedings in the amount of \$4.1 million;
- the trading result for Talarius (\$3.5 million) being now reported as a discontinued operation;
- a loss arising on the sale of Talarius in the amount of \$12.8 million; and
- a tax benefit of \$10.4 million from discontinued operations.



INNOVATION REMAINS AT THE FOREFRONT IN FY17 AS OUR TEAMS LOOK FOR NEW AND CREATIVE WAYS TO ORGANICALLY GROW OUR BUSINESSES

## KEY FY17 ACTIONS

Innovation remains at the forefront in FY17 as our teams look for new and creative ways to organically grow our businesses across all our distribution channels. We also remain committed in our pursuit of transaction opportunities that sensibly add to our business portfolio and profits, or which will unlock value for the benefit of our shareholders. The following is just a sample of what is in store for the year:

### > DIGITAL PLATFORMS

We will continue to invest in our state-of-the-art proprietary digital platforms, with a new lotteries website to be launched in FY17 under our new 'the Lott' branding. This new site will provide a leading online experience with convenient access to our extensive family of lotteries products, and emphasise our place as 'Australia's Official Lotteries'. This will be accompanied by a program of continuous enhancement to our UBET and 'the Lott' apps, with new features, functionality and category leading user experience initiatives being added on a rolling basis.

### > OMNI-CHANNEL LOTTERIES

With the launch of the Lott brand, and as it is progressively rolled out into more retail outlets, we will be working to provide a world-class seamless experience, whether a customer is shopping online, from a desktop, on a mobile device or in a retail outlet. Our focus is providing our products to our customers in a unified, easy, convenient and trusted way, whenever the winning feeling strikes.

### > UBET UPDATES

We have set ourselves a target to have a total of 270 UBET next generation retail spaces in place in the year. Having seen the impressive sales growth of these stores in FY16, we look forward to the results additional outlets will generate in the next 12 months.

### > MAX - OUR NEW GAMING BRAND

As mentioned, the sale of our UK-based slots businesses has positioned our gaming operations as a true B2B service provider for gaming operators. In August 2016, we completed this transition with the launch of our new unified gaming brand, MAX. This brings our gaming businesses together under one strong brand to deliver a complete end-to-end solution for gaming operators. Look out for this brand as we progressively roll it out over FY17.

### > NEW GENERATION UBET TERMINALS

Customers will start to see our new generation self-service terminals in the UBET retail outlets, featuring cash in, and Ticket-in-Ticket-out technology.

### > NEW DIGITAL POINT OF SALE SYSTEM

Our new lotteries DigiPOS system has already allowed us to successfully feature products and promotions, and we will expand the number of these in retail outlets throughout our jurisdictions. This forms an element of our lotteries omni-channel strategy.

### > INSTANT SCRATCH-ITS MERCHANDISING

Initial trials of new merchandising methods to highlight and display our Instant Scratch-Its products have been positive. In FY17 we will install these new displays in retail outlets to enhance Instant Scratch-Its impact in what are busy retail environments.

### > UBET LIVE

We continue to develop and improve our prototype of the unique in-venue in-play betting modules with an eye to a full retail launch.

### > AFFILIATE MARKETING

We will trial affiliate marketing programs in FY17 to further drive digital demand.

### > VIRTUAL SPORT AND RACING

We are looking to launch our first virtual sports and racing products in the Northern Territory in FY17.

### > BIG DATA

We have put in place an enterprise insights team that will work on streamlining data usage across the Group, and develop predictive analysis to assist demand generation teams with their customer engagement activities.

I look forward to providing you with more detail on our progress with these and other exciting initiatives in progress at our Annual General Meeting in October.

**ROBBIE COOKE**  
Managing Director and Chief Executive Officer





# SUSTAINABILITY REPORT

As Australia's largest non-casino gambling group Tatts takes its corporate social responsibilities extremely seriously. As part of these endeavours and as a responsible corporate citizen, sustainability is at the core of what we do. The pillars of our sustainability include:

- **putting stakeholders first;**
- **being environmentally responsible; and**
- **maintaining an effective governance structure.**

Through our sustainability reporting we identify and respond to key sustainability risks and opportunities. In 2016, the Australian Council of Superannuation Investors rated Tatts in the second highest category for its sustainability reporting. We will continue to work towards achieving the 'Industry leading' rating.

## FY16 SUSTAINABILITY SCORECARD

### KEY PERFORMANCE INDICATOR

GENDER EQUALITY	FY16 PERFORMANCE	FY15 PERFORMANCE
<b>Women in key management:</b>		
Key management personnel	2 of 5 employees (40%)	2 of 5 employees (40%)
Other executives/general managers	4 of 6 employees (67%)	3 of 5 employees (60%)
Senior managers	12 of 32 employees (38%)	10 of 26 employees (38%)
Other managers	22 of 94 employees (23%)	17 of 87 employees (20%)
<b>Equal pay:</b>		
Conduct a pay equity audit across the Group	The next audit is due at the end of December 2016	Audit results indicated that there was no discrepancy in pay between women and men in the Group.
<b>Diversity training:</b>		
Conduct mandatory diversity training for all Group team members	Training initiated in FY16 to be completed in FY17	Training, which is conducted biennially, was not due for completion during FY15.

EMPLOYEE HEALTH AND SAFETY	FY16 PERFORMANCE	FY15 PERFORMANCE
<b>Recordable incidents:</b>		
Number of total incidents	57	67
Number of lost time incidents	24	27
Total recordable injury frequency rate	6.59	5.12
Lost time injury frequency rate	1.72	1.72

ENVIRONMENT	FY16 PERFORMANCE	FY15 PERFORMANCE
<b>Carbon emissions:</b>		
Scope 1 emissions	3,960 metric tonnes CO <sub>2</sub> e	2,384 metric tonnes CO <sub>2</sub> e
Scope 2 emissions	16,837 metric tonnes CO <sub>2</sub> e	15,848 metric tonnes CO <sub>2</sub> e
Scope 3 emissions	2,856 metric tonnes CO <sub>2</sub> e	2,660 metric tonnes CO <sub>2</sub> e
Water consumption	14,674 kilolitres	16,947 kilolitres

COMMUNITY AND SOCIAL INVESTMENT	FY16 PERFORMANCE	FY15 PERFORMANCE
<b>Contributions</b>		
Contributions to state and territory governments and industry partners	\$1.41 billion	\$1.32 billion
Charitable giving	\$1.8 million	\$1.8 million
Sponsorships	\$2.1 million	\$1.7 million

# Sustainability Pillars

## PUTTING STAKEHOLDERS FIRST

With operations spanning every Australian state and territory, our stakeholder cohort is very large. We believe that positive relationships with our stakeholders contribute to the positive performance of the Group. Our values direct these relationships, and ensure a consistent and transparent approach to our interactions.

The following external stakeholder groups have specific interests, and there are different risks related to sustaining good relations with these groups (see page 40 for our internal stakeholder group).

## INVESTORS AND SHAREHOLDERS

### COMMUNICATION

Besides formal communication channels—ASX releases, published results, investor presentations, media releases and our annual general meeting—we also conduct face-to-face meetings and participate in conferences where appropriate.

#### Key matters:

- Sustainable growth and returns on investment
- Dividends
- Key management personnel remuneration
- Sustainability
- Corporate governance
- Liquidity and gearing
- Strategy and innovation

Promoting effective communication with shareholders, and encouraging their participation at general meetings helps ensure that all shareholders have access to sufficient information, and maintains an informed market.

## CUSTOMERS

### COMMUNICATION

We interact with our customers through our contact centres, retail outlets, our customer relationship management program, and digital sales channels. We also have an active social media engagement program, and source feedback through our net promoter score and net experience score polling, together with targeted customer surveys.

#### Key matters:

- New ways to interact with us
- Information about new products and services
- Offers and features of relevance
- Information about terms and conditions of use
- Enhancing responsible gambling awareness and education

Material risks principally relate to the competitive environment in which we operate. To address this we invest in the key skills and talents of our team, and in our digital and retail product platforms.

## SUPPLIERS AND BUSINESS PARTNERS

### COMMUNICATION

We interact with suppliers and business partners through meetings, tender processes, and conferences. We indirectly support close to 5,000 small businesses that sell our lotteries and wagering products and employ some 25,000 people across Australia.

#### Key matters:

- Timely payment
- Fair treatment
- Environmental efficiency

Risks to our relationships with this group include systems failures, and reliance on third party products and services (e.g. telecommunications and racing products). We manage these risks, where possible, by implementing systems redundancy and putting other backup measures in place.

## GOVERNMENT AND REGULATORY AGENCIES

### COMMUNICATION

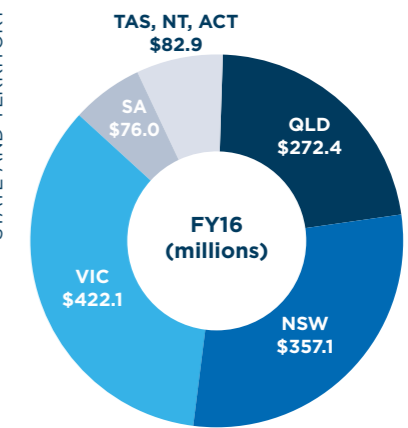
Compliance with our licences—and the legislation, regulations, rules and agreements underlying those licences—is critical to our business sustainability, as is understanding, and being responsive to, the broader economic, social and community issues impacting government policy.

Our internal legal and compliance, and government relations teams participate in regular updates and meetings with government and regulatory agencies, which helps us foster constructive relationships, and participate in government and industry forums.

#### Key matters:

- Constructive relationships
- Negotiation of licence renewals
- Remittance of taxation and duty
- Compliance reporting for licences, legislation and regulations
- Responsible gambling actions and initiatives

FIGURE 8  
TAX CONTRIBUTIONS BY  
STATE AND TERRITORY



In FY16, we contributed a total of \$1.21 billion to the community via wagering and lotteries taxes to state and territory governments, and a further \$115.1 million to the Federal Government in corporate taxes. We are also proud to be an Australian company that pays tax on our entire profits in Australia. The tax contributions by state and territory are shown in Figure 8. In the majority of cases, the wagering and lottery taxes that Tatts pays are used to fund health, education, social services, junior sport and vital community infrastructure.

We also assist the governments in New South Wales, Queensland and the Northern Territory to collect over \$2.13 billion in gaming machine taxes from hotels and clubs through Maxgaming's monitoring systems.

We are pleased to be part of making this important contribution to the lives of everyday Australians.

The Directors' Report on page 51 details the risks around our relationship with government and regulatory agencies, and the licences and other approvals they provide us.



Be amazing



Create positive change



Do it with heart



Own it



Play as a team



Have fun

OUR  
VALUES

## WE ARE THE FIRST GAMING COMPANY IN AUSTRALIA TO CREATE A CHARITABLE GAMING UNIT

### INDUSTRY PARTNERS AND ASSOCIATIONS

#### COMMUNICATION

We use industry briefings, forums and social media to monitor and connect with the industry associations that represent retailers who sell our core lottery and wagering products.

#### Key matters:

- Partnering to drive sales growth
- Product updates and education
- Insight into our innovation pipeline
- Communicating and discussing changes to our retail image

This group, and their stakeholders, currently face the challenge of customers who are increasingly transitioning to digital channels away from traditional retail sales channels. Our investment in new product innovations and refreshed retail offerings, helps to keep these channels relevant for lotteries and wagering customers.

We are proud to be a major contributor to the Australian racing industry with payments of \$200.6 million (excluding GST) during FY16, helping to support more than 7,000 jobs. These payments were in the form of product and program fees, and race information fees, the majority of which related to Queensland, our largest market.

### COMMUNITY ENGAGEMENT

#### COMMUNICATION

Positive relationships with the communities in which we operate allow us to build trust and long-term sustainability of our business.

#### Key matters:

- Responsible advertising and sponsorships
- Problem gambling
- Support for projects that benefit the community

We have been proudly supporting the communities in which we operate since 1881. We have a number of initiatives that directly target community support:

- Tatts Giving
- Our new charitable gaming unit
- The 50-50 raffle, which gives an equal share of takings to a single winner and a nominated charity.

Expanding on our community engagement activities for FY16, we are the first gaming company in Australia to create a charitable gaming unit. This team develops innovative gaming platforms for the charitable and not-for-profit sector, providing immediate funds from its activities, as well as long-term technology solutions. John Corry, a passionate advocate in this sector who co-founded the 50-50 Foundation in Australia, heads the unit. The team has access to internal technology and marketing resources, meaning that Tatts is able to help make a real difference in this space. We hope to expand the program outside of Australia in due course, and to develop 'white label' solutions, purpose-built for charitable fundraising activities, that are powered by Tatts.

'Tatts Giving', our corporate social responsibility (CSR) framework launched in FY15, offers our team opportunities to get involved in a wide range of initiatives and activities with our major charity partners. Among other things, these include workplace giving, volunteering, dollar matching programs and challenge-based fundraising.

### OUR KEY COMMUNITY ENGAGEMENT PARTNERS FOR FY16 WERE:

#### NATIONAL JOCKEY'S TRUST

National Jockey's Trust (NJT) is a public charitable trust dedicated to providing funds and other benefits for the relief of financial difficulties for jockeys, apprentice jockeys and their families, when faced with serious injury, illness and even death. The relationship with NJT is part of UBET's industry support for the racing industry.

#### STARLIGHT CHILDREN'S FOUNDATION

Starlight's programs embrace the principles of positive psychology, where fun is an important factor contributing to overall well-being. Through Starlight, sick kids are encouraged to embrace their uniqueness and creativity. Golden Casket is a long-standing supporter of the Starlight Children's Foundation in Queensland, and is also a Foundation Partner of the brand new Starlight Express Room in the Lady Cilento Children's Hospital, opened in March 2015.

#### CHILDREN'S HOSPITAL FOUNDATION

The Children's Hospital Foundation works wonders for sick kids by funding life-saving medical research, investing in vital new equipment and providing family support and care programs for sick kids.

#### MATER FOUNDATION

The Mater Foundation links community and philanthropic support to Mater Health Services and Mater Research in Queensland. Mater Foundation fundraising has touched the lives of generations of Queenslanders by supporting clinical programs, education and research activities at Mater Hospitals. Golden Casket has supported Mater for more than 90 years, and more recently provided annual donations to fund projects that enhance the lives of Queensland mothers and babies.

### TATTS WORKPLACE GIVING PROGRAM

The Tatts Workplace Giving program provides our 2,300 team members with an opportunity to regularly donate to one of six charities through a payroll deduction scheme. The charities that are beneficiaries are Starlight Children's Foundation, Mates4Mates, the Smith Family, Australian Red Cross, World Wide Fund for Nature and Breast Cancer Network Australia.

#### MATES4MATES

Mates4Mates is an independent charity supporting current and ex-serving Australian Defence Force members who have suffered physical or psychological wounds, injuries or illnesses as a result of their service, either in Australia or overseas.

#### THE SMITH FAMILY

Tatts is a proud supporter of iTrack, a mentoring program that provides students from years 9 to 11 with guidance and support as they transition from school into further education or work. Students are matched with a supportive adult, in the form of a volunteer mentor, whose role is to provide advice and guidance about work, study and career opportunities. These mentors are drawn from The Smith Family's corporate and community partners, including Tatts.

There is more information on our CSR program and the history of our community support on the Group website ([www.tattsgroup.com/community](http://www.tattsgroup.com/community)).

#### SPONSORSHIPS

During FY16, lotteries provided more than \$0.4 million to support a number of events in the Northern Territory, and also toward the Gold Lotto Brisbane City Hall Light Spectacular and Sydney Harbour 2016 Australia Day celebrations.

UBET and our wagering brands provided more than \$1.7 million in sponsorship to events around Australia during FY16. Notably, the V8 Supercar Championship, Port Adelaide Football Club, Racing Queensland, and TasRacing.

WE ARE PROUD TO BE A MAJOR CONTRIBUTOR TO THE AUSTRALIAN RACING INDUSTRY WITH PAYMENTS OF \$200.6 MILLION (EXCLUDING GST) DURING FY16

# > Our Commitment to Responsible Gambling

We are committed to responsible gambling and to providing products in a safe, secure and friendly environment.

While the vast majority of people who gamble do so for enjoyment and entertainment, we recognise that there are some people for whom this form of entertainment has become a problem, causing them personal and financial distress. We understand the importance of providing responsible gambling programs and initiatives to assist those people who may experience difficulties with their gambling behaviour, as well as to keep all our lotteries and wagering customers well informed. We are committed to engaging with internal and external stakeholders to ensure our responsible gambling program meets industry expectations.

## CODES OF CONDUCT AND RESPONSIBLE GAMBLING PROGRAMS

We have developed individual responsible gambling programs and, in certain states, we have also developed responsible gambling codes of conduct. These programs contain a variety of measures that respond to community expectations and needs in regard to player protection and harm minimisation according to local legislative requirements. These measures are reviewed regularly and include:

- responsible gambling information
- pre-commitment strategies
- game and product information
- advertising restrictions
- customer complaint mechanisms
- self-exclusion programs

In 2016, our wagering programs were updated to coincide with changes to various state-based codes of conduct, and to create consistent UBET branding in our responsible gambling signage and brochures in all jurisdictions.

We conduct a series of surveys and audits annually for lotteries and wagering in retail outlets to ensure we comply with the requirements of our responsible gambling programs and state-based legislation.

## CUSTOMER MEASURES

Our digital customers have access to a voluntary self-exclusion feature through their online account that allows them to stay in control of their gambling. Customers are able to self-exclude for the prescribed time in their jurisdiction. In addition, they can choose to voluntarily set a maximum spend for lotteries, or to enable a wagering pre-commitment limit. For wagering the self-exclusion facility extends to all of our retail venues, and for lotteries, to retail venues in South Australia.

## TEAM EDUCATION

We ensure that our team members are informed and equipped with the tools to deliver and understand our responsible gambling program and their compliance requirements. Information about our program is delivered to new employees and through annual refresher training for those in customer-facing roles.

Our retail network also receives regular training, information and notices to ensure they are up-to-date with our responsible gambling program and compliance obligations. This is primarily conveyed through training programs, as well as through regular newsletters, bulletins and online updates. This ensures that our retailers and their staff comply with all of the requirements related to our responsible gambling codes of conduct, and to the relevant Australian state and territory responsible gambling codes and regulations.

## INDUSTRY ENGAGEMENT

We engage and partner with a number of governments and community organisations to take a leading role in generating responsible gambling awareness in the jurisdictions in which we operate.

We are represented on the responsible gambling advisory bodies for various state and territory governments, and collaborate with relevant stakeholders, including representatives of the community, counselling and welfare agencies, gambling industry associations, local government, state and territory government policy-makers and regulators.



WE ARE COMMITTED TO RESPONSIBLE GAMBLING AND TO PROVIDING PRODUCTS IN A SAFE, SECURE AND FRIENDLY ENVIRONMENT

# Our People

We aim to attract, engage and retain the very best talent by focusing on a range of people functions that support all team members. By striving to become an employer of choice, we help our team achieve their best, which in turn allows Tatts to achieve its goals.

## ENGAGEMENT

Our annual 'State of the Nation' survey measures team and individual commitment to the Group and our goals. We use this survey to drive both team initiatives and company-wide interventions that will create positive change in areas of concern for our employees. Our annual town hall presentation is streamed live to all offices, allowing team members the opportunity to hear from our Managing Director and CEO, senior executives and industry specialists on our previous year's performance and the business strategies for the coming year. We provide all employees with an annual 'Play Book' that sets out the targets and deliverables for our operating and shared service units.

## DIVERSITY

At Tatts, we value the unique contributions of all our team members, and we respect and celebrate the differences that make us stronger together. Our current focus is on gender balance, however we recognise that there is more to diversity than gender. To create an inclusive environment that allows team members to perform at their best, we initiated programs across the Group, such as unconscious bias training for all permanent team members. Our diversity policy outlines our objectives: ([www.tattsgroup.com/investors/corporate-profile/key-policies](http://www.tattsgroup.com/investors/corporate-profile/key-policies)).

In FY16, we remain focused on these key objectives:

- Achieve gender balance at the managerial levels of the organisation—we are aiming to increase the representation of females in our managerial roles by 5%—refer to table on page 41 for our progress in FY16.
- Foster a culture that encourages respect and acceptance of individual differences—during FY16 we conducted training for our entire team on diversity in the workplace, focused on identifying and avoiding unconscious bias (or negative and positive stereotypes) and the potential impact it can have on diversity outcomes in our workplaces.
- Review our processes and systems to ensure compliance and to identify any significant trends or biases. We conduct a gender pay equity audit every two years. This is used to highlight any gender-based differences in the remuneration of our team. Pleasingly, our last report found no difference in the remuneration of male and female team members.

As a relevant employer under the *Workplace Gender Equality Act 2012*, we participate in annual reporting against the standardised gender equality indicators. This report is available on our website and includes a workplace profile that uses standardised occupational categories.

## EMPLOYEE TRAINING AND DEVELOPMENT

We invested \$1.6 million in the training and development of our team in FY16, compared with \$1.2 million in FY15.

One element of our training and development program is the Tatts' Future Leaders program, which commenced in FY15. We conducted this bespoke program in partnership with Mount Eliza Executive Education, designed to prepare employees for leadership positions as they arise. This forms an important part of our succession planning.

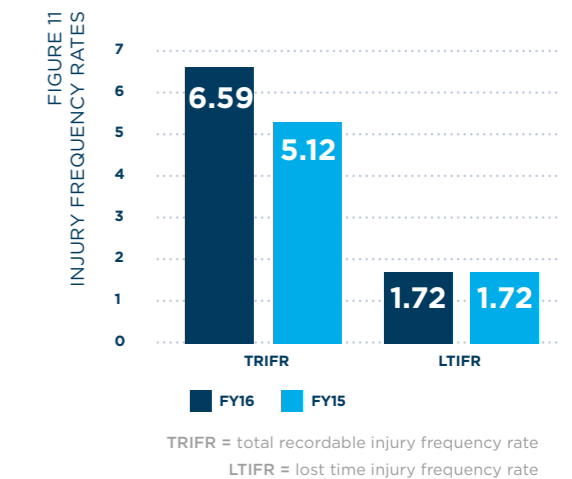
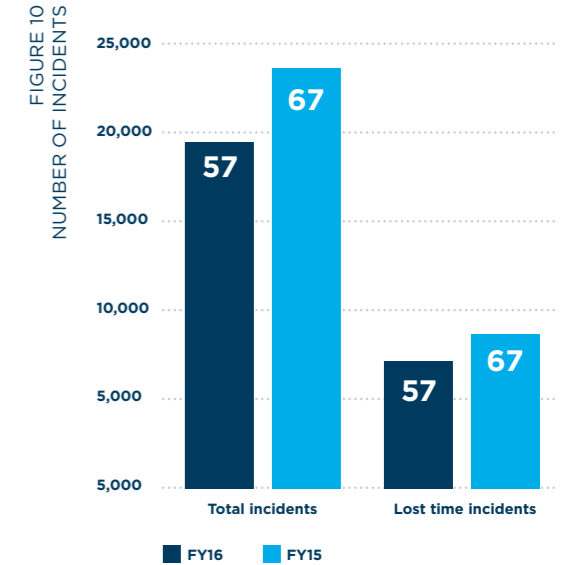
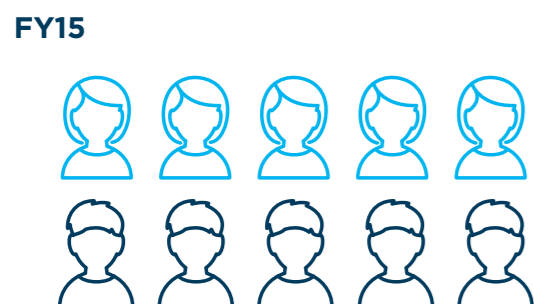
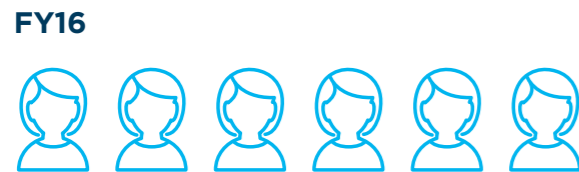
## EMPLOYEE SAFETY

The health and safety of our people is a key focus for the Group, and we continue to look for opportunities to reduce the number of injuries that occur in our workplaces. Figures 10 and 11 show our incidents and injury frequency rates for the past two reporting periods.

During FY16, we made several improvements to our employee safety program:

- a new Health and Safety Management System with OHSAS 18001 Certification
- increased attention to, and training around, hazard management within high risk work groups
- subscription service to assist with due diligence and legal compliance
- we implemented a new Group-level safety policy

FIGURE 9  
GENDER MIX IN KEY MANAGEMENT PERSONNEL AND OTHER EXECUTIVES/GENERAL MANAGERS



WOMEN IN MANAGEMENT POSITIONS

	AT 30 JUNE 2016	AT 30 JUNE 2015
Board	1 of 6 Directors (17%)	1 of 6 Directors (17%)
Chief Executive Officer	0 of 1 employee (0%)	0 of 1 employee (0%)
Key Management Personnel*	2 of 5 employees (40%)	2 of 5 employees (40%)
Other executives / general managers*	4 of 6 employees (67%)	3 of 5 employees (60%)
Senior managers*	12 of 32 employees (38%)	10 of 26 employees (38%)
Other managers*	22 of 94 employees (23%)	17 of 87 employees (20%)

\* These management positions are defined in the Workplace Gender Equality Agency's 'Guide to reporting under the *Workplace Gender Equality Act 2012*'. Note that 'Key Management Personnel' under these reporting guidelines does not include the Managing Director and CEO, as it does elsewhere in this report.

# > Our Environment

The operations of the Group are not subject to any significant environmental regulation under any law of the Commonwealth of Australia or any of its states or territories.

The Group comprises a portfolio of neighbourhood-based businesses, reaching our customers through advanced wide-area network technology. As such, our environmental footprint is relatively low and our carbon dioxide equivalent (CO<sub>2</sub>e) emissions profile is well below the reporting levels identified in the National Greenhouse and Energy Reporting Act 2007. Despite this, we continue to report our environmental impacts to the Carbon Disclosure Project, run worldwide on behalf of investors and environmental management practices.

The Board's Audit, Risk and Compliance Committee periodically receives an environmental management report. An internal review of our major operations indicated the following environmental outcomes for the 12-month period to 30 April 2016, compared to the prior comparative reporting period (pcp):

- Scope 1 CO<sub>2</sub>e emissions – 3,960 metric tonnes (pcp: 2,384 metric tonnes), from a fleet of 438 vehicles across Australia, a reduction of 89 vehicles over the prior comparative period. The calculation for determining Scope 1 emissions from motor vehicles was amended in the financial year to a direct measurement basis per vehicle, rather than the extrapolated calculation basis used in prior periods. This gives the Group a more reliable basis to calculate Scope 1 emissions and has led to the increase in reported emissions for FY16, while the actual number of motor vehicles decreased by 17%.
- Scope 2 CO<sub>2</sub>e emissions – 16,837 metric tonnes (pcp: 15,848 metric tonnes), mostly from Group office and warehouse properties that used 12.57 million (pcp: 12.63 million) kilowatts of electricity, translating to 13,700 metric tonnes of CO<sub>2</sub>e emissions. Emissions from business air travel were restated during the year, and are now reported under Scope 3 emissions.
- Scope 3 CO<sub>2</sub>e emissions – 2,856 metric tonnes (pcp: 2,660 metric tonnes) from 8.4 million kilometres of business air travel (pcp: 7.8 million kilometres).

## ENERGY

Energy usage at our properties is primarily comprised of electricity consumption, which remained constant at the Group's principal office and warehouse properties at 12.57 million kWh (pcp: 12.63 million kWh) and decreased at our smaller regional properties to 4.99 million kWh (pcp: 5.27 million kWh). We continue to develop and adapt our services in response to changes in customer demand, and to take advantage of new and more efficient systems.

## WATER

The majority of our properties are in urban areas and use potable water provided by local councils. Water consumption at the Group's principal office and warehouse properties decreased during the year by 13.4% to 14,674 kilolitres (pcp: 16,947 kilolitres).

## DIESEL

The Group uses diesel-powered generators to provide emergency electricity backup. Consumption of diesel decreased by 10.0% in the year to 106.0 kilolitres (pcp: 117.8 kilolitres).

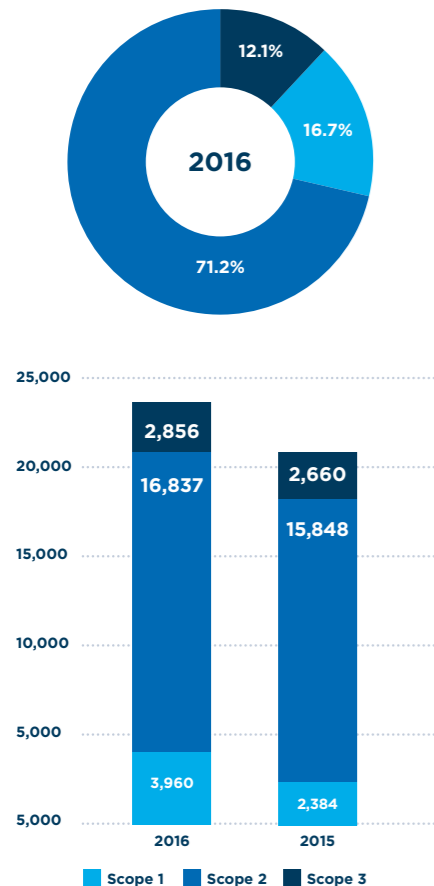
## WASTE MANAGEMENT

Recycling initiatives are in place at all our office locations, including paper and mixed recycling. We also ensure that any obsolete e-waste (electronics, computers, printers, etc.) is recycled or disposed of in an environmentally safe way.

## CORPORATE GOVERNANCE

Information relating to corporate governance is covered in detail in the Investors section of our website and economic sustainability is covered in more detail in the Directors' Report on pages 51 to 77.

FIGURE 12 SCOPE 1, 2 AND 3 CO<sub>2</sub>E EMISSIONS



VEHICLE FLEET



**3,960**  
metric tonnes CO<sub>2</sub>e  
from 438 vehicles  
(pcp: 2,384 t CO<sub>2</sub>e  
from 527 vehicles)

BUILDING ELECTRICITY



**13,700**  
metric tonnes CO<sub>2</sub>e  
from 12.57 million kilowatt/hrs  
(pcp: 13,515 t CO<sub>2</sub>e  
from 12.63 million kwh)

AIR TRAVEL



**2,856**  
metric tonnes CO<sub>2</sub>e  
from 8.4million km air travel  
(pcp: 2,660 t CO<sub>2</sub>e  
from 7.8 million km)

# DIRECTORS BOARD OF

## HARRY BOON

Chairman  
Non-executive Director

Member of the Board since 31 May 2005

Harry was Chief Executive Officer and Managing Director of ASX listed company, Ansell Limited, until he retired in 2004, a position which capped a career spanning some 28 years with the Ansell Group. Harry has lived and worked in senior positions in Australia, Europe, the US and Canada, and has broad-based experience in global marketing and sales, manufacturing, and product development. He is multi-lingual and has a strong track record in delivering business results through setting ambitious goals, building the appropriate organisation and relationships, and relentlessly pursuing objectives.

Harry holds a Bachelor of Laws (Honours) and a Bachelor of Commerce from the University of Melbourne.

**Other current directorships:** Harry is Chairman of Asaleo Care Limited (Director since May 2014) an ASX listed company.

**Special responsibilities:** Member Remuneration and Human Resources Committee; Chairman Governance and Nomination Committee

**Former listed public company directorships in the last 3 years:** Toll Holdings Limited (November 2006 to May 2015)



## ROBBIE COOKE

Managing Director and Chief Executive Officer

Member of the Board since 14 January 2013

Robbie Cooke commenced as Managing Director and Chief Executive Officer of Tatts on 14 January 2013.

Robbie's management career has traversed the wagering and gaming industries, oil and gas, and online travel retailing sectors.

Robbie joined the Wotif Group as Chief Operating Officer in 2006 and was promoted to Group CEO and Managing Director in 2007. Prior to that, Robbie was Head of Strategy and General Counsel at UNiTAB (now part of Tatts) from 1999 to 2005. He has also held commercial, corporate finance and legal roles at Santos, HSBC James Capel and MIM Holdings Limited.

Robbie holds a Bachelor of Laws (Honours) and Bachelor of Commerce from the University of Queensland together with a Diploma in Company Secretarial Practice.

Robbie is a member of the Australian Institute of Company Directors and Governance Institute of Australia.

**Other current directorships:** Pro-Active Games Pty Ltd; 50-50 Foundation Limited.



## LYNDSEY CATTERMOLE AM

Non-executive Director

Member of the Board since 31 May 2005

Lyndsey was the founder and Managing Director of Aspect Computing Pty Limited 1974-2003, and a Director of Kaz Group Limited 2001-2004. Lyndsey has also held many board and other membership positions on a range of government, advisory, association and not-for-profit committees, including the Committee for Melbourne, the Australian Information Industries Association and the Victorian Premier's Round Table, and as Chairman of the Women's and Children's Health Care Network.

Lyndsey holds a Bachelor of Science from the University of Melbourne and is a Fellow of the Australian Computer Society.

**Other current directorships:** Non-executive Director of ASX-listed Treasury Wine Estates Limited (Director since May 2011); and ASX-listed PACT Group Holdings Limited (Director since November 2013); Directorships with JadeLynx Pty Limited, Madowla Park Holdings Pty Ltd, MPH Agriculture Pty Ltd, Catinvest Pty Ltd and Florey Neurosciences Board.

**Special responsibilities:** Member Governance and Nomination Committee; Member Remuneration and Human Resources Committee



**BRIAN JAMIESON**

Non-executive Director

Member of the Board since 31 May 2005

Brian Jamieson was Chief Executive of Minter Ellison, Melbourne 2002-2005. Prior to joining Minter Ellison, he was Managing Partner of KPMG Melbourne and Southern Regions 1993-1998, Chief Executive Officer at KPMG Australia 1998-2000, and Chairman of KPMG Melbourne 2001-2002. He was also a KPMG Board member in Australia, and a member of the USA Management Committee.

Brian has more than 30 years' experience providing advice and audit services to a diverse range of public and large private companies.

Brian is a Fellow of the Institute of Chartered Accountants in Australia and a Fellow of the Institute of Company Directors in Australia.

**Other current directorships:** Chairman of Mesoblast Limited (Director since November 2007) and Sigma Pharmaceuticals Limited (Director since December 2005), both ASX listed companies. Director and Treasurer of the Bionics Institute.

**Special responsibilities:** Chairman Audit, Risk and Compliance Committee; Member Remuneration and Human Resources Committee

**Former listed public company directorships in the last 3 years:** OZ Minerals Limited (August 2004 - May 2015); Tigers Realm Coal Limited (February 2011 - May 2014)

**JULIEN PLAYOUST**

Non-executive Director

Member of the Board since 21 November 2005

Julien has more than 25 years' experience as CEO, senior executive and non-executive director in public and private companies, including ASX-100, SMEs, and not-for-profit organisations.

He has worked across a range of industries including property, professional and financial services, media, healthcare, agriculture, retail, consumer discretionary, energy, innovation, technology and the arts.

He is Managing Director and CEO of AEH Group, which includes 40+ SPVs in diversified property and investments and his professional career includes management consulting at AMP, NAB and Accenture.

Julien holds a Masters of Business Administration from AGSM, Bachelor of Architecture, First Class Honours and Bachelor of Science from The University of Sydney, and a Company Director Course Diploma from Australian Institute of Company Directors. In 2015, he was invited to join the UNSW Business School Alumni Leaders Group.

**Other current directorships:** Non-executive Director of private equity company MGB Equity Growth Pty Limited; Trustee and Vice Chairman Art Gallery NSW Foundation; Chairman of Finance Committee, and on the Advisory Boards of UNSW Arts & Design, and The Nature Conservancy.

**Special responsibilities:** Chairman Remuneration and Human Resources Committee; Member Audit, Risk and Compliance Committee

**Former listed public company directorships in the last 3 years:** Australian Renewable Fuels Limited (April 2009 - October 2014)

**KEVIN SEYMOUR AM**

Non-executive Director

Member of the Board since 12 October 2006, previously having been appointed to UNiTAB's Board in September 2000

Kevin is Executive Chairman of Seymour Group, a private property development and investment company with interests in the energy sector.

Kevin's extensive management and business experience includes company restructuring and equities markets in Australia. He was previously Chair of Royal Brisbane Hospital Herston Redevelopment Taskforce, independent Chair of Queensland Government/Brisbane City Council's Brisbane Housing Company Limited, Chair and Benefactor of Community TV's Channel 31, served on the Lord Mayor's Drugs Taskforce and is an Honorary Ambassador for the City of Brisbane.

**Other current directorships:** Deputy Chairman of ASX listed Ariadne Australia Limited (since 1992); Director Secure Parking Limited (appointed 1 April 2015); Board positions with several private companies in Australia.

**Special responsibilities:** Member Audit, Risk and Compliance Committee; Member Governance and Nomination Committee

**Former listed public company directorships in the last 3 years:** Watpac Limited (May 1996 - September 2013)

**DR DAVID WATSON**

Non-executive Director

Member of the Board since 27 March 2014

Dr Watson served in the Federal Parliament in the House of Representatives as the member for Forde from 1984-1987, and in the Queensland Parliament as the member for Moggill from 1990-2004, during which time he was the Minister for Public Works and Housing (April 1997-July 1998). Prior to entering parliament, Dr Watson was Professor of Accounting and Business Finance at the University of Queensland.

Dr Watson holds a Bachelor of Commerce (Hons) from the University of Queensland, and a MA and PhD from Ohio State University.

Dr Watson is a Fellow of the Institute of Chartered Accountants of Australia and New Zealand, a Fellow of CPA Australia, and an Associate in Accounting of the University of Queensland.

**Other current directorships:** Independent Chair of the Translational Research Institute, a leading Australian medical research and biopharmaceutical facility based in Brisbane, and serves on some related medical research boards.

**Special responsibilities:** Member Audit, Risk and Compliance Committee; Member Governance and Nomination Committee





# EXECUTIVE TEAM

**FRANCIS CATTERALL**  
Executive General Manager - Corporate Development

Francis leads the Group's domestic and international corporate development activities. Francis and his team have led all of the Group's mergers and acquisitions, along with involvement in subsequent integration actions.



**JOHN CORRY**  
Chief Operating Officer - Charitable Gaming

John leads the Group's newest unit, finding innovative fund raising solutions for the not-for-profit sector. John's extensive experience spans several start-ups and digital innovation companies, banking, hospitality, sport and social enterprise. He is co-founder of the award-winning 50-50 Foundation.



**BARRIE FLETTON**  
Chief Operating Officer - Wagering

Barrie has been a part of the Group for more than 20 years in various executive roles. Barrie's Wagering unit is one of the largest within the Group with more than 125 full-time employees operating across four states and territories.



**ASHLEIGH LOUGHNAN**  
Executive General Manager - People, Property & Procurement

Ashleigh heads up the Group's People, Property and Procurement team. These teams are made up of a large number of employees with extensive experience and knowledge of the Group's businesses.



**MEGAN MAGILL**  
Chief Marketing Officer

Megan was appointed to this exciting new role in June 2015, after starting with Tatts in 2013. She is responsible for bringing a cohesive vision across the broad spectrum of Tatts' brands, and for exploring innovative marketing opportunities for the Group. Megan has more than 20 years' experience across agencies, media and in-house marketing.



**FRANK MAKRYLLOS**  
Chief Operating Officer - Gaming

Frank re-joined Tatts in early 2013 as COO of Gaming, rebranded in August 2016 as MAX, comprising Maxgaming and Bytecraft. Maxgaming provides electronic monitoring and value-add services to gaming machine venues in NSW, Qld and NT. Bytecraft (our largest Australian business by headcount) monitors and manages a 24/7 technical services business with more than one million support calls per annum.



**NEALE O'CONNELL**  
Chief Financial Officer

Neale, who joined Tatts in 2004, was appointed as CFO in December 2012, and has managed the finance team through a period of substantial expansion via the float, a merger, and several acquisitions. Neale has more than 30 years' auditing and commercial experience.



**MAREE PATANE**  
Chief Auditor

Maree and her team provide consultative, compliance and continuous audit monitoring services, both nationally and internationally. The audit team has been built up through integration and has an unrivalled knowledge of the wagering industry, gaming business systems and lottery processes.



**MANDY ROSS**  
Chief Information Officer

Mandy leads the team of more than 400 technology and operations staff and develops the long-term strategic and digital roadmaps for the company. Mandy stepped into this role on 1 January 2015, after joining Tatts Group in 2014. Mandy has 15 years' industry experience, and was named 'CIO of the Year' at the national iAwards in 2012.



**ANNE TUCKER**  
General Counsel and Company Secretary

Anne joined the UNiTAB team in June 2005 prior to the Tatts merger in 2006, and was appointed as Company Secretary and General Counsel in July 2013. Anne and her team have a wealth of experience and knowledge within the gaming industry, and play an integral role in all merger, acquisition and integration activities.



**SUE VAN DER MERWE**  
Chief Operating Officer - Lotteries

As the leading lottery operator in Australia, Sue heads the unit that contributes the largest amount to Group earnings. With a mix of long-standing lottery games and new brands, the lotteries team markets its products through some of Australia's leading consumer brands, in every Australian state and territory, with the exception of Western Australia.



# TRACK RECORD

	30 JUNE 2016 \$ M	30 JUNE 2015 <sup>1</sup> \$ M	30 JUNE 2014 \$ M	30 JUNE 2013 <sup>2</sup> \$ M	30 JUNE 2012 <sup>3</sup> \$ M
REVENUE FROM CONTINUING OPERATIONS	2,928.1	2,803.9	2,868.3	2,948.8	2,656.9
STATUTORY CHARGES					
- GOVERNMENT	(1,370.9)	(1,271.5)	(1,289.9)	(1,376.4)	(1,265.6)
- OTHER <sup>4</sup>	(639.4)	(620.1)	(600.3)	(605.7)	(552.3)
OPERATING COSTS <sup>4</sup>	(423.0)	(421.3)	(479.7)	(476.5)	(423.4)
<b>EBITDA</b>	<b>494.8</b>	491.0	498.4	490.2	415.6
PROFIT BEFORE INCOME TAX ON CONTINUING OPERATIONS	378.5	363.3	326.6	303.1	225.4
<b>PROFIT AFTER INCOME TAX ON CONTINUING OPERATIONS</b>	<b>263.4</b>	253.9	226.6	227.4	161.5
(LOSS)/PROFIT FROM DISCONTINUED OPERATIONS	(29.6)	(1.9)	(26.2)	19.9	157.6
<b>NET PROFIT AFTER INCOME TAX</b>	<b>233.8</b>	252.0	200.4	247.3	319.1
	<b>CENTS</b>	CENTS	CENTS	CENTS	CENTS
EARNINGS PER SHARE <sup>5</sup>	18.0	17.5	14.1	17.9	23.8
DIVIDENDS PER SHARE	17.5	16.5	13.5	15.5	23.0
	<b>%</b>	%	%	%	%
DIVIDEND PAY-OUT RATIO	109.6	95.1	95.9	87.4	97.4
	<b>\$ M</b>	\$ M	\$ M	\$ M	\$ M
CASH FLOWS FROM OPERATING ACTIVITIES	262.7	439.8	278.4	346.9	390.3

1. Only FY15 comparatives have been restated to reflect Talarius as a discontinued operation.
2. The FY13 net profit after income tax on continuing operations includes a one-off tax benefit of \$16.2 million. Before one-offs the adjusted NPAT for FY13 would be \$211.2 million.
3. Only FY12 comparatives have been restated to reflect Tatts Pokies as a discontinued operation.
4. Product and program fees have been reclassified as 'Statutory charges - Other' in each year.
5. EPS is calculated using the weighted average number of shares on issue throughout the year.

# DIRECTORS' REPORT

## CORPORATE GOVERNANCE

The Board recognises the importance of good corporate governance and its role in ensuring accountability of the Board and management. The full details of the Group's policies and its Corporate Governance Statement are available on the Group's website at <http://www.tattsgroup.com/investors/corporate-governance>.

## DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Tatts Group Limited (the **Company**, or **Tatts**) and the entities it controls (the **Group**) at the end of, or during, the year ended 30 June 2016.

## DIRECTORS

The following persons held office as Directors of the Company during the financial year:

- Harry Boon
- Robbie Cooke
- Lyndsey Cattermole
- Brian Jamieson
- Julien Playoust
- Kevin Seymour
- Dr David Watson

Details, including term of office, qualifications, experience and information on other directorships held by Directors, can be found on pages 44 to 47 of the Annual Report.

## DIVIDENDS

The Board continues its previously indicated commitment to maintaining a high dividend payout ratio. The total dividend paid or payable in respect of this year is 17.5 cents per share, reflecting 109.6% of Net Profit After Tax (**NPAT**) being paid as dividends to shareholders and 97.3% of profit from continuing operations. The final dividend of 8.0 cents per ordinary share has been determined since the end of the financial year, and is payable on 4 October 2016. The following dividends have been paid, determined, declared or recommended by the Company since the end of the preceding financial year:

DIVIDENDS	(\$'000)
<b>Final Dividend 2016</b>	
Fully franked dividend for 2016 of 8.0 cents per ordinary share as determined by the Directors on 18 August 2016 with a record date of 1 September 2016 and payable on 4 October 2016	117,162
<b>Interim Dividend 2016</b>	
Fully franked interim dividend for 2016 of 9.5 cents per ordinary share as determined by the Directors on 18 February 2016 with a record date of 1 March 2016 and paid on 31 March 2016	139,130
<b>Final Dividend 2015</b>	
Fully franked dividend for 2015 of 7.5 cents per ordinary share as determined by the Directors on 20 August 2015 with a record date of 3 September 2015 and paid on 5 October 2015	109,561

All dividends are fully franked.

## DIVIDEND REINVESTMENT PLAN (DRP)

The Company has a DRP in operation. The last date for receipt of a DRP Notice of Election to enable participation for the final dividend is 2 September 2016.

Further information in relation to dividends can be found in Note 15.

## PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year consisted of:

- the operation of regulated lotteries in Victoria, Queensland, New South Wales, Tasmania, Australian Capital Territory, the Northern Territory and South Australia;
- the conduct of wagering and sports betting through operations based in Queensland, South Australia, the Northern Territory and Tasmania;
- the conduct of gaming machine monitoring and supply of jackpot and other value add services in Queensland, New South Wales and the Northern Territory. In New South Wales this includes exclusive licences to operate inter-venue linked jackpots;
- the provision of third party installation, repair and maintenance services for gaming, wagering, lottery, point-of-sale and other transactional equipment and systems throughout Australia; and
- the operation of licensed gaming venues throughout the United Kingdom. These operations were sold on 24 June 2016.

## OPERATING AND FINANCIAL REVIEW

### REVIEW OF OPERATIONS AND FINANCIAL POSITION

Refer to the Managing Director's Report on pages 12 to 31.

### BUSINESS STRATEGIES AND FUTURE PROSPECTS FOR FUTURE FINANCIAL YEARS

Tatts is the largest non-casino gambling group in Australia.

The Group's business strategies aim to achieve the Group's goals by:

- optimising the management, operation and term of existing licences (including extending/improving licence terms) and businesses to achieve continued growth and operational efficiencies;
- participating in government processes associated with development and licensing of the gambling industry (in Australia and Internationally);
- pursuing strategic acquisitions of government and privately owned gambling assets as and when they become available;
- investing in people and new technologies; and
- maintaining a flexible balance sheet to support the existing businesses and fund other growth opportunities that fit with the Group's core competencies.

The Group will continue to develop and implement improvements to its websites, and other distribution channels, including smart phone and tablet apps and self-service terminals. Online is a key distribution channel for the Group's wagering and lotteries operations and the Group's focus will be on continuing to expand our digital and product offerings.

This will be accomplished by ongoing product development across the Group's broad suite of distribution channels within its operating units, particularly wagering and lotteries.

In the Directors' opinion, any further disclosure of information would be likely to result in unreasonable prejudice to the Group.

## MATERIAL RISKS TO BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS

The potential material business risks that could adversely affect the Group's achievement of its business strategies and financial prospects in future years are described below. This section does not purport to list every risk that may be associated with the Group's business now or in the future. There is no guarantee or assurance that the importance of these risks will not change or other risks emerge. While the Group aims to manage risks in order to avoid adverse impacts on its financial and reputational standing, some risks are outside the control of the Group.

### 1 REGULATION, LICENCES AND OTHER APPROVALS

#### (A) REGULATION

The conduct of wagering, lotteries, and the monitoring of gaming machines is regulated by laws, licences, permits and other approvals from the relevant state and territory governments. Any material non-compliance by the Group with the relevant regulations or terms of its licences, permits or approvals may result in financial penalties, or the suspension or loss of certain licences, permits or approvals which may have a material adverse impact on the financial performance of the Group or result in the loss of an operating unit and corresponding revenues from that operating unit.

Regulation at state, territory and federal government levels is subject to change and the Group has no control over the regulations that apply to its current or proposed activities. Pending and future changes in legislation, regulation or government policy and decisions by courts and/or governments may result in the prohibition of certain types of gambling, and the imposition of additional taxes or other financial or operational imposts on the Group's businesses. By way of example, on 7 July 2016 the New South Wales Government announced that it had decided to close down the greyhound racing industry in New South Wales. Such changes may reduce the Group's revenues, profitability or both.

The Group has an established regulatory compliance function and governance framework. The Group's regulatory compliance function monitors compliance with existing regulations, the political and regulatory environment in the jurisdictions in which the Group operates, and the Group's adherence to internal processes.

#### (B) LICENCES AND OTHER APPROVALS

Since listing on the ASX in 2005, Tatts has successfully developed a portfolio of diversified and long-term income streams across multiple jurisdictions. A significant proportion of the Group's continuing EBITDA is generated from licences that run for at least 35 years. Refer to Note 11 of the financial statements which outlines relevant details regarding the Group's licences and other authorisations.

The exclusivity period for the South Australian Authorised Betting Operations Licence expires in December 2016. The New South Wales Licences to operate inter-club and inter-hotel linked gaming systems expire in October 2017 and October 2019 respectively. The Victorian Lotteries Licence expires in June 2018.

If these licences are not renewed, or licences granted on terms not acceptable to or less favourable to Tatts than the current licence terms:

- (i) there is a possibility the Group will not be able to conduct these licence-specific businesses or guarantee revenues equal to those currently being generated by them; and
- (ii) Tatts would be required to review the carrying values of goodwill associated with the cash generating units under which these licences operate.

The Group continues to focus on optimising the management, operation and terms of existing licences (including extending/improving licence terms) and businesses to achieve continued growth and operational efficiencies.

## MATERIAL RISKS TO BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS (CONTINUED)

### 2 COMPETITION

Even if the Group's lotteries, wagering and gaming licences, permits and approvals are maintained and renewed, its businesses may also be subject to competition from existing and new entrants at any time. More than just driving efficiencies, technological innovation is now challenging entire business models and disrupting industry structures. Technological developments have therefore increased, and will continue to increase competition to the Group's businesses, regardless of its licences, permits and approvals.

The Group's wagering businesses currently compete (and have for some time) with bookmakers in Queensland, South Australia, Tasmania and the Northern Territory and other interstate and international wagering operators who accept bets over the telephone or online, predominantly in respect of fixed-price products.

The internet and other new forms of distribution have allowed new competitors to enter the Group's traditional markets without those competitors being licensed in those states and territories.

There is also a possibility that competition from interstate and international operators may extend to the Group's wagering and lotteries retail networks in the future.

A sustained increase in competition from new entrants may result in a material failure to grow market share and associated revenues and impact on carrying values of our assets, particularly in wagering.

Please refer to Note 11 of the Financial Statements where management have assessed what reasonable change in key assumptions could impact the carrying value of the wagering cash generating unit.

To address competition risks, the Group is focused on developing and selling new products that are attractive to its customers in relation to land-based, online and digital operations. The Group therefore continues to invest in key skills and talents and has also strengthened its digital platforms through the development and implementation of improvements to websites and other forms of distribution, including smart phone and tablet apps and self-service terminals. Through continued investment in this area the Group will enhance its ability to produce new technologies and products to meet customer demand in both existing and new markets.

### 3 RELIANCE ON SYSTEMS AND THIRD PARTIES

Other risks inherent within the Group's businesses which could materially impact the financial performance of the Group include systems failure, including a systems security failure, and reliance on third parties who are unable to provide products and services (e.g. telecommunication services and racing product).

A technology security failure, such as a cyber-attack for example, could impact upon the Group's technology systems and equipment and, ultimately, Group revenue and profit.

While the Group manages these risks by having system redundancy and other backup measures in place, and by having a framework of adequate safeguards and controls for monitoring and managing these risks, failure of, or significant interruption to, products and services (either third party or proprietary) for a sustained period of time may result in the Group being unable to provide certain services during that period, which may have a material adverse impact on the financial performance of the Group.

## ENVIRONMENTAL REGULATION

The operations of the Group are not subject to any particular and significant environmental regulation under any law of the Commonwealth of Australia or any of its states or territories.

## DIRECTORS INTEREST IN SECURITIES

The relevant interest of each Director in securities of the Company at the date of this Directors' Report is as follows:

DIRECTOR	RELEVANT INTEREST IN TATTS BONDS	RELEVANT INTEREST IN ORDINARY SHARES	OPTIONS OVER ORDINARY SHARES	RIGHTS OVER ORDINARY SHARES
Harry Boon	Nil	150,000	Nil	Nil
Robbie Cooke <sup>1</sup>	Nil	491,163	Nil	253,383
Lyndsey Cattermole	Nil	182,663	Nil	Nil
Brian Jamieson	Nil	114,734	Nil	Nil
Julien Playoust	Nil	25,000	Nil	Nil
Kevin Seymour	Nil	14,108,306	Nil	Nil
Dr David Watson	Nil	25,000	Nil	Nil

<sup>1</sup> Executive Directors are the only Directors entitled to participate in the Group's incentive plans. Details of these interests are disclosed in the Remuneration Report.

## COMPANY SECRETARY

Anne Tucker has been employed by the Group since 2005 and was appointed Company Secretary on 2 July 2013. Anne holds Bachelors of Law and Commerce, Graduate Diplomas in Legal Practice and Applied Corporate Governance, and is an Associate of the Governance Institute of Australia.

## MEETINGS OF DIRECTORS

The number of scheduled Board meetings and meetings of Board Committees, and the number of meetings attended by each of the Directors of the Company during the year were:

	BOARD OF DIRECTORS MEETINGS		AUDIT, RISK & COMPLIANCE		GOVERNANCE & NOMINATION		REMUNERATION & HUMAN RESOURCES	
	A	B	A	B	A	B	A	B
Harry Boon	13	12	nm	nm	2	2	2	2
Robbie Cooke <sup>1</sup>	13	13	nm	nm	nm	nm	nm	nm
Lyndsey Cattermole	13	13	nm	nm	2	2	2	2
Brian Jamieson	13	12	4	4	nm	nm	2	2
Julien Playoust	13	13	4	4	nm	nm	2	2
Kevin Seymour	13	13	4	4	2	2	nm	nm
Dr David Watson	13	13	4	4	2	2	nm	nm

A - Number of meetings during the year while the Director was a member of the Board or Committee

B - Number of meetings attended by the Director as a member during the year

nm - Not a member of the relevant Committee

<sup>1</sup> Managing Director and Chief Executive Officer, not a Non-executive Director

# Remuneration Report



## Introduction

### HIGHLIGHTS

In FY16 Tatts continued to focus on innovating the way we do business to benefit our customers, shareholders and team.

This saw a continued step-up in our business renewal program to deliver our company-wide transformative digital initiatives, innovative new brands and products, and game-changing technology.

The year's highlights include the launch of the new lotteries umbrella brand, the Lott, (together with new omni-channel experience, new digital assets and new generation retail) and further build-out of the UBET brand, retail, and digital assets and products.

### ALIGNMENT OF REMUNERATION AND HUMAN RESOURCES WITH BUSINESS OUTCOMES AND SHAREHOLDER VALUE

It is a prime objective of our reward structures (including any annual incentive) to support delivery of business outcomes that grow shareholder value. This is both protecting 'core business' and innovating new rigorous processes. Throughout the year, remuneration and human resources policies were aligned with our business practices to best support the Tatts team in delivering the FY16 results.

The core business of attracting, employing, retaining and fairly rewarding our employees remained at the heart of our remuneration and human resources policies and practices.

Group targets determined by the Board and Managing Director and CEO—passed on to all employees in our 2016 Play Book—set out metrics and deliverables for each operating and service unit. Key Performance Indicators (KPIs) are set for every individual. These define what success looks like, and we rigorously monitor and measure performance at the end of the year to ensure business targets are achieved, and that remuneration is fair, not excessive, and aligned with business performance.

While it is not commercially realistic to disclose all goals and performance metrics, an extract of FY16 KPIs for the Managing Director and CEO is provided on page 64.

In FY16, Tatts continued to benchmark our overall remuneration at or above the median, according to externally sourced remuneration data, and to provide for annual increases in base packages in line with market expectations.

### PERFORMANCE INCENTIVES

We paid \$9.7 million in incentives across the Group (excluding the Managing Director and CEO) in FY16—which comprised \$2.1 million (or 21%) to our 11 most senior executives and \$7.6 million (or 79%) to more than 1,370 of our employees who qualify for the performance incentive—as a result of achieving the Group targets outlined in the 2016 Play Book and according to the metrics outlined below. The incentive is paid in cash, or via a combination of cash and rights to restricted shares, depending upon the incentive quantum. It is consistent with prior years, and is considered fair, reasonable and not excessive.

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<b>Remuneration Highlights</b>		
Performance and remuneration outcomes	Summary of the Group's performance and remuneration outcomes for FY16.	60
Key Management Personnel	Names and roles of the KMP whose remuneration details are disclosed in this report.	61
<b>Remuneration Governance</b>		
Remuneration and Human Resources Committee	Composition and role of the Remuneration and Human Resources Committee.	61
<b>Executive Remuneration</b>		
Remuneration framework	Details of how the remuneration framework is aligned and structured to support our objectives and performance.	62
Managing Director and CEO remuneration structure	Explains the Managing Director and CEO's remuneration arrangements.	64
Former incentive plans	Explanation of former incentive plans that were active during FY16 and the testing applied to them.	66
Clawback	Clawback mechanism that applies to our incentive plan.	67
Contracts of employment	Key contract terms governing the employment of KMP (excluding Non-executive Directors).	67
Additional information	Details of our hedging policy, previous employee share plans, and disclosures in relation to Director and executive loans.	67
<b>Non-Executive Director Remuneration</b>		
Remuneration framework	Summary of our remuneration framework for Non-executive Directors.	68
Fee structure	Details of the fee structure for Board and Committee roles, including shareholder approved maximum aggregate fees.	68
<b>Group Performance And Remuneration Outcomes</b>		
Financial performance	Provides a breakdown of our performance, share price, and dividends over the past five years.	69
Remuneration tables	Provides the remuneration disclosures required by the Corporations Act and the relevant Australian Accounting Standards.	70

# Remuneration Report (CONTINUED)

## A CULTURE OF CHANGE: SAFETY, AGILITY, DIVERSITY AND INNOVATION

Our incentive scheme is an important part of our remuneration structure, however Tatts does not singularly rely on its remuneration structures to drive performance. We want to be a #1 workplace that is fun, fair, diverse, safe and many other exciting things, all of which lead to greater innovation, agility and profitable productivity. We want the Tatts team to be amazing, to be innovative and create positive change in order to deliver the best customer service and products, and we want them to be safe. That is why our executive team fosters teamwork, collaboration, diversity of thought, and safe workplace health and safety practices at all times.

## MANAGING DIRECTOR AND CEO

We renewed our Managing Director and CEO's (Robbie Cooke) contract for a further three years on 1 September 2015. Godfrey Remuneration Group benchmarked his remuneration against 20 ASX peer companies. Consistent with Tatts' policy and his prior contract<sup>1</sup>, Mr Cooke's total employment cost was set at the median (50th percentile or P50) benchmark and his fixed annual remuneration (FAR) was set at P75, as we expect our senior executives to be above the median and that our base pay is competitive in the global marketplace for top talent.

We awarded Mr Cooke a performance incentive of \$1.485 million in FY16, paid 35:65 cash and rights to restricted shares (subject to shareholder approval). The award was made for successfully delivering on his KPIs, which is discussed in more detail below. This performance incentive was 74% of his maximum potential award.

<sup>1</sup> The net value of Mr Cooke's fixed entitlements commencing 1 September 2015 was approximately the same as his prior year's fixed entitlements when the annual grant of 150,000 rights is taken into account.

## REFINING REMUNERATION IN FY17

In FY17 we are taking a different approach to the remuneration of our senior executive team (being all the direct reports to our Managing Director and CEO). We want to restructure our remuneration framework in a way that:

- continues to set our team's fixed annual remuneration at levels that attract, retain and motivate the 'best and brightest';
- removes the traditional short-term incentive derived from short-term performance;
- introduces an easily comprehensible and transparent long-term incentive aligned with shareholder value creation over a multi-year horizon, benchmarked to outperform either the ASX or an absolute TSR outcome; and
- continues to build real 'skin in the game' for the senior executive team.

This is a significant departure from the Group's current scheme, which some consider lacking a long-term incentive component outside deferred performance rights awarded on the basis of a short-term incentive pool crystallising in a particular year, and time-based vesting.

Our intention is to appropriately reward senior executives with fixed remuneration in both cash and equity, and a variable performance-based equity incentive aligned to long-term shareholder value creation. When reviewing the structure, we examined the remuneration frameworks in place in a multitude of organisations, took advice from Godfrey Remuneration Group and modelled several alternatives.

We made a conscious decision to step away from the more traditional remuneration approach (i.e. fixed salary coupled with both a short-term and long-term incentive), as we concluded that a more innovative approach was more likely to motivate our team to drive our Group success. This led us to remove short-term incentives, to restructure fixed remuneration to give our executives more 'skin in the game' through deferred rights, and to establish a long-term incentive that is meaningful and easy to understand.

We are not alone in implementing a non-traditional, innovative approach. A very similar scheme was implemented several years ago by a peer ASX100 company seeking to drive long-term executive behaviour and to minimise 'short-termism'.

Removing the short-term incentive is perhaps the biggest change for us. Our results each year are the product of a multitude of influences including macro-economic conditions, management actions and decisions (both in current and prior periods), right down to the random jackpot sequences in our lotteries draws, and variable win-rates from wagering activity. This means that the outcome of a short-term scheme can, in some periods, be less meaningful than others. In reflecting on this, we have decided to step away from making annual performance the key element of our senior team's incentive plan.

We are aiming to implement the new scheme at a low-to-neutral net additional cost.

The new scheme will require above-average performance from our senior executive team, and fixed-pay benchmarks may need to be customised beyond our traditional median P50 and P75 peer benchmarks. Ensuring we remain globally competitive, and locally a #1 workplace for similar-sized ASX companies, will drive our remuneration decisions.

We intend to continue the existing incentive framework for Tatts team members other than the senior executive team.

Retaining the best of the old scheme for the non-executive team means that more than 1,000 employees will continue to participate in a cash and equity (rights to restricted shares) incentive. This type of short-term incentive (**STI**)—cash and short-dated rights—aligns with annual business plans and gives immediacy to the reward when plan objectives are achieved, while building commitment to equity in the Company.

The rights instrument itself will be used across the executive (in the FAR) and non-executive (in the STI) cohort, thereby providing economies, continuity and familiarity within Tatts overall remuneration structure.



**JULIEN PLAYOUST**  
Chair,  
Remuneration and Human Resources Committee

OUR REWARD STRUCTURES SUPPORT  
DELIVERY OF BUSINESS OUTCOMES  
THAT GROW SHAREHOLDER VALUE

# Remuneration Report (CONTINUED)

This report sets out the remuneration arrangements of the Company for the year ended 30 June 2016, and is in accordance with Section 300A of the Corporations Act. The information has been audited as required by Section 308(3C) of the Corporations Act.

## REMUNERATION HIGHLIGHTS

### PERFORMANCE AND REMUNERATION OUTCOMES

During the period the Group sold its interest in Talarius and this has been shown as part of discontinued operations. The figures and commentary below refer to our continuing operations.

### PERFORMANCE HIGHLIGHTS

Group revenue up 4.4% to \$2.93 billion	Group revenue was up 4.4% in FY16. This growth was driven off a record number of lottery jackpots in the period, and increasing digital growth in lotteries and wagering.
NPAT up by 3.8%	NPAT grew by 3.8%, and EBITDA grew by 0.8%. Margin expansion continued in lotteries, and reducing finance costs also helped our NPAT result.

### REMUNERATION HIGHLIGHTS

Group remuneration	Fixed annual remuneration (FAR) will increase in September 2016 by an average of 2% across the Group (FY15: 2.5%). This is consistent with maintaining a position at our above the 50th percentile of the market.
Managing Director and CEO remuneration	Total remuneration for the Managing Director and CEO was \$3,620,901 (FY15: \$2,841,516), which included: <ul style="list-style-type: none"> <li>a cash incentive payment of \$519,750 (FY15: \$412,500);</li> <li>\$965,250 in rights to restricted shares (FY15: \$412,500);</li> <li>the amortised cost for his unvested rights of \$170,625 (FY15: \$438,750).</li> </ul>
Incentive plan	More than 1,370 team members participated in the Company's incentive plan in FY16, with more than 75% of the pool allocated to those outside the executive group. Excluding the Managing Director and CEO, the Board allocated \$535,000 in cash payments and \$430,000 in rights to restricted shares to the KMPs. The total incentive paid across the Group (excluding the Managing Director and CEO) was \$9,727,500 (FY15: \$9,950,000).
Non-executive Director fees	Non-executive Director base fees of \$185,000 increased by 1.7% and the Chair's fee of \$472,000 increased by 2.2%. Fees for Committee chairs of \$35,000 and Committee members of \$11,000 increased by 9.4% and 10% respectively, which is consistent with maintaining a competitive and market relevant position and not excessive.

## KEY MANAGEMENT PERSONNEL

Key Management Personnel (KMP) are Non-executive Directors and those executives with responsibility for the planning, controlling and directing of the Group, which includes those executives who lead operating units that contribute more than 25% to continuing consolidated EBITDA.

Details of KMP, including changes made during the prior reporting period, are provided in the table below.

	NAME	POSITION
<b>Non-executive Directors</b>	Harry Boon	Chairman, Non-executive Director
	Lyndsey Cattermole	Non-executive Director
	Brian Jamieson	Non-executive Director
	Julien Playoust	Non-executive Director
	Kevin Seymour	Non-executive Director
	Dr David Watson	Non-executive Director
<b>Executive Director</b>	Robbie Cooke	Managing Director and CEO
<b>Other Key Management Personnel</b>	Barrie Fletton	Chief Operating Officer, Wagering
	Neale O'Connell	Chief Financial Officer
	Mandy Ross	Chief Information Officer (appointed 1 January 2015)
	Sue van der Merwe	Chief Operating Officer, Lotteries (appointed 21 July 2014)
	Stephen Lawrie	Chief Information Officer (ceased employment 10 February 2015)
	Bill Thorburn	Chief Operating Officer, Lotteries (ceased to be a KMP 18 July 2014, however remains employed by the Group)

## REMUNERATION GOVERNANCE

### REMUNERATION AND HUMAN RESOURCES COMMITTEE

The Remuneration and Human Resources Committee (**Committee**) consists of four Non-executive Directors, with one performing the role of Chair. The Managing Director and CEO is invited to attend, but does not take part in the Committee's decisions, nor is he present when his remuneration is discussed.

Remuneration set by the Committee is reviewed on an annual basis. During this process, consideration is given to individual and overall performance of the Group, as well as market conditions. The Committee is responsible for advising on:

- remuneration of Non-executive Directors, the Managing Director and CEO, and Group executives
- performance review for the Managing Director and CEO
- employee equity plans
- remuneration disclosures
- executive recruitment, termination policies and succession planning
- remuneration risk management and controls
- strategic human resources initiatives, including diversity and related disclosures, including environmental, social and governance (**ESG**)

# Remuneration Report (CONTINUED)

## EXECUTIVE REMUNERATION

### REMUNERATION FRAMEWORK

Our remuneration framework, summarised below, is designed to:

- **attract, motivate** and **retain** highly skilled team members
- incentivise and reward **high performance**
- align with **shareholder interests**

### FIXED ANNUAL REMUNERATION

We **attract, motivate** and **retain** a highly skilled team by providing a fixed annual remuneration (**FAR**) that targets the desired skills and experience for our roles, and is benchmarked at or above the 50th percentile. Our FAR structure comprises base pay, superannuation and salary-sacrificed items. We do not provide guaranteed pay increases in any executive contracts of employment.

### VARIABLE REMUNERATION

We seek to encourage **high performance** through our incentive scheme, which is outlined below, noting that the operation of the scheme and the amount of any incentive pool remains, at all times, at the discretion of the Board. This scheme is aligned with **shareholder interests** through the calculation mechanisms, and also through the payment of some incentives as deferred equity. The Board may also determine a discretionary incentive where performance against KPIs was strong. Exceptional outcomes that may be considered on this basis are those that have a direct influence on share price, investor perspectives, and long-term value of the Group. In FY16, we paid \$227,500 in incentives relating to such exceptional outcomes (FY15: Nil).

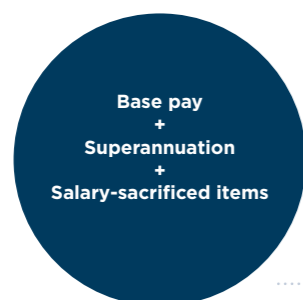
**Participation:** As mentioned above, participation in our incentive scheme is broad, with more than 1,370 employees participating in FY16 (FY15: 1,400), and 79% of the paid incentive distributed to employees who are not KMP.

**Program overview:** Each participant in our program is assigned a target incentive, based on their remuneration level and position within the Group. The targets range from 7.5% to 30% of FAR for most participants (with some members of the senior executive team having the potential to earn up to 70% of FAR). The target incentive cannot be exceeded.

FIGURE 13  
REMUNERATION  
COMPONENTS

### Fixed annual remuneration

50th percentile



### Variable remuneration

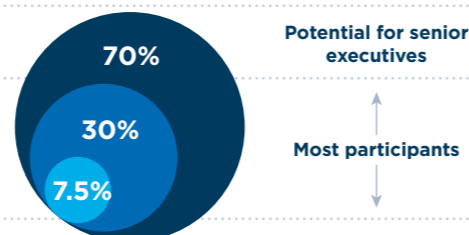


FIGURE 14  
CREATION OF  
THE FINANCIAL  
PERFORMANCE  
INCENTIVE POOL

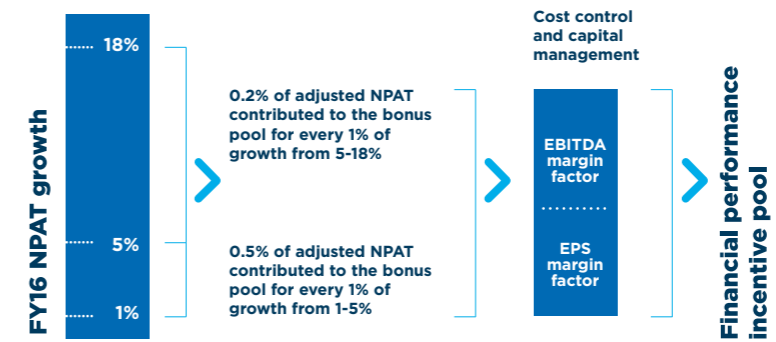


FIGURE 15  
INCENTIVE SCHEME  
PAYMENTS

79% non-KMP staff



21% KMP staff

**Incentive pool:** The incentive pool is comprised of two elements—one based on the financial performance of the Group in the year, and the other based on each individual's performance.

**Financial performance incentive pool:** 70% of each individual's target incentive is linked to the Group's financial performance. This 'financial performance incentive pool' only forms if the Group outperforms criteria that the Remuneration and Human Resources Committee establishes at the commencement of each financial year.

The criteria for FY16 required continuing operations NPAT (as adjusted for one off items see below) to exceed the same metric for FY15.

- For every 1% of NPAT growth up to 5%, 0.5% of NPAT was contributed to the bonus pool.
- Thereafter, for every 1% of NPAT growth, 0.2% of NPAT was contributed to the bonus pool, capped at 18% NPAT growth.

In undertaking this calculation, we consider one-off items that can impact it. The adjustments made to FY16 continuing operations NPAT were to exclude the interest benefit in relation to the funds received in the Victorian Pokies Compensation case and to include the trading result of Talarius (which was reported in discontinued operations). The resulting adjusted year-on-year performance in FY16 was 6%.

This base amount is then adjusted (up or down) by an EBITDA margin factor (being the actual EBITDA margin in FY16 / EBITDA margin in FY15), and is further adjusted (up or down) by an earnings per share (EPS) margin factor (being actual EPS in FY16/ EPS in FY15). The application of this methodology established the amount of the financial performance incentive pool for distribution.

**Individual performance incentive pool:** The remaining 30% of each individual's target incentive is determined by reference to his or her own KPIs. These KPI targets traversed critical business measures, including operational excellence, strategy, people and leadership, financial discipline, customer satisfaction and project outcomes as agreed with each employee's manager. These measures were rated on a scale that was weighted to their relative importance. Scores were then aggregated into an overall performance rating, which determined the portion of the performance incentive to be paid to each individual. Details of the specific measures are not provided, as they are commercially sensitive. Executive performance reviews are conducted by the Managing Director and CEO and are provided to the Committee annually.

**Incentive payment:** Incentives are paid in cash, or cash and deferred equity, depending upon the relevant employee's incentive level. KMP (excluding the Managing Director and CEO) received between 35% and 67% of their incentive payment in cash, with the balance provided in deferred equity (rights). Deferred equity provided under the program is subject to a one-year vesting period, followed by a two-year trading restriction. The table on page 70 has more detail on the breakdown of cash and equity incentive payments.

Other than the time-based hurdle, there are no other conditions attached to the exercise of rights. Where a participant ceases employment, the Board may, in its absolute discretion, waive any disposal restrictions.



# Remuneration Report (CONTINUED)

## MANAGING DIRECTOR AND CEO REMUNERATION STRUCTURE

Under the terms of the Managing Director and CEO's contract, the following remuneration structure applies for three years from 1 September 2015.

COMPONENT	DETAIL
Fixed annual remuneration	\$2.0 million per annum, reviewed by the Board in accordance with normal remuneration practices.
Variable remuneration	<ul style="list-style-type: none"> <li>Performance-based entitlement of up to 100% of FAR, subject to the achievement of KPIs set annually, and as approved by the Board. Paid as 35% cash and 65% rights to restricted shares.</li> <li>Rights are subject to shareholder approval. In the event that this is not granted, 100% of the incentive will be paid in cash.</li> <li>Based on KPIs of financial performance and other specific performance requirements for the position.</li> <li>The Managing Director and CEO has one month after the last date for vesting to exercise vested performance rights.</li> </ul>

## KEY PERFORMANCE INDICATORS

The Board set the Key Performance Indicators (KPIs) for the Managing Director and CEO's FY16 incentive in 2015 in line with the Tatts Group plan and roadmap. They comprise the financial incentive and KPI incentive, as outlined in the Performance Review below.

## PERFORMANCE REVIEW

The Managing Director and CEO's performance was assessed according to KPIs within the context of the overall performance of the Group and the executive team in FY16, and also taking into account any particular events that warranted a special incentive.

The first and largest consideration was the financial performance of the Group, which leads to the financial incentive outcome. This carried a 70% weighting and was determined from year-on-year NPAT growth according to Group targets as per the methodology set out above with respect to the Group-wide incentive (see the 'Financial performance incentive pool' section).

The second consideration is the incentive based upon achievement of specified individual KPIs (KPI Incentive). This amounts to 30% of the maximum. Assessment of the KPI Incentive was discussed and determined according to the following table:

## FY16 KEY PERFORMANCE INDICATORS

KPI INCENTIVES (30% OF MAXIMUM)	WEIGHTING	MEASURES
Protecting the business	50%	<ul style="list-style-type: none"> <li>Securing operating licenses - NT TAB and NSW CMS</li> <li>Launch new lotteries umbrella brand - the Lott</li> <li>Increase wagering turnover above target</li> <li>Customer focus, including enhancing online and retail experience</li> <li>Cyber security</li> </ul>
Digitally driven retailer Innovation and product development	20%	<ul style="list-style-type: none"> <li>Increasing lotteries and wagering online penetration</li> <li>Deliver new lotteries and wagering digital assets</li> <li>Rollout new wagering retail format and products</li> <li>Embed new digital and retail best practice throughout the organisation</li> </ul>
Strategic development	20%	<ul style="list-style-type: none"> <li>Transformational activation and strategy</li> <li>Many things we can't talk about</li> <li>One we can - Talarius sale.</li> </ul>
Organisational improvements	10%	<ul style="list-style-type: none"> <li>Executive team development</li> <li>Future leaders program</li> <li>Marketing and innovation program</li> <li>Culture - agile, nimble, creative and diverse</li> <li>Head office / property asset rationalisation</li> <li>Environmental, social and governance (ESG)</li> </ul>

The third consideration is for strategic, company-making events above and beyond the normal pre-determined KPIs, thereby forming a special incentive. In the case of the Managing Director and CEO in FY16, his leadership and direct action in numerous strategic opportunities and negotiations conducted during the year was noted, and in particular the successful sale of Talarius.

SPECIAL INCENTIVES	MEASURES
Company-making events	<ul style="list-style-type: none"> <li>Strategic initiatives like negotiating a merger of equals with Tabcorp Holdings</li> <li>Mergers and acquisitions</li> <li>Divestment</li> <li>New business</li> <li>Category-killer products and services</li> </ul>

# Remuneration Report (CONTINUED)

## MANAGING DIRECTOR AND CEO REMUNERATION STRUCTURE (CONTINUED)

### PERFORMANCE INCENTIVE

In accordance with the annual KPIs, set at the start of FY16, and following assessment of these during his performance review, the Board determined the Managing Director and CEO's performance incentive for FY16 to be as follows

ITEM	MANAGING DIRECTOR AND CEO PERFORMANCE INCENTIVE			
	WEIGHTING %	MAXIMUM \$	RESULT \$	RESULT %
1 Financial Performance Incentive	70%	1,400,000	697,200	49.8%
2 Individual KPI Incentive	30%	600,000	558,000	93.0%
3 Special Incentive	-	-	229,800	-
<b>TOTAL</b>	<b>100%</b>	<b>2,000,000</b>	<b>1,485,000</b>	<b>74.3%</b>

The Incentive is paid to the Managing Director and CEO as 35% cash and 65% rights to restricted shares as follows:

- a cash incentive payment of \$519,750 (FY15: \$412,500);
- \$965,250 in rights to restricted shares (FY15: \$412,500)

The cash component is paid in September. Rights are granted under the Tatts plan, and priced at 10 day VWAP (\$4.01) prior to the date of recommendation to the Board that the rights be granted. The rights component is subject to shareholder approval, to be sought at the 2016 AGM.

### FIXED ANNUAL REMUNERATION INCREASE FOR FY17

In 2015, a new contract was executed for the Managing Director and CEO, which provided for a revised FAR at market benchmarks. Consistent with minimum annual increases made for the Tatts executive team, an annual increase in FAR for the Managing Director and CEO for the current financial year of 2.5% has been made.

### FORMER INCENTIVE PLANS

Annual grants under the Group's currently inactive Long-Term Incentive Plan (LTIP) were made from 2005 to 2009. With the exception of contractual remuneration arrangements in relation to the former Managing Director/Chief Executive, no grants have been made to executives since 2009.

All existing grants have been exercised or forfeited in 2016. No changes were made to the exercise or vesting conditions of such grants.

Vesting conditions for performance options and/or performance rights granted in 2005, 2006 and 2007 were based on performance against relative total shareholder return (TSR) targets. For the 2008 and 2009 grants, vesting was based on relative TSR performance and on achievement of EPS improvement targets over a three-year period:

#### TSR PERFORMANCE

The Group's performance must exceed the performance of the median company in its peer group for any vesting to occur. If this is achieved, 50% of instruments vest. If the Group's performance reaches the fourth quartile of its peer group, 100% of instruments vest (with pro rata vesting for performance between these points).

#### EPS IMPROVEMENT

Vesting targets for EPS improvement, which were set at the time of grant, were 25% for the three years from 2008 and 16% for the three years from 2009. The EPS measure for the 2009 grant excludes the Tatts Pokies NPAT segment, due to the run-off of this business. If the EPS target for a grant is met, all rights and/or options tied to the EPS condition vest. No vesting occurs if the target is not met.

GRANT YEAR	% VESTED	RETESTING STATUS	EXERCISE PRICE
FY06	84.72%	No further retesting	\$3.10
FY07	73.58%	No further retesting	\$3.65
FY08	100%	No further retesting	\$3.99
FY09	100%	No further retesting	\$2.56

Shares issued after options and rights vest and are exercised are placed into a restricted class under the LTIP until the employee requests to sell them.

During FY16, no options were exercised, while 23,022 rights were exercised. 4,950 rights were forfeited.

### CLAWBACK

Under the current incentive plan, shares issued following the exercise of rights are subject to Board discretion, and are liable to forfeiture during the disposal restriction period. This may occur in circumstances including where a participant commits an act of fraud or serious misconduct in relation to the affairs of the Group, or if there is a material misstatement in the Group's financial statements.

### CONTRACTS OF EMPLOYMENT

The employment conditions of the KMP (excluding Non-executive Directors) are provided in the table below. Other than the Managing Director and CEO, all KMP are employed under contracts of no fixed duration.

NAME	CONTRACT TERM	NOTICE PERIOD	TERMINATION PAYMENT
Robbie Cooke	3 year contract commencing 1 September 2015	The lesser of 12 months or the period remaining until 1 September 2018	No payment required on expiry of term. Early termination will attract no more than the amount allowed under the Corporations Act.
Barrie Fletton	No fixed duration	12 months	Combination of notice and payment in lieu, totalling no less than 12 months.
Neale O'Connell	No fixed duration	12 months	Combination of notice and payment in lieu, totalling no less than 12 months.
Mandy Ross	No fixed duration	6 months	Combination of notice and payment in lieu, totalling no less than 6 months.
Sue van der Merwe	No fixed duration	6 months	Combination of notice and payment in lieu, totalling no less than 6 months.

In the event of serious misconduct, the Group may terminate employment at any time without a termination payment being made. Any options or rights not exercised before or on the date of termination will lapse.

### ADDITIONAL INFORMATION

#### HEDGING

Employees (and closely related parties of KMP) who receive incentives in the form of equity may not enter into any contract, arrangement or transaction that is designed or intended to hedge or otherwise limit economic exposure to the risk relating to the Company's shares, which are subject to an unvested award or a vested award subject to a holding lock or other disposal restriction under any employee incentive plan. Any employee who is proven to have contravened the hedging policy may face disciplinary action, which, depending on the seriousness of the breach, could include termination of employment.

# Remuneration Report (CONTINUED)

## REMUNERATION CONSULTANTS

To ensure the Committee is fully informed when making remuneration decisions, it may seek external remuneration advice.

During the reporting period, the Committee engaged Godfrey Remuneration Group (GRG) to provide specific recommendations on the benchmarking and market competitiveness of remuneration practices for the KMP and other direct reports of the Managing Director and CEO. The total fee for this work was \$41,000 (excluding GST).

GRG also provided remuneration benchmarking data, but no specific recommendations were made in relation to this data. The total fee for this work was \$15,000 (excluding GST).

As previously advised, Tatts has adopted a process that complies with the Corporations Act requirement to ensure that any remuneration recommendation is free from undue influence by the KMP to whom the recommendation relates. This process requires the Committee or the Board to make any decision on engagement of a remuneration consultant. Communication, contractual engagement, and briefing of the consultant are carried out by the Committee Chair, and the consultant provides the remuneration recommendation directly to the Committee Chair. If the Committee decides that the remuneration recommendation should be shared with management, it can then be provided through the Committee Chair.

The Board is satisfied that the recommendations made by GRG were free from any undue influence by those to whom the recommendation related, for the following reasons:

- the engagement was structured in accordance with the process outlined above;
- at all times throughout the engagement, communication between GRG and Tatts was conducted by the Chair of the Remuneration and Human Resources Committee, and the KMP to whom the remuneration recommendations related had no involvement in the engagement or instruction of GRG; and
- GRG—as the remuneration consultant—provided a declaration of no undue influence, and the Committee and Board have no reason to believe that this is not accurate.

## DIRECTOR AND EXECUTIVE LOANS

There were no loans made by the Group to Directors or executives during FY16.

## NON-EXECUTIVE DIRECTOR REMUNERATION

### REMUNERATION FRAMEWORK

Non-executive Directors receive a base fee and, where applicable, an additional fee in recognition of the higher workload and extra responsibilities resulting from Board Committee participation. Fees are based on peer market benchmarks and reviewed annually.

	FEE STRUCTURE	
	BOARD	COMMITTEE (PER MEMBERSHIP)
Chair	<b>\$472,000</b> (FY15: \$462,000)	<b>\$35,000</b> (FY15: \$32,000)
Member	<b>\$185,000</b> (FY15: \$182,000)	<b>\$11,000</b> (FY15: \$10,000)

The Chair of any Board Committee receives a higher fee than a member to reflect the relative role, responsibilities and time commitment. The Board Chair does not receive additional fees for participation in, or chairing of, Board Committees.

Non-executive Directors do not receive incentive payments, nor are they entitled to participate in any Group employee or executive equity plans. They receive no non-monetary benefits and do not participate in any retirement benefit scheme, other than statutory superannuation contributions.

To align the Non-executive Directors' interests with the interests of Tatts' shareholders, the Board has established guidelines to encourage Non-executive Directors to hold a minimum of 25,000 Tatts shares. Such shares are to be acquired over a three-year period from the date of their appointment. All Non-executive Directors meet these guidelines and further details about Non-executive Directors' interests in Tatts' shares as at 30 June 2016 are set out on page 76 of this report.

As approved by the shareholders at the 2011 Annual General Meeting, the maximum aggregate Non-executive Directors' fee pool is \$2 million per annum, of which the Group utilised \$1.516 million in FY16. Fees paid to Non-executive Directors are set out in the Fee Structure table above, and are comprised of cash and statutory superannuation.

## GROUP PERFORMANCE AND REMUNERATION OUTCOMES

### FINANCIAL PERFORMANCE

In considering the Group's performance in the context of appropriate remuneration levels and structures, the Committee considers a variety of measures, such as EBIT and EBITDA growth, NPAT, EPS and TSR.

Over the past five years, there have been a number of events, including acquisitions, licence renewal, new licence outcomes, and litigation that have created substantial volatility in the accounting measures outlined above. This is highlighted in the summary below.

	FY16 <sup>1</sup>	FY15 <sup>2</sup>	FY14 <sup>3</sup>	FY13 <sup>4</sup>	FY12
Revenue from continuing operations (\$ '000)	<b>2,928,100</b>	2,803,940	2,868,334	2,948,803	2,656,859
EBIT margin (%)	<b>14.3</b>	14.4	14.4	13.7	12.2
NPAT from continuing operations (\$'000)	<b>263,382</b>	253,836	226,622	211,202	161,529
NPAT statutory (\$ '000)	<b>233,794</b>	251,964	200,421	247,336	319,139
Dividends paid/payable (\$'000)	<b>256,292</b>	239,720	192,265	216,269	311,063
Dividend payout ratio on NPAT from continuing operations (%)	<b>97.3</b>	95.1	95.9	87.4	97.4
EPS (basic) (¢)	<b>18.0</b>	17.5	16.0	17.9	23.8
Total incentives as percentage of net profit (%)	<b>4.2</b>	4.3	4.1	4.1	3.3
Share price at start of year (\$)	<b>3.72</b>	3.27	3.17	2.62	2.40
Share price at end of year (\$)	<b>3.82</b>	3.72	3.27	3.17	2.62

1. Total incentives for FY16 were based on the underlying NPAT of \$263.4 million, after adjusting for one-off items.
2. Total incentives calculated for FY15 were based on the statutory NPAT of \$252.0 million, which included the loss on discontinued operations of \$1.9 million. Revenue for FY15 was for continuing operations.
3. Total incentives calculated for FY14 were based on the underlying NPAT of \$226.6 million after adjusting for the loss on discontinued operation of \$26.2 million. Revenue for FY14 was for continuing operations.
4. Total incentives calculated for FY13 were based on the underlying NPAT of \$211.2 million after adjusting for the discontinued operation of \$19.9 million and the Golden Casket tax claim of \$16.2 million. Revenue for FY13 was for continuing operations.

The Company's share price increased by 2.7% in FY16, and the Company continues to provide a high dividend payout ratio and strong total returns to shareholders.

As a result of the FY16 achievement, the Company has created an incentive pool. Whenever the Company achieves the performance levels outlined in the incentive system, it creates an incentive pool. The section titled **Remuneration framework** on page 62 details how the incentive system aligns shareholder and employee interests.

FINANCIAL PERFORMANCE SNAPSHOT

- Revenue on continuing operations grew by 4.4% in FY16 (FY15: 1.8% increase).
- EBIT from continuing operations increased by 1.3%, and EPS increased by 2.9%.
- This delivered a 3.8% increase in NPAT (FY15: 12.9%) on a continuing operations basis. NPAT on a statutory basis fell by 7.2% following the sale of Talaris and the settlement of the Victorian compensation case.

# Remuneration Tables (CONTINUED)

REMUNERATION EXPENSES										
	Year	SHORT-TERM EMPLOYEE BENEFITS <sup>1</sup>			Other <sup>2</sup>	POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENTS		TOTAL remuneration
		Cash salary & fees	Cash incentive	Total cash				Performance rights (current yr)	Performance rights (previous yr)	
		\$	\$	\$	\$	\$	\$	\$	\$	
<b>NON-EXECUTIVE DIRECTORS</b>										
<b>Harry Boon</b>	<b>FY16</b>	<b>451,025</b>	<b>-</b>	<b>451,025</b>	<b>-</b>	<b>19,308</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>470,333</b>
	FY15	440,384	-	440,384	-	18,783	-	-	-	459,167
<b>Lyndsey Cattermole</b>	<b>FY16</b>	<b>195,333</b>	<b>-</b>	<b>195,333</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>195,333</b>
	FY15	190,904	-	190,904	-	-	-	-	-	190,904
<b>Brian Jamieson</b>	<b>FY16</b>	<b>210,525</b>	<b>-</b>	<b>210,525</b>	<b>-</b>	<b>19,308</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>229,833</b>
	FY15	204,050	-	204,050	-	18,783	-	-	-	222,833
<b>Julien Playoust</b>	<b>FY16</b>	<b>210,525</b>	<b>-</b>	<b>210,525</b>	<b>-</b>	<b>19,308</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>229,833</b>
	FY15	204,050	-	204,050	-	18,783	-	-	-	222,833
<b>Kevin Seymour</b>	<b>FY16</b>	<b>178,386</b>	<b>-</b>	<b>178,386</b>	<b>-</b>	<b>16,947</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>195,333</b>
	FY15	174,410	-	174,410	-	16,494	-	-	-	190,904
<b>Dr David Watson</b>	<b>FY16</b>	<b>178,386</b>	<b>-</b>	<b>178,386</b>	<b>-</b>	<b>16,947</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>195,333</b>
	FY15	174,342	-	174,342	-	16,562	-	-	-	190,904
<b>SUB-TOTAL</b>	<b>FY16</b>	<b>1,424,180</b>	<b>-</b>	<b>1,424,180</b>	<b>-</b>	<b>91,818</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,515,998</b>
Non-executive Directors	FY15	1,388,140	-	1,388,140	-	89,405	-	-	-	1,477,545
<b>EXECUTIVE DIRECTORS</b>										
<b>Robbie Cooke</b> (Managing Director and CEO)	<b>FY16</b>	<b>1,908,192</b>	<b>519,750</b>	<b>2,427,942</b>	<b>-</b>	<b>19,381</b>	<b>37,703</b>	<b>965,250</b>	<b>170,625</b>	<b>3,620,901</b>
	FY15	1,529,550	412,500	1,942,050	-	18,783	29,433	412,500	438,750	2,841,516
<b>SUB-TOTAL</b>	<b>FY16</b>	<b>1,908,192</b>	<b>519,750</b>	<b>2,427,942</b>	<b>-</b>	<b>19,381</b>	<b>37,703</b>	<b>965,250</b>	<b>170,625</b>	<b>3,620,901</b>
Executive Directors	FY15	1,529,550	412,500	1,942,050	-	18,783	29,433	412,500	438,750	2,841,516
<b>OTHER KEY MANAGEMENT PERSONNEL (GROUP)</b>										
<b>Barrie Fletton</b> (COO Wagering) <sup>3</sup>	<b>FY16</b>	<b>550,692</b>	<b>-</b>	<b>550,692</b>	<b>-</b>	<b>19,308</b>	<b>15,736</b>	<b>-</b>	<b>-</b>	<b>585,736</b>
	FY15	568,956	93,333	662,289	-	19,506	15,751	46,667	-	744,213
<b>Neale O'Connell</b> (CFO) <sup>4</sup>	<b>FY16</b>	<b>771,526</b>	<b>255,000</b>	<b>1,026,526</b>	<b>150,687</b>	<b>19,381</b>	<b>14,861</b>	<b>230,000</b>	<b>-</b>	<b>1,441,455</b>
	FY15	717,477	230,000	947,477	-	18,783	13,824	230,000	-	1,210,084
<b>Mandy Ross</b> (CIO) <sup>5</sup>	<b>FY16</b>	<b>451,525</b>	<b>120,000</b>	<b>571,525</b>	<b>-</b>	<b>19,381</b>	<b>8,674</b>	<b>120,000</b>	<b>-</b>	<b>719,580</b>
	FY15	218,469	120,000	338,469	-	9,392	4,104	120,000	-	471,965
<b>Sue van der Merwe</b> (COO Lotteries) <sup>6</sup>	<b>FY16</b>	<b>401,058</b>	<b>160,000</b>	<b>561,058</b>	<b>-</b>	<b>47,035</b>	<b>11,657</b>	<b>80,000</b>	<b>-</b>	<b>699,750</b>
	FY15	339,607	146,667	486,274	-	34,547	10,795	73,333	-	604,949
<b>Stephen Lawrie</b> (CIO) <sup>7</sup>	<b>FY16</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	FY15	498,828	-	498,828	-	12,522	7,222	-	-	518,572
<b>Bill Thorburn</b> (COO Lotteries) <sup>8</sup>	<b>FY16</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	FY15	29,422	-	29,422	-	3,751	695	-	-	33,868
<b>SUB-TOTAL</b> Other Key Management Personnel	<b>FY16</b>	<b>2,174,801</b>	<b>535,000</b>	<b>2,709,801</b>	<b>150,687</b>	<b>105,105</b>	<b>50,928</b>	<b>430,000</b>	<b>-</b>	<b>3,446,521</b>
	FY15	2,372,759	590,000	2,962,759	-	98,501	52,391	470,000	-	3,583,651
<b>TOTAL</b>	<b>FY16</b>	<b>5,507,173</b>	<b>1,054,750</b>	<b>6,561,923</b>	<b>150,687</b>	<b>216,304</b>	<b>88,631</b>	<b>1,395,250</b>	<b>170,625</b>	<b>8,583,420</b>
	FY15	5,290,449	1,002,500	6,292,949	-	206,689	81,824	882,500	438,750	7,902,712

Notes

- Short-term benefits may include amounts paid to superannuation at the discretion of the individual.
- Comprises the cost to the Company for relocation expenses.
- Executive of an operating unit that contributes greater than 25% to continuing EBITDA.
- Executive of a service unit with responsibility for planning, controlling and directing of the Group.
- Executive of a service unit with responsibility for planning, controlling and directing of the Group. Appointed 1 January 2015.
- Executive of an operating unit that contributes greater than 25% to continuing EBITDA. Appointed 21 July 2014.
- Ceased employment 10 February 2015.
- Ceased to be in a KMP role 18 July 2014.

In the preceding table, cash incentives represent 100% of the cash component of the annual incentive paid to each executive for the financial year. The remaining proportion of their total incentive paid for the year is included in the performance rights column.

KMP have received the following percentages of their total target incentive for the year, with the respective splits between cash and performance rights outlined.

	YEAR	TOTAL TARGET INCENTIVE ACHIEVED	INCENTIVE PLAN		PORTION OF REMUNERATION		
			CASH	PERFORMANCE RIGHTS	TOTAL REMUNERATION	RELATED TO GROUP PERFORMANCE	NOT RELATED TO GROUP PERFORMANCE
<b>Robbie Cooke</b>	<b>FY16</b>	<b>74%</b>	<b>35%</b>	<b>65%</b>	<b>3,620,901</b>	<b>41%</b>	<b>59%</b>
	FY15	75%	50%	50%	2,841,516	29%	71%
<b>Barrie Fletton</b>	<b>FY16</b>	<b>-</b>	<b>67%</b>	<b>33%</b>	<b>585,736</b>	<b>0%</b>	<b>100%</b>
	FY15	41%	67%	33%	744,213	19%	81%
<b>Neale O'Connell</b>	<b>FY16</b>	<b>86%</b>	<b>53%</b>	<b>47%</b>	<b>1,441,455</b>	<b>34%</b>	<b>66%</b>
	FY15	88%	50%	50%	1,210,084	38%	62%
<b>Mandy Ross</b>	<b>FY16</b>	<b>72%</b>	<b>50%</b>	<b>50%</b>	<b>719,580</b>	<b>33%</b>	<b>67%</b>
	FY15	76%	50%	50%	471,965	51%	49%
<b>Sue van der Merwe</b>	<b>FY16</b>	<b>88%</b>	<b>67%</b>	<b>33%</b>	<b>699,750</b>	<b>34%</b>	<b>66%</b>
	FY15	88%	67%	33%	604,949	36%	64%
<b>Stephen Lawrie</b> <sup>1</sup>	<b>FY16</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>	<b>N/A</b>	<b>N/A</b>
	FY15	N/A	N/A	N/A	518,572	N/A	N/A
<b>Bill Thorburn</b> <sup>2</sup>	<b>FY16</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>	<b>N/A</b>	<b>N/A</b>
	FY15	N/A	N/A	N/A	33,868	N/A	N/A

<sup>1</sup> Ceased employment 10 February 2015.

<sup>2</sup> Ceased to be in a KMP role 18 July 2014.

**TERMS AND CONDITIONS OF EQUITY INSTRUMENTS**

Shares issued under the Group's incentive plan are subject to a cap of 5% of equity. This is inclusive of shares that may be issued in respect of each outstanding offer or grant of shares, options or rights if accepted or exercised under other equity plans. This amount excludes offers made outside of Australia, made under a disclosure document, or which do not require a disclosure document.

(a) Terms and conditions of options and rights

Terms, conditions and total unissued shares for each grant of options and rights for the previous and current reporting periods are as follows.

# Remuneration Tables (CONTINUED)

AWARD TYPE	GRANT DATE	EXPIRY DATE	EXERCISE PRICE	VALUE PER OPTION/ RIGHT AT GRANT DATE	DATE EXERCISABLE
Performance options	30 November 2007	30 November 2014	\$3.99	\$1.02	30 November 2010
	30 November 2008 <sup>1</sup>	30 November 2015	\$2.56	\$0.33	30 November 2011
Performance rights	30 November 2009 <sup>2</sup>	30 November 2016	N/A	\$1.36	30 November 2012
	30 November 2009 <sup>3</sup>	30 November 2016	N/A	\$1.87	30 November 2012
Performance right (former Managing Director/CE)	27 October 2011 <sup>2</sup>	10 January 2016	N/A	\$1.26	12 October 2014
	27 October 2011 <sup>2</sup>	10 January 2015	N/A	\$1.81	12 October 2014
Performance rights	31 October 2014 <sup>4</sup>	1 November 2015	N/A	\$3.49	1 November 2015
	3 November 2015 <sup>4</sup>	1 November 2016	N/A	\$3.99	1 November 2016
	October 2016 <sup>5</sup>	November 2016	N/A	\$4.01	November 2017

1 Options granted with TSR market based vesting conditions.

4 Rights granted under current incentive plan at fair value.

2 Rights granted with TSR market based vesting conditions.

5 Rights granted under current incentive plan at share price value.

3 Rights granted with EPS non-market based vesting conditions.

Upon exercise of performance options or rights, the holder receives one fully paid ordinary share in the Company.

Options and rights issued under the current plan, and the currently inactive LTIP, carry no dividend or voting rights. They do not entitle holders to participate in issues of shares, except in respect of pro-rata incentive and rights issues in the manner specified by the ASX Listing Rules.

The exercise price of options awarded is based on the 30-day weighted average share price up to and including the determination date.

FY16	A REMUNERATION CONSISTING OF RIGHTS %	B VALUE AT GRANT DATE ISSUE INCENTIVE \$	C VALUE AT EXERCISE DATE \$	D VALUE AT LAPSE DATE \$
Robbie Cooke	27%	965,250	1,087,814	-
Barrie Fletton	0%	-	97,029	-
Neale O'Connell	16%	230,000	249,499	-
Mandy Ross	17%	120,000	-	-
Sue van der Merwe	11%	80,000	17,740	-

A The percentage of the value of remuneration consisting of rights, based on the value of rights expensed during the current year.

B The accounting and/or cash value at grant date of rights granted during or in respect of the year as part of remuneration.

C The value at exercise date of options and rights that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the rights at that date.

D The value—determined at lapse date—of rights that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined as though all conditions were satisfied.

## RIGHTS

Of the 510,314 rights that vested during FY16 (FY15: 757,252), all were exercised. No consideration is payable on the exercise of rights. During the same period, 4,950 rights were forfeited (FY15: 25,071).

Non-executive Directors are not entitled to receive performance rights.

Unissued ordinary shares in the Company under performance rights at the date of this report are shown in the table below.

AWARD TYPE	GRANT DATE	EXPIRY DATE	EXERCISE PRICE	NUMBER UNDER RIGHTS
Performance right	3 November 2015	1 November 2016	N/A	150,000
Performance right	3 November 2015	1 November 2016	N/A	350,971
<b>Total</b>				<b>500,971</b>

NAME	YEAR	BALANCE AT START OF YEAR	GRANTED AS COMPENSATION	EXERCISED <sup>1</sup>	LAPSED	BALANCE AT END OF YEAR	VESTED AND EXERCISABLE	UNVESTED
Robbie Cooke	<b>FY16</b>	<b>384,472</b>	<b>390,711</b>	<b>281,089</b>	-	<b>494,094</b>	-	<b>494,094</b>
	FY15	341,163	253,383	210,074	-	384,472	-	384,472
Barrie Fletton	<b>FY16</b>	<b>36,768</b>	-	<b>25,072</b>	-	<b>11,696</b>	-	<b>11,696</b>
	FY15	61,995	11,696	36,923	-	36,768	-	36,768
Neale O'Connell	<b>FY16</b>	<b>122,114</b>	<b>57,357</b>	<b>64,470</b>	-	<b>115,001</b>	-	<b>115,001</b>
	FY15	114,470	57,644	50,000	-	122,114	-	122,114
Mandy Ross	<b>FY16</b>	<b>30,075</b>	<b>29,925</b>	-	-	<b>60,000</b>	-	<b>60,000</b>
	FY15	-	30,075	-	-	30,075	-	30,075
Sue van der Merwe	<b>FY16</b>	<b>22,963</b>	<b>19,950</b>	<b>4,584</b>	-	<b>38,329</b>	-	<b>38,329</b>
	FY15	15,938	18,379	11,354	-	22,963	-	22,963
Stephen Lawrie <sup>2</sup>	<b>FY16</b>	-	-	-	-	-	-	-
	FY15	70,509	-	46,154	24,355	-	-	-
Bill Thorburn <sup>3</sup>	<b>FY16</b>	-	-	-	-	-	-	-
	FY15	70,510	-	-	-	70,510	-	70,510

1 For FY16, upon vesting on 28 October 2015, one ordinary share per right was allocated.

2 Ceased employment 10 February 2015.

3 Ceased to be in a KMP role 18 July 2014.

Details of rights vested, exercised and forfeited are in the table below.

GRANT DATE	VESTING DATE	VESTED PERCENTAGE	EXERCISED	LAPSED	BALANCE AT 30 JUNE 2016
27 October 2011 (former Managing Director/CE)	10 January 2015	96%	-	4,950	-
3 November 2014	1 November 2015	100%	150,000	-	-
3 November 2014	1 November 2015	100%	360,314	-	-

## OPTIONS

In FY16, no performance options were exercised and shares issued (FY15: 947,800). No performance options were granted. Non-executive Directors are not entitled to receive performance options.

NAME	YEAR	BALANCE AT START OF YEAR	GRANTED AS COMPENSATION	EXERCISED <sup>1</sup>	LAPSED	BALANCE AT END OF YEAR	VESTED AND EXERCISABLE	UNVESTED
Robbie Cooke	<b>FY16</b>	-	-	-	-	-	-	-
	FY15	-	-	-	-	-	-	-
Barrie Fletton	<b>FY16</b>	-	-	-	-	-	-	-
	FY15	344,257	-	239,600	104,657	-	-	-
Neale O'Connell	<b>FY16</b>	-	-	-	-	-	-	-
	FY15	25,927	-	-	25,927	-	-	-
Mandy Ross	<b>FY16</b>	-	-	-	-	-	-	-
	FY15	-	-	-	-	-	-	-
Sue van der Merwe	<b>FY16</b>	-	-	-	-	-	-	-
	FY15	20,219	-	-	20,219	-	-	-
Stephen Lawrie <sup>1</sup>	<b>FY16</b>	-	-	-	-	-	-	-
	FY15	349,679	-	-	102,279	247,400	247,400	-
Bill Thorburn <sup>2</sup>	<b>FY16</b>	-	-	-	-	-	-	-
	FY15	316,150	-	-	100,000	216,150	216,150	-

1 Ceased employment 10 February 2015.

2 Ceased to be in a KMP role 18 July 2014.

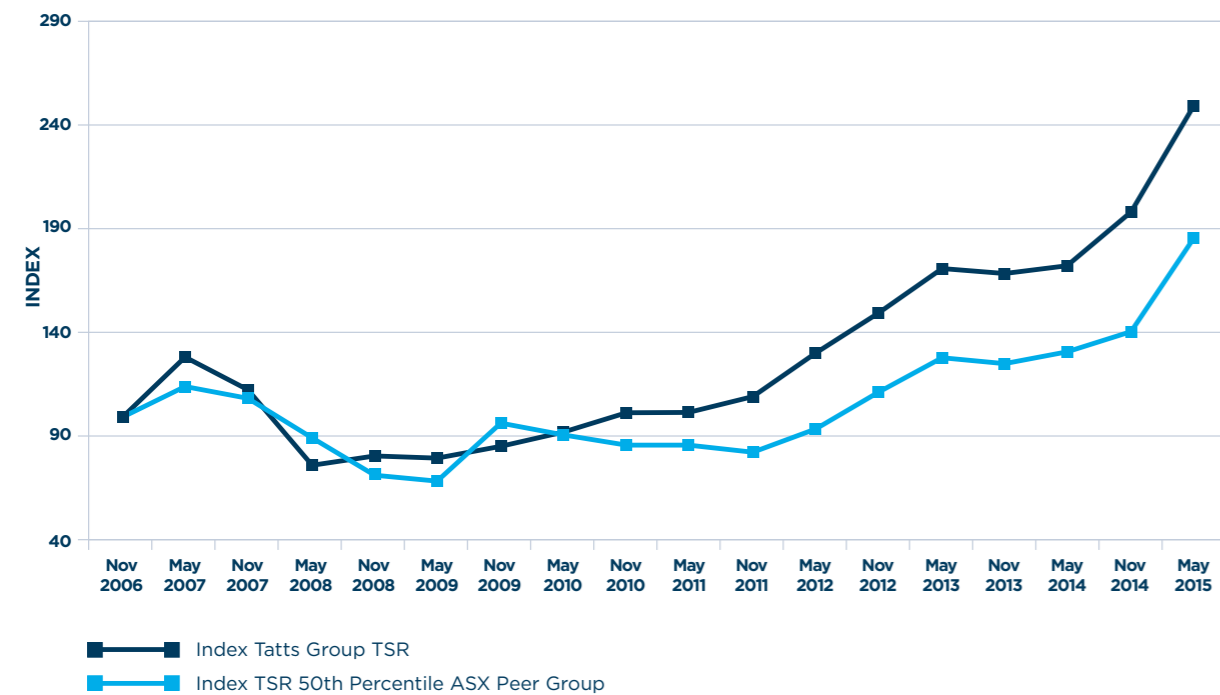
# Remuneration Tables (CONTINUED)

Details of options vested, exercised and forfeited are in the table below.

GRANT DATE	VESTING DATE	VESTED PERCENTAGE	EXERCISED	LAPSED	BALANCE AT 30 JUNE 2016
30 November 2007	30 May 2012	100%	-	861,371	-
30 November 2008	30 May 2012	100%	947,800	-	-

## TESTING OF TOTAL SHAREHOLDER RETURN

TSR 50TH PERCENTILE INDEX  
TATTS GROUP LIMITED VERSUS ASX PEER GROUP  
(30 NOVEMBER 2006 INDEX = 100)



Testing of TSR against grants of rights and options under previous incentive schemes is only required up to May 2015.

Details of grants that are subject to the TSR condition, and the outcome of this testing, are included in the table below.

GRANT DATE	TESTING DATE	TESTING OUTCOME	TOTAL VESTED PERCENTAGE
2008	November 2011	62.49 percentile	74.98%
	May 2012	73.95 percentile	97.90% (from 74.98%)
	November 2012	81.60 percentile	100% (from 97.90%)
2009	November 2012	78.10 percentile	100%
2009 <sup>1</sup>	October 2012	76.44 percentile	100%
2010 <sup>1</sup>	October 2013	77.74 percentile	100%

<sup>1</sup> Issued only to the former Managing Director/Chief Executive.

## RECONCILIATION OF OPTIONS AND RIGHTS

NAME	FINANCIAL YEAR GRANTED OR IN RESPECT OF FINANCIAL YEAR	VESTED %	FORFEITED %	FINANCIAL YEARS IN WHICH OPTIONS/ RIGHTS MAY VEST	MINIMUM TOTAL VALUE OF OPTIONS/ RIGHTS GRANT YET TO VEST	MAXIMUM TOTAL VALUE OF OPTIONS/ RIGHTS GRANT YET TO VEST \$
<b>Robbie Cooke</b>	<b>2016</b>	-	-	<b>2017</b>	<b>Nil</b>	<b>965,250</b>
	2015	-	-	2016	Nil	900,000
	2014	100%	-	2015	Nil	-
	2013	100%	-	2014	Nil	-
<b>Barrie Fletton</b>	<b>2016</b>	-	-	<b>2017</b>	<b>Nil</b>	<b>-</b>
	2015	-	-	2016	Nil	46,667
	2014	100%	-	2015	Nil	-
	2013	100%	-	2014	Nil	-
<b>Neale O'Connell</b>	<b>2016</b>	-	-	<b>2017</b>	<b>Nil</b>	<b>230,000</b>
	2015	-	-	2016	Nil	230,000
	2014	100%	-	2015	Nil	-
	2013	100%	-	2014	Nil	-
<b>Mandy Ross</b>	<b>2016</b>	-	-	<b>2017</b>	<b>Nil</b>	<b>120,000</b>
	2015	-	-	2016	Nil	120,000
	2014	-	-	2015	Nil	N/A
<b>Sue van der Merwe</b>	<b>2016</b>	-	-	<b>2017</b>	<b>Nil</b>	<b>80,000</b>
	2015	-	-	2016	Nil	73,332
	2014	100%	-	2015	Nil	-
	2013	100%	-	2014	Nil	-

# Remuneration Tables (CONTINUED)

## SHAREHOLDINGS AND TATTS BONDS HOLDINGS

The numbers of shares in the Company held during the financial year by each of the KMP, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation, and all shares are ordinary shares.

NAME	YEAR	BALANCE AT START OF YEAR	RECEIVED DURING YEAR ON EXERCISE OF OPTIONS/RIGHTS	OTHER CHANGES DURING YEAR	BALANCE AT END OF YEAR
<b>DIRECTORS OF TATTS GROUP LIMITED</b>					
Harry Boon	<b>FY16</b>	<b>150,000</b>	-	-	<b>150,000</b>
	FY15	150,000	-	-	150,000
Robbie Cooke	<b>FY16</b>	<b>210,074</b>	<b>281,089</b>	-	<b>491,163</b>
	FY15	-	210,074	-	210,074
Lyndsey Cattermole	<b>FY16</b>	<b>182,663</b>	-	-	<b>182,663</b>
	FY15	182,663	-	-	182,663
Brian Jamieson	<b>FY16</b>	<b>114,734</b>	-	-	<b>114,734</b>
	FY15	80,943	-	33,791	114,734
Julien Playoust	<b>FY16</b>	<b>25,000</b>	-	-	<b>25,000</b>
	FY15	25,000	-	-	25,000
Kevin Seymour	<b>FY16</b>	<b>14,108,306</b>	-	-	<b>14,108,306</b>
	FY15	14,108,306	-	-	14,108,306
Dr David Watson	<b>FY16</b>	<b>25,000</b>	-	-	<b>25,000</b>
	FY15	25,000	-	-	25,000
<b>OTHER KEY MANAGEMENT PERSONNEL OF THE GROUP</b>					
Barrie Fletton	<b>FY16</b>	<b>375,902</b>	<b>25,072</b>	-	<b>400,974</b>
	FY15	198,979	276,523	(99,600)	375,902
Neale O'Connell	<b>FY16</b>	<b>172,448</b>	<b>64,470</b>	-	<b>236,918</b>
	FY15	122,448	50,000	-	172,448
Mandy Ross	<b>FY16</b>	-	-	-	-
	FY15	-	-	-	-
Sue van der Merwe	<b>FY16</b>	<b>52,715</b>	<b>4,584</b>	-	<b>57,299</b>
	FY15	41,361	11,354	-	52,715
Stephen Lawrie <sup>1</sup>	<b>FY16</b>	-	-	-	-
	FY15	174,949	46,154	-	221,103
Bill Thorburn <sup>2</sup>	<b>FY16</b>	-	-	-	-
	FY15	167,030	-	-	167,030

1. Ceased employment 10 February 2015, and balance shown is as at that date.

2. Ceased to be in a KMP role 18 July 2014

NAME	YEAR	BALANCE AT START OF YEAR	ACQUIRED DURING THE YEAR	DISPOSED DURING THE YEAR	BALANCE AT END OF YEAR
<b>TATTS BONDS HOLDINGS OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL</b>					
Barrie Fletton	<b>FY16</b>	<b>300</b>	-	-	<b>300</b>
	FY15	300	-	-	300

# Directors' Report (CONTINUED)

## OPERATING AND FINANCIAL REVIEW (CONTINUED)

### ADDITIONAL INFORMATION

#### INDEMNITIES AND INSURANCE

Article 7.3 of the Company's Constitution provides that every person who is or has been a Director or Secretary of the Company or of a subsidiary of the Company may be indemnified by the Company, to the extent permitted by law, against liabilities:

- incurred by the person as an officer (as defined in the Corporations Act) of the Company or a subsidiary of the Company; and
- for legal costs incurred by the person in defending an action for a liability incurred by that person as an officer of the Company or a subsidiary of the Company.

The Company has executed Deeds of Indemnity, Insurance and Access, consistent with this Article, in favour of all current and former Directors of the Company, certain current and former Directors of related bodies corporate of the Company, and the current and certain former Secretaries of the Company. Each Deed indemnifies those persons for the full amount of all such liabilities including costs and expenses.

For the year ended 30 June 2016, no amounts have been paid pursuant to indemnities (2015: Nil).

The Company's Constitution also allows the Company to pay insurance premiums for contracts insuring the officers of the Company in relation to any such liabilities and legal costs.

During or since the end of the financial year, consistent with the Company's Constitution, the Company has paid the premium in respect of a contract insuring each of the Directors and the Secretary named in this Directors' Report, the former Directors, and the officers of the Company and its subsidiaries as permitted by the Corporations Act. The class of officers insured by the policy includes all officers involved in the management of the Group. The terms of the contract of insurance prohibit the disclosure of the nature of the liabilities insured against and the amount of the premium.

Pursuant to the terms of the Company's standard engagement letter with PricewaterhouseCoopers (PwC), it indemnifies PwC against any liabilities, including legal costs, that PwC incurs, in connection with any claim by a third party arising out of or in relation to the provision of services or the use of any work performed under, or a breach of, the engagement letter. The indemnity is for the full amount of all such liabilities including costs and expenses. The indemnity does not apply if prohibited by the Corporations Act.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act.

### NON-AUDIT SERVICES

The non-audit services paid to the auditors (PwC) was for tax compliance services amounting to \$53,533.

### AUDITOR'S INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 78 and forms part of the Directors' Report for the financial year ended 30 June 2016.

### ROUNDING OF AMOUNTS

The Company is of a kind referred to in Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Legislative Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

### DIRECTORS' RESOLUTION

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



**HARRY BOON**

Chairman



**ROBBIE COOKE**

Managing Director and CEO

Brisbane 18 August 2016

# Auditor's Independence Declaration



## Auditor's Independence Declaration

As lead auditor for the audit of Tatts Group Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Tatts Group Limited and the entities it controlled during the period.

Steven Bosiljevac  
Partner  
PricewaterhouseCoopers

Brisbane  
18 August 2016

# ANNUAL FINANCIAL REPORT

## FINANCIAL STATEMENTS

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For the year ended 30 June 2016

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To the Members of Tatts Group Limited

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PricewaterhouseCoopers, ABN 52 780 433 757  
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001  
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

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# Consolidated Income Statement

FOR THE YEAR ENDED  
30 JUNE 2016

	NOTES	2016 \$'000	2015 \$'000
<b>Revenue from continuing operations</b>	2	<b>2,928,100</b>	2,803,940
<b>Statutory outgoings</b>			
Government share		(1,370,885)	(1,271,452)
Venue share/commission		(436,719)	(417,027)
Product and program fees		(202,691)	(203,138)
<b>Other expenses from ordinary activities</b>			
Employee expenses		(181,817)	(182,939)
Operating fees and direct costs		(57,386)	(65,878)
Telecommunications and technology		(38,739)	(35,996)
Marketing and promotions		(61,196)	(55,516)
Information services		(19,805)	(19,185)
Property expenses		(24,839)	(25,357)
Restructuring expenses		(4,039)	(1,725)
Other expenses		(35,191)	(34,731)
<b>Profit before interest, income tax, depreciation and amortisation</b>		<b>494,793</b>	490,996
Depreciation and amortisation	3	(75,219)	(76,882)
Interest income		5,283	7,442
Finance costs	3	(46,370)	(58,299)
<b>Profit before income tax</b>		<b>378,487</b>	363,257
Income tax expense	4	(115,105)	(109,421)
<b>Profit from continuing operations</b>		<b>263,382</b>	253,836
Loss from discontinued operations	21	(29,588)	(1,872)
<b>Profit attributable to owners of Tatts Group Limited</b>		<b>233,794</b>	251,964

		Cents	Cents
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share	16	18.0	17.5
Diluted earnings per share	16	18.0	17.5
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share	16	16.0	17.4
Diluted earnings per share	16	16.0	17.4

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

# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED  
30 JUNE 2016

	NOTES	2016 \$'000	2015 \$'000
<b>Profit for the year</b>		<b>233,794</b>	251,964
<b>Other comprehensive income</b>			
<b>Items that may be reclassified to profit or loss</b>			
Changes in the fair value of available-for-sale financial assets	14	(18)	(115)
Changes in the value of net investment hedges	14	(41,581)	(10,367)
Changes in the value of cross currency interest rate swaps	14	564	7,382
Changes in the value of interest rate swaps	14	(16)	1,599
Changes in the value of forward foreign exchange contracts	14	(80)	116
Exchange differences on translation of foreign operations	14	49,306	4,554
Income tax relating to these items		(135)	(2,706)
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial (losses)/gains on retirement benefit obligation		(6,389)	5,268
Income tax relating to these items	4	2,060	(1,360)
<b>Other comprehensive income for the year, net of tax</b>		<b>3,711</b>	4,371
<b>Total comprehensive income attributable to the owners of Tatts Group Limited</b>		<b>237,505</b>	256,335

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

# Consolidated Balance Sheet

AS AT 30 JUNE 2016

	NOTES	2016 \$'000	2015 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	194,064	421,638
Trade and other receivables	6	81,994	80,621
Inventories		2,324	3,718
Derivative financial instruments		-	80
Current tax receivables		50,023	-
Assets classified as held for sale	7	14,957	2,400
Other current assets	9	49,353	47,598
<b>Total current assets</b>		<b>392,715</b>	<b>556,055</b>
<b>Non-current assets</b>			
Trade and other receivables		924	116
Available-for-sale financial assets	18	19,884	19,394
Property, plant and equipment	10	156,706	210,230
Held-to-maturity investments	18	35,240	-
Derivative financial instruments	20	94,872	76,075
Intangible assets	11	4,461,832	4,652,545
Deferred tax assets	4	1	9,524
Other non-current assets	9	71,199	1,402
<b>Total non-current assets</b>		<b>4,840,658</b>	<b>4,969,286</b>
<b>Total assets</b>		<b>5,233,373</b>	<b>5,525,341</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	8	593,964	598,508
Interest bearing liabilities	19	-	333,168
Derivative financial instruments	20	751	461
Tax liabilities		-	25,622
Provisions	12	17,742	18,999
Other current liabilities	9	49,353	588,066
<b>Total current liabilities</b>		<b>661,810</b>	<b>1,564,824</b>
<b>Non-current liabilities</b>			
Trade and other payables	8	187,371	178,849
Interest bearing liabilities	19	1,123,723	585,359
Deferred tax liabilities	4	264,551	208,173
Derivative financial instruments	20	5,973	6,247
Provisions	12	2,896	3,324
Employee benefit obligations	13	14,323	7,493
<b>Total non-current liabilities</b>		<b>1,598,837</b>	<b>989,445</b>
<b>Total liabilities</b>		<b>2,260,647</b>	<b>2,554,269</b>
<b>Net assets</b>		<b>2,972,726</b>	<b>2,971,072</b>
<b>EQUITY</b>			
Contributed equity	14	2,854,416	2,841,366
Other reserves	14	(2,154)	(9,978)
Retained earnings	14	120,464	139,684
<b>Capital and reserves attributable to owners of Tatts Group Limited</b>		<b>2,972,726</b>	<b>2,971,072</b>
<b>Total equity</b>		<b>2,972,726</b>	<b>2,971,072</b>

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

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED  
30 JUNE 2016

	NOTES	SHARE CAPITAL \$'000	OTHER RESERVES \$'000	RETAINED EARNINGS \$'000	TOTAL EQUITY \$'000
ATTRIBUTABLE TO OWNERS OF TATTS GROUP LIMITED					
Balance at 1 July 2014		2,748,417	(8,762)	92,006	2,831,661
Profit for the year		-	-	251,964	251,964
Other comprehensive income		-	463	3,908	4,371
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>463</b>	<b>255,872</b>	<b>256,335</b>
<b>Transactions with owners in their capacity as owners:</b>					
Dividend Reinvestment Plan issues		88,028	-	-	88,028
Dividends provided for or paid	15	-	-	(209,073)	(209,073)
Employee performance rights		2,201	(505)	-	1,696
Employee share options		2,720	(1,174)	879	2,425
		92,949	(1,679)	(208,194)	(116,924)
<b>Balance at 30 June 2015</b>		<b>2,841,366</b>	<b>(9,978)</b>	<b>139,684</b>	<b>2,971,072</b>
<b>Balance at 1 July 2015</b>					
Profit for the year		-	-	233,794	233,794
Other comprehensive income		-	8,040	(4,329)	3,711
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>8,040</b>	<b>229,465</b>	<b>237,505</b>
<b>Transactions with owners in their capacity as owners:</b>					
Dividend Reinvestment Plan issues		11,268	-	-	11,268
Dividends provided for or paid	15	-	-	(248,691)	(248,691)
Employee performance rights		1,782	(216)	6	1,572
		13,050	(216)	(248,685)	(235,851)
<b>Balance at 30 June 2016</b>		<b>2,854,416</b>	<b>(2,154)</b>	<b>120,464</b>	<b>2,972,726</b>

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

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED  
30 JUNE 2016

	NOTES	2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST) net of prizes paid/cash returns to customers		3,056,063	3,041,528
Payments to suppliers and employees (inclusive of GST)		(488,991)	(499,181)
Payments to Government		(1,475,487)	(1,352,400)
Payments to venues/commission		(436,719)	(417,027)
Payments for product and program fees		(202,710)	(200,221)
		452,156	572,699
Other revenue		17	27
Interest received		5,417	7,438
Interest paid		(43,827)	(56,342)
Interest paid for legal compensation claim		(26,632)	-
Income taxes paid		(124,416)	(83,997)
<b>Net cash inflow from operating activities</b>	5	262,715	439,825
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment	10	(35,883)	(45,296)
Payments for intangibles		(26,400)	(56,616)
Payments for held-to-maturity investments	18	(35,240)	-
Proceeds from sale of assets held for sale		1,201	66
Proceeds/(payments) from sale of available-for-sale assets		(508)	34,260
Proceeds on disposal of controlled entities net of cash	21	188,861	-
<b>Net cash inflow/(outflow) from investing activities</b>		92,031	(67,586)
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares		-	2,426
Dividends paid net of Dividend Reinvestment Plan		(237,423)	(121,045)
Proceeds from borrowings		462,801	-
Repayment of borrowings		(266,081)	(520,000)
Payments for legal compensation claim excluding interest	9	(540,468)	-
<b>Net cash (outflow) from financing activities</b>		(581,171)	(638,619)
Net (decrease)/ in cash and cash equivalents		(226,425)	(266,380)
Cash and cash equivalents at the beginning of the financial year		421,638	687,118
Effects of exchange rate changes on cash and cash equivalents		(1,149)	900
<b>Cash and cash equivalents at end of year</b>	5	194,064	421,638

The above figures directly reconcile to cash and cash equivalents in the balance sheet at the end of the year.

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements

30 JUNE 2016

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# Basis of Preparation

30 JUNE 2016

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the Corporations Act. The Group is a for-profit entity for the purpose of preparing the financial statements.

## COMPLIANCE WITH IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## HISTORICAL COST CONVENTION

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and retirement benefit obligation plan assets.

## PRINCIPLES OF CONSOLIDATION

### SUBSIDIARIES

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2016 and the results of all subsidiaries for the year then ended. Tatts Group Limited and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

### EUROPEAN GAMING GROUP

The investment in the European Gaming Group was partially financed by a loan denominated in United Kingdom Pound Sterling (GBP). The loan was designated as a net investment hedge within the consolidated financial statements.

In the Company, the investment was designated as a fair value hedge of the foreign currency risk associated with the loan. The investment hedged was revalued based on the closing GBP/AUD exchange rate with the gain/loss on revaluation being recognised in the statement of comprehensive income in line with the corresponding gain/loss arising on the revaluation of the GBP loan up to date of disposal.

## FOREIGN CURRENCY TRANSLATION

### FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars (AUD), which is the Company's functional and presentation currency.

## FOREIGN CURRENCY TRANSLATION

### TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are recognised in the statement of comprehensive income.

### GROUP COMPANIES

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and consolidated statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### ROUNDING OF AMOUNTS

The Company is of a kind referred to in Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Legislative Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

# KEY NUMBERS

## 1. Segment Information

30 JUNE 2016

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 Managing Director and Chief Executive Officer.

### OPERATING SEGMENTS

The Group is organised on a global basis into the following segments by product and service type.

SEGMENT	PRODUCT AND SERVICE TYPE
Lotteries	The operation of lottery licences within the states of Victoria, New South Wales, Tasmania, ACT, the operation of a Lottery Operator Agreement in Queensland, South Australia, and an agreement in Northern Territory to conduct lotteries.
Wagering	Totalisator and fixed odds betting on thoroughbred, harness, greyhounds and other sporting events pursuant to licences in Queensland, South Australia, Northern Territory and Tasmania.
Maxgaming	Gaming machine monitoring and value added services in Queensland, New South Wales and the Northern Territory.
Bytecraft Systems	Warehousing, installation, relocation, repair and maintenance of gaming machines, lottery and wagering terminals and other transaction devices in Australia and New Zealand.
Unallocated	This segment includes shared services and investment properties. None of these activities constitutes a separately reportable business segment.
Discontinued operations	The operation of gaming machines and Club Keno in Victoria. On 15 August 2012, Tatts' gaming operator's licence expired. The expiry of this licence resulted in Tatts Pokies ceasing gaming machine operations from 16 August 2012. Gaming operations in the United Kingdom. These activities were disposed of on 24 June 2016.

### GEOGRAPHICAL AREAS

Although the Consolidated Entity's divisions are managed on a global basis they have operated in two main geographical areas during the current and comparative financial year (United Kingdom and Australia).

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is \$4,745.8 million (2015: \$4,675.0 million) and the total of these non-current assets located in the UK is nil (2015: \$209.2 million).

### RECOGNITION AND MEASUREMENT

Segment information is prepared in conformity with the accounting policies of the Group and accounting standard AASB 8 *Operating Segments*, which states that disclosure of total assets and liabilities for each reportable segment is only required if such an amount is regularly provided to the chief operating decision maker (Managing Director and Chief Executive Officer).

Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion of corporate expenses that can be allocated to a segment on a reasonable basis.

### INTER-SEGMENT TRANSFERS

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an 'arm's-length' basis and are eliminated on consolidation.

### SEGMENT INFORMATION PROVIDED TO THE MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER OF THE GROUP

2016	LOTTERIES \$'000	WAGERING \$'000	MAXGAMING \$'000	BYTECRAFT SYSTEMS \$'000	UNALLO- CATED \$'000	INTER- SEGMENT ELIMINA- TIONS <sup>1</sup> \$'000	TOTAL CONTINUING OPERATIONS \$'000	DISCONTIN- UED OPERA- TIONS <sup>2</sup> \$'000	CONSOLI- DATED \$'000
TOTAL SEGMENT REVENUE AND OTHER INCOME	2,139,513	609,884	118,367	92,288	136	(32,088)	2,928,100	103,612	3,031,712
EBITDA	345,545	133,283	64,695	3,424	(52,154)	-	494,793	(741)	494,052
DEPRECIATION AND AMORTISATION	(25,579)	(17,567)	(12,313)	(2,420)	(17,340)	-	(75,219)	(7,606)	(82,825)
<b>EBIT</b>	<b>319,966</b>	<b>115,716</b>	<b>52,382</b>	<b>1,004</b>	<b>(69,494)</b>	<b>-</b>	<b>419,574</b>	<b>(8,347)</b>	<b>411,227</b>

2015 <sup>3</sup>	LOTTERIES \$'000	WAGERING \$'000	MAXGAMING \$'000	BYTECRAFT SYSTEMS \$'000	UNALLO- CATED \$'000	INTER- SEGMENT ELIMINA- TIONS <sup>1</sup> \$'000	TOTAL CONTINUING OPERATIONS \$'000	DISCONTIN- UED OPERA- TIONS <sup>2</sup> \$'000	CONSOLI- DATED \$'000
TOTAL SEGMENT REVENUE AND OTHER INCOME	1,976,685	632,878	116,812	104,034	4,498	(30,967)	2,803,940	115,927	2,919,867
EBITDA	313,641	153,474	64,631	2,784	(43,534)	-	490,996	12,477	503,473
DEPRECIATION AND AMORTISATION	(26,093)	(17,621)	(13,349)	(2,217)	(17,602)	-	(76,882)	(10,233)	(87,115)
<b>EBIT</b>	<b>287,548</b>	<b>135,853</b>	<b>51,282</b>	<b>567</b>	<b>(61,136)</b>	<b>-</b>	<b>414,114</b>	<b>2,244</b>	<b>416,358</b>

1 Inter-segment eliminations against revenue comprises Bytecraft Systems revenue.

2 On 15 August 2012, the gaming operator's licence issued to Tatts Pokies expired resulting in this segment ceasing gaming machine operations subsequent to 15 August 2012 and in the current year gaming operations in the United Kingdom were disposed of on 24 June 2016 (refer to Note 21 for further details regarding this segment).

3 Only FY15 comparatives have been restated to reflect Talarius as a discontinued operation.

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

	2016 \$'000	2015 \$'000
<b>EBIT from continuing operations</b>	<b>419,574</b>	414,115
Interest income	<b>5,283</b>	7,442
Finance costs	<b>(46,370)</b>	(58,299)
<b>Profit before income tax from continuing operations</b>	<b>378,487</b>	363,258

## 2. Revenue

30 JUNE 2016

### RECOGNITION AND MEASUREMENT

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

#### LOTTERIES REVENUE

Gross subscriptions received for lotteries less prizes payable are recognised as revenue when the official draw for each game is completed. Subscriptions received during the year for games which will be drawn in the next financial period, are deferred and recognised as revenue in the next financial period. Revenue from lottery card subscriptions is recognised over the life of the subscription. Management fees recognised in relation to the Master Agent Agreement associated with the operation of SA Lotteries are recognised in sales revenue.

#### RENDERING OF SERVICES

Revenue from the sale of goods or rendering of a service is recognised upon the delivery of the goods or service to customers.

#### WAGERING REVENUE

Wagering revenue is the residual value after deducting the statutory returns to customers from wagering turnover. Revenue is recognised at the point when the event on which the wagering investment is made is officially completed.

Fixed odds betting revenue is the residual value after deducting fixed odds returns to customers from fixed odds bets placed on specific events. The amounts bet on an event are recognised as an advance sale liability until the outcome of the event is determined, at which time the revenue is recognised in the income statement.

#### INTEREST INCOME

Interest income is recognised on a time proportion basis using the effective interest method. Interest income earned on prize reserves and unpaid prizes is included in revenue from continuing operations with the exception of interest earned on prize reserves by New South Wales Lotteries Corporation Pty Limited. Interest income from all other interest generating balances is included in interest income.

#### OTHER REVENUE

Dividend revenue is recognised when the right to receive a dividend is established.

	2016 \$'000	2015 \$'000
<b>From continuing operations</b>		
<b>Sales revenue</b>		
Entertainment products and services	2,720,170	2,591,320
Rendering of services	202,803	205,095
	<b>2,922,973</b>	2,796,415
<b>Other revenue</b>		
Rental and sub-lease rental income	121	2,141
Interest on unpaid prizes and prize reserves	2,638	3,456
Other revenue	2,368	1,928
	<b>5,127</b>	7,525
	<b>2,928,100</b>	2,803,940

## 3. Other Income and Expense Items

30 JUNE 2016

### RECOGNITION AND MEASUREMENT

#### LEASES

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at lease inception at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in interest bearing liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Leased assets acquired under finance leases are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (refer to Note 26). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the consolidated balance sheet based on their nature.

#### IMPAIRMENT OF ASSETS

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested 6 monthly for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period (refer to Note 11).

### 3. Other Income and Expense Items (CONTINUED)

30 JUNE 2016

#### EXPENSES

From continuing operations

Profit before income tax includes the following specific expenses:

	2016 \$'000	2015 \$'000
<b>Expenses</b>		
<b>Depreciation</b>		
Buildings	1,497	1,812
Plant and equipment	28,112	28,082
Leasehold improvements	3,164	2,728
Freehold improvements	1,486	1,310
<b>Total depreciation</b>	<b>34,259</b>	<b>33,932</b>
<b>Amortisation</b>		
Licences	17,765	18,237
Brand	894	894
Computer software	16,477	17,995
Other	5,824	5,824
<b>Total amortisation</b>	<b>40,960</b>	<b>42,950</b>
<b>Total depreciation and amortisation</b>	<b>75,219</b>	<b>76,882</b>
<b>Other items</b>		
Minimum lease payments expense relating to operating leases	9,653	8,524
Defined contribution superannuation expense	14,314	14,487
	<b>23,967</b>	<b>23,011</b>
<b>Significant expenses</b>		
The following significant expense items are relevant in explaining the financial performance:		
	2016 \$'000	2015 \$'000
<b>Restructuring costs:</b>		
Restructuring costs	4,039	1,725
<b>Finance costs</b>		
Interest and finance charges paid/payable	43,906	55,907
Unwinding of present value of discount on Wagering licence	2,464	2,392
<b>Finance costs expensed</b>	<b>46,370</b>	<b>58,299</b>

### 4. Tax

30 JUNE 2016

#### RECOGNITION AND MEASUREMENT

Tatts Group Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements. This policy is also discussed in Note 24.

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (eg the Research and Development Tax Incentive regime in Australia or other investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

#### ESTIMATES AND JUDGEMENTS

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In addition, the Group recognises deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity, which is not part of the tax consolidated group, to satisfy certain tests at the time the losses are recouped.

## 4. Tax (CONTINUED)

30 JUNE 2016

### INCOME TAX EXPENSE

	2016 \$'000	2015 \$'000
Current tax	52,282	108,776
Deferred tax	61,118	5,005
Adjustments for current tax of prior periods	(6,326)	(3,582)
	<b>107,074</b>	110,199

Income tax expense/(benefit) is attributable to:

Profit from continuing operations	115,105	109,421
Profit from discontinued operations	(8,031)	778
	<b>107,074</b>	110,199

### NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE

	2016 \$'000	2015 \$'000
Profit from continuing operations before income tax expense	378,487	363,257
Loss from discontinuing operations before income tax expense	(37,619)	(1,094)
	<b>340,868</b>	362,163

Tax at the Australian tax rate of 30.0% (2015 - 30.0%)	102,260	108,649
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Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:

Depreciation and amortisation	1,977	2,026
Non-deductible items	5,269	1,226
Unrecognised tax losses	64	86
Sundry items	(1,007)	714
	<b>108,563</b>	112,701

Difference in overseas tax rates	(3)	(183)
Under/(over) provision in prior years in deferred tax	4,840	1,263
Under/(over) provision in prior years in current tax	(6,326)	(3,582)
<b>Income tax expense</b>	<b>107,074</b>	110,199

### TAX EXPENSE (INCOME) RELATING TO ITEMS OF OTHER COMPREHENSIVE INCOME

	2016 \$'000	2015 \$'000
Available-for-sale financial assets	5	23
Cash flow hedges	(140)	(2,729)
Other	2,060	(1,360)
	<b>1,925</b>	(4,066)

### TAX LOSSES

	2016 \$'000	2015 \$'000
Unused tax losses for which no deferred tax asset has been recognised	-	39,923
Potential tax benefit - nil (2015: 20.79%)	-	8,300

All unused tax losses were incurred by overseas entities that are not part of the Tax Consolidated Group.

### DEFERRED TAX BALANCES

#### DEFERRED TAX ASSETS

	2016 \$'000	2015 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Employee benefits	12,823	10,772
Depreciation	14,058	22,007
Provisions	59	114
Available-for-sale financial assets	28	23
Cash flow hedges	1,602	1,742
Other	9,541	7,923
	<b>38,111</b>	42,581
Set-off of deferred tax liabilities pursuant to set-off provisions	(38,110)	(33,057)
<b>Net deferred tax assets</b>	<b>1</b>	9,524
Deferred tax assets to be settled within 12 months	16,872	17,277
Deferred tax assets to be settled after more than 12 months	21,238	25,304
	<b>38,110</b>	42,581



## 4. Tax (CONTINUED)

30 JUNE 2016

### DEFERRED TAX BALANCES (CONTINUED)

#### DEFERRED TAX ASSETS (CONTINUED)

##### MOVEMENTS

	EMPLOYEE BENEFITS \$'000	DEPRECIATION \$'000	PROVISIONS \$'000	LISTED SECURITIES \$'000	CASH FLOW HEDGE \$'000	OTHER \$'000	TOTAL \$'000
At 1 July 2014	11,765	20,069	262	-	4,471	20,655	57,222
(Charged)/credited							
- to the income statement	367	915	(148)	-	-	(12,732)	(11,598)
- to other comprehensive income	(1,360)	-	-	23	(2,729)	-	(4,066)
Foreign exchange movement	-	1,023	-	-	-	-	1,023
Closing balance at 30 June 2015	10,772	22,007	114	23	1,742	7,923	42,581
<b>At 1 July 2015</b>	10,772	22,007	114	23	1,742	7,923	<b>42,581</b>
(Charged)/credited							
- to the income statement	(9)	(1,241)	(55)	-	-	1,618	<b>313</b>
- to other comprehensive income	2,060	-	-	5	(140)	-	<b>1,925</b>
Disposal of subsidiary	-	(7,822)	-	-	-	-	<b>(7,822)</b>
Foreign exchange movement	-	1,114	-	-	-	-	<b>1,114</b>
<b>Closing balance at 30 June 2016</b>	<b>12,823</b>	<b>14,058</b>	<b>59</b>	<b>28</b>	<b>1,602</b>	<b>9,541</b>	<b>38,111</b>

### DEFERRED TAX LIABILITIES

	2016 \$'000	2015 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Depreciation	<b>2,856</b>	3,937
Intangibles	<b>231,628</b>	233,210
Unclaimed dividends	<b>4,794</b>	3,564
Maxgaming NSW monitoring rights	<b>62,700</b>	-
Other	<b>683</b>	519
	<b>302,661</b>	241,230

Set-off of deferred tax liabilities pursuant to set-off provisions	<b>(38,110)</b>	(33,057)
<b>Net deferred tax liabilities</b>	<b>264,551</b>	208,173

Deferred tax liabilities to be settled within 12 months	<b>5,525</b>	4,284
Deferred tax liabilities to be settled after more than 12 months	<b>297,136</b>	236,946
	<b>302,661</b>	241,230

##### MOVEMENTS

	DEPRECIATION \$'000	INTANGIBLE ASSETS \$'000	UNCLAIMED DIVIDENDS \$'000	ACCRUED REVENUE \$'000	OTHER \$'000	TOTAL \$'000
Closing balance at 1 July 2014	4,081	234,386	3,591	-	5,763	247,821
Charged/(credited)						
- to the income statement	(144)	(1,176)	(27)	-	(5,244)	(6,591)
Closing balance at 30 June 2015	3,937	233,210	3,564	-	519	241,230
<b>At 1 July 2015</b>	3,937	233,210	3,564	-	519	<b>241,230</b>
Charged/(credited)						
- to the income statement	(1,081)	(1,582)	1,230	-	62,864	<b>61,431</b>
Change in accounting policy	-	-	-	-	-	-
Charged						
- to other comprehensive income statement	-	-	-	-	-	-
- directly to equity	-	-	-	-	-	-
Acquisition of subsidiary	-	-	-	-	-	-
Transfer between asset classes	-	-	-	-	-	-
<b>Closing balance at 30 June 2016</b>	<b>2,856</b>	<b>231,628</b>	<b>4,794</b>	-	<b>63,383</b>	<b>302,661</b>

## 5. Cash and Cash Equivalents

30 JUNE 2016

### RECOGNITION AND MEASUREMENT

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities in current liabilities in the balance sheet. Cash includes prize reserves.

	2016 \$'000	2015 \$'000
<b>Current assets</b>		
Cash at bank and in-hand	135,031	241,601
Deposits at call	33	37
Fixed interest securities	59,000	180,000
	<b>194,064</b>	421,638

### RECONCILIATION TO CASH AT THE END OF THE YEAR

Cash balances are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

### RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2016 \$'000	2015 \$'000
<b>Profit for the year</b>	<b>233,794</b>	251,964
<b>Non cash flows in operating profit</b>		
Depreciation and amortisation	82,825	87,115
Amortisation of borrowing costs	2,750	2,931
(Profit)/loss on sale of fixed assets	229	2,232
Employee share option	(211)	439
Bad and doubtful debts	218	(148)
Retirement benefit obligation	441	678
Loss on sale of subsidiary	6,911	-
Loss on sale of asset held for sale	99	-
<b>Change in operating assets and liabilities, net of effects from purchase of controlled entities</b>		
(Increase)/decrease in other receivables	(7,528)	52,326
(Increase)/decrease in inventories	1,196	4,432
(Increase)/decrease in deferred tax assets	1,703	48,721
(Increase)/decrease in other operating assets	(69,797)	(999)
(Decrease)/increase in trade and other payables	29,381	12,326
(Decrease)/increase in current tax liabilities	(77,007)	21,186
(Decrease)/increase in deferred tax liabilities	57,966	(43,705)
(Decrease)/increase in other provisions	(255)	327
<b>Net cash inflow/(outflow) from operating activities</b>	<b>262,715</b>	439,825

### NON-CASH FINANCING ACTIVITIES

Dividends satisfied by the issue of shares under a dividend reinvestment plan are shown in Note 14. Options and rights issued to employees under the Group's incentive plans and structures are shown in Note 17.

## 6. Trade and Other Receivables

30 JUNE 2016

### RECOGNITION AND MEASUREMENT

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Trade receivables are recognised initially at fair value and subsequently reviewed for impairment. Trade receivables are generally due for settlement, unless through prior arrangement, between no more than 2 to 30 days from the date of recognition. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for the impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

	2016 \$'000	2015 \$'000
<b>Current</b>		
<b>Trade receivables</b>		
Weekly sweeps <sup>1</sup>	33,005	17,844
Trade debtors	7,605	19,669
Less: Provision for impairment of receivables	(195)	(413)
	<b>40,415</b>	37,100
Other receivables	21,029	26,818
Prepayments	20,550	16,703
	<b>81,994</b>	80,621

<sup>1</sup> Balances with venues, agencies and outlets are swept on recurring cycles of between 2 and 7 days.

### IMPAIRED TRADE AND OTHER RECEIVABLES

The Group has recognised losses of \$0.2 million in the income statement (2015: loss of \$0.3 million) in respect of bad and doubtful trade receivables during the year ended 30 June 2016.

At 30 June 2016, there were no material receivables past due and deemed to be irrecoverable which have not been impaired or individual balances specifically impaired. Collateral is not normally obtained for balances owing.

Movements in the provision for impairment of receivables are as follows:

## 6. Trade and Other Receivables (CONTINUED)

30 JUNE 2016

### IMPAIRED TRADE AND OTHER RECEIVABLES (CONTINUED)

	2016 \$'000	2015 \$'000
At 1 July	(413)	(561)
Provision for impairment recognised during the year	(151)	(344)
Receivables written off during the year as impaired trade receivables	369	492
<b>At 30 June</b>	<b>(195)</b>	<b>(413)</b>

### OTHER RECEIVABLES

These amounts generally arise from transactions outside the usual operating activities of the Group. Where interest is charged, this is on commercial terms. Collateral is not normally obtained.

## 7. Assets Classified as Held for Sale

30 JUNE 2016

### RECOGNITION AND MEASUREMENT

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

They are measured at the lower of their carrying amount and fair value less costs of disposal, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

Land and buildings previously held as non-current were transferred in 2016 to current assets classified as held for sale. The balance at 30 June 2016 is \$15.0 million (2015: \$2.4 million).

	2016 \$'000	2015 \$'000
<b>Non-current assets held for sale</b>		
Land	11,551	1,995
Land and buildings	3,406	405
<b>Total non-current assets held for sale</b>	<b>14,957</b>	<b>2,400</b>

## 8. Trade and Other Payables

30 JUNE 2016

### RECOGNITION AND MEASUREMENT

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Prizes payable to the lottery major prize winners for some games are payable over periods exceeding 12 months. The portion of this liability which is payable more than 12 months post balance date is reported as a non-current liability.

	2016 \$'000	2015 \$'000
<b>Current</b>		
Trade payables	468,871	507,253
Other payables and accruals	125,093	91,255
	<b>593,964</b>	598,508
<b>Non-Current</b>		
Other payables	187,371	178,849

Non-current includes the liability for the remaining balance of the Wagering licence which is held at net present value.

## 9. Other Assets and Liabilities

30 JUNE 2016

	2016 \$'000	2015 \$'000
<b>Current assets</b>		
SA Lotteries monies held in trust	49,353	47,598
<b>Non-current assets</b>		
Advance payment of Maxgaming NSW monitoring rights	69,682	-
Unlisted Investments	1,517	1,402
<b>Total non-current assets</b>	<b>71,199</b>	1,402
<b>Current liabilities</b>		
SA Lotteries monies held in trust	49,353	47,598
Unearned income - Victorian compensation case	-	540,468
<b>Total other current liabilities</b>	<b>49,353</b>	588,066

### ADVANCE PAYMENT OF MAXGAMING NSW MONITORING RIGHTS

On 15 March 2016 the NSW Government issued rights to the Group to operate a Central Monitoring System (CMS). The new monitoring rights will commence on 1 December 2017 and will continue until 30 November 2032. This prepayment represents the first instalment for the CMS rights, and total amounts paid and payable of \$209 million has resulted in a deferred tax liability of \$62.7 million.

### SA LOTTERIES MONIES HELD IN TRUST

There is a corresponding asset in other current assets.

### UNEARNED INCOME

On 26 June 2014, the Supreme Court of Victoria found in favour of Tatts in the proceedings commenced by it against the State of Victoria for compensation on the expiry of its gaming operator's licence on 15 August 2012.

The Court ordered the State to pay Tatts \$451.2 million plus interest of \$89.3 million, with the total amount received subject to applicable tax. This upheld an agreement entered into between the State and Tatts in 1995. This agreement led to the State receiving substantial additional licence fees from Tatts for the conduct of the Tatts Pokies business, on the basis that the State would grant compensation if a new gaming operator's licence was granted to anyone other than Tatts on the expiry of its licence.

The amount received of \$540.5 million was treated as unearned income and a current liability.

On 2 March 2016 the High Court of Australia upheld the State of Victoria's appeal in relation to the matter of the State of Victoria v Tatts Group Limited (M83 of 2015). Consequently on 3 March 2016, Tatts repaid the State \$540.5 million plus our estimate of interest of \$26.6 million.

Tatts is also required to pay the State's costs of the appeal and its costs of the proceedings in the Victorian Supreme Court of Appeal. This amount and the interest benefit has not yet been agreed.

# 10. Property, Plant and Equipment

30 JUNE 2016

## RECOGNITION AND MEASUREMENT

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Plant and equipment under development is not depreciated. Depreciation will commence on completion of the development when the assets are available for use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Finance costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other finance costs are expensed.

## VALUATIONS OF LAND AND BUILDINGS

The basis of valuation of land and buildings is at cost less subsequent depreciation for buildings. Where required, land and buildings of the Group were assessed by independent valuers, and these assessments were greater than the carrying value.

## REVALUATION, DEPRECIATION METHODS AND USEFUL LIVES

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their useful lives as follows:

Buildings	25 - 50 years
Freehold improvements	25 - 40 years
Plant and equipment	1 - 10 years
Leasehold improvements	7 years

## RECOGNITION AND MEASUREMENT (CONTINUED)

	FREEHOLD LAND \$'000	BUILDINGS \$'000	FREEHOLD IMPROVE- MENTS \$'000	LEASEHOLD IMPROVE- MENTS \$'000	PLANT AND EQUIPMENT \$'000	ASSETS UNDER DEVELOPMENT \$'000	TOTAL \$'000
At 30 June 2015							
Cost or fair value	33,238	75,558	24,795	76,881	503,078	30,685	744,235
Accumulated depreciation	-	(37,826)	(16,179)	(63,201)	(416,799)	-	(534,005)
<b>Carrying amount at 30 June 2015</b>	<b>33,238</b>	<b>37,732</b>	<b>8,616</b>	<b>13,680</b>	<b>86,279</b>	<b>30,685</b>	<b>210,230</b>
Year ended 30 June 2016							
Opening net book amount	33,238	37,732	8,616	13,680	86,279	30,685	210,230
Additions	-	-	6	30	4,132	31,715	35,883
Disposals	-	-	-	(51)	(237)	59	(229)
Disposals - discontinued operations	(1,997)	(4,770)	-	(2,508)	(20,553)	(2,393)	(32,221)
Assets included in a disposal group classified as held for sale and other disposals	(9,090)	(4,480)	(188)	(9)	(90)	-	(13,857)
Transfers	-	2,184	2,237	6,571	25,045	(36,037)	-
Depreciation charge	-	(1,915)	(1,486)	(4,403)	(34,025)	-	(41,829)
Exchange differences	(94)	(230)	-	(89)	(736)	(122)	(1,271)
<b>Carrying amount at 30 June 2016</b>	<b>22,057</b>	<b>28,521</b>	<b>9,185</b>	<b>13,221</b>	<b>59,815</b>	<b>23,907</b>	<b>156,706</b>
At 30 June 2016							
Cost	22,057	45,820	26,403	48,760	419,534	23,907	586,481
Accumulated depreciation	-	(17,299)	(17,218)	(35,539)	(359,719)	-	(429,775)
<b>Net book amount</b>	<b>22,057</b>	<b>28,521</b>	<b>9,185</b>	<b>13,221</b>	<b>59,815</b>	<b>23,907</b>	<b>156,706</b>
At 30 June 2014							
Cost or fair value	32,629	72,811	25,297	72,795	495,244	16,622	715,398
Accumulated depreciation	-	(33,373)	(16,332)	(56,975)	(403,098)	-	(509,778)
Carrying amount at 30 June 2014	32,629	39,438	8,965	15,820	92,146	16,622	205,620
Year ended 30 June 2015							
Opening net book amount	32,629	39,438	8,965	15,820	92,146	16,622	205,620
Additions	-	-	-	-	5,951	39,345	45,296
Disposals	-	(1)	-	(38)	(220)	-	(259)
Depreciation charge	-	(2,327)	(1,310)	(4,639)	(35,843)	-	(44,119)
Transfers in/(out)	378	-	961	2,160	22,013	(25,512)	-
Exchange differences	231	622	-	377	2,232	230	3,692
Carrying amount at 30 June 2015	33,238	37,732	8,616	13,680	86,279	30,685	210,230
At 30 June 2015							
Cost or fair value	33,238	75,558	24,795	76,881	503,078	30,685	744,235
Accumulated depreciation	-	(37,826)	(16,179)	(63,201)	(416,799)	-	(534,005)
Net book amount	33,238	37,732	8,616	13,680	86,279	30,685	210,230

# 11. Intangible Assets

30 JUNE 2016

## RECOGNITION AND MEASUREMENT

### GOODWILL

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment 6 monthly, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (Refer to Note 1).

### LICENCES

Licences that have a finite useful life are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

The expected useful lives used for licences and rights are as follows:

Race wagering licence - Qld	92 years	Expires 2098
Sports wagering licence - Qld	84 years	Expires 2098
Totalisator licence - NT	20 years	Expires 2035
Sports bookmaker licence - NT	20 years	Expires 2035
Major betting operations licence - SA	94 years	Expires 2100
Gaming machine monitoring operator's licence - Qld	10 years	Expires 2017
Monitoring provider's licence - NT	5 years	Expires 2021
Centralised monitoring system licence - NSW	11 years	Expires 2017
Centralised monitoring rights - NSW	15 years	Expires 2032 <sup>1</sup>
Inter-club linked gaming system licence - NSW	11 years	Expires 2017
Inter-hotel linked gaming system licence - NSW	13 years	Expires 2019
Radio licences - Qld	5 years	Expires 2019
Lotteries licence - Vic	10 years	Expires 2018
Lotteries licence - NSW	40 years	Expires 2050
Race and sports wagering licence - Tas	50 years	Expires 2062 <sup>2</sup>

<sup>1</sup> Centralised monitoring rights commence on 1 December 2017.

<sup>2</sup> The race and sports wagering licence in Tasmania has an option to be extended for a further 49 years.

The carrying value of licences and rights is reviewed annually and any balance representing future benefits for which realisation is considered to be no longer probable is written off.

## RECOGNITION AND MEASUREMENT (CONTINUED)

### BRAND

The Wagering brand is an indefinite life asset carried at cost being the fair value on acquisition of UNiTAB. It is reviewed annually by reference to future cash flows to ensure it is not carried in excess of recoverable amount.

Brands with a finite useful life are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the brands over their estimated useful lives.

The expected useful lives used for brands are as follows:

Lotteries Brand - Qld	65 years	Expires 2072
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### RESEARCH AND DEVELOPMENT

Expenditure on research activities, undertaken with the prospect of obtaining new technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.

### IT DEVELOPMENT AND SOFTWARE

Costs incurred in developing products or systems that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project.

Capitalised software is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the software over its estimated useful life of 2 to 6 years.

### OTHER

The cost associated with the Golden Casket Lottery Operator Agreement is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the agreement over the term of 65 years, expiring in 2072.

On 20 June 2012, Tatts NT Lotteries Pty Ltd entered into an agreement with the Northern Territory Government to conduct lotteries. The cost associated with the agreement will be amortised over the 20-year life of the agreement which expires in 2032.

On 10 December 2012, Tatts Lotteries SA Pty Ltd entered into an agreement with the South Australian Government to exclusively manage the lottery and wide area keno service in South Australia on behalf of the government owned Lotteries Commission of South Australia. The cost allocated to the agreement will be amortised over the 40-year life of the agreement which expires in 2052.

# 11. Intangible Assets (CONTINUED)

30 JUNE 2016

## RECOGNITION AND MEASUREMENT (CONTINUED)

	GOODWILL \$'000	LICENCES \$'000	BRANDS <sup>1</sup> \$'000	SOFTWARE <sup>2</sup> \$'000	OTHER \$'000	WIP \$'000	TOTAL \$'000
At 30 June 2015							
Cost	3,790,511	704,836	105,417	233,002	285,851	-	5,119,617
Accumulated amortisation	(140,000)	(106,261)	(7,348)	(186,439)	(27,024)	-	(467,072)
<b>Carrying amount at 30 June 2015</b>	<b>3,650,511</b>	<b>598,575</b>	<b>98,069</b>	<b>46,563</b>	<b>258,827</b>	<b>-</b>	<b>4,652,545</b>
Year ended 30 June 2016							
Opening net book amount	3,650,511	598,575	98,069	46,563	258,827	-	4,652,545
Additions	146	-	-	24,798	-	1,456	26,400
Disposals	-	-	-	(869)	-	-	(869)
Amortisation charge continuing operations	-	(17,764)	(894)	(16,515)	(5,823)	-	(40,996)
Foreign exchange movements	(7,863)	-	-	(6)	-	-	(7,869)
Disposals - discontinued operations	(167,262)	-	-	(117)	-	-	(167,379)
<b>Carrying amount at 30 June 2016</b>	<b>3,475,532</b>	<b>580,811</b>	<b>97,175</b>	<b>53,854</b>	<b>253,004</b>	<b>1,456</b>	<b>4,461,832</b>
At 30 June 2016							
Cost	3,615,532	704,836	105,417	255,803	285,851	1,456	4,968,895
Accumulated amortisation	(140,000)	(124,025)	(8,242)	(201,949)	(32,847)	-	(507,063)
<b>Net book amount</b>	<b>3,475,532</b>	<b>580,811</b>	<b>97,175</b>	<b>53,854</b>	<b>253,004</b>	<b>1,456</b>	<b>4,461,832</b>
At 30 June 2014							
Cost	3,770,471	587,568	105,417	237,564	285,854	-	4,986,874
Accumulated amortisation	(140,000)	(88,024)	(6,454)	(191,210)	(21,202)	-	(446,890)
Carrying amount at 30 June 2014	3,630,471	499,544	98,963	46,354	264,652	-	4,539,984
Year ended 30 June 2015							
Opening net book amount	3,630,471	499,544	98,963	46,354	264,652	-	4,539,984
Additions	741	117,268	-	18,233	-	-	136,242
Disposals	-	-	-	-	(1)	-	(1)
Amortisation charge continuing operations	-	(18,237)	(894)	(18,041)	(5,824)	-	(42,996)
Foreign exchange movements	19,299	-	-	17	-	-	19,316
Carrying amount at 30 June 2015	3,650,511	598,575	98,069	46,563	258,827	-	4,652,545
At 30 June 2015							
Cost	3,790,511	704,836	105,417	233,002	285,851	-	5,119,617
Accumulated amortisation	(140,000)	(106,261)	(7,348)	(186,439)	(27,024)	-	(467,072)
Net book amount	3,650,511	598,575	98,069	46,563	258,827	-	4,652,545

1 Brands include \$46.3 million and \$7.1 million of assets with an indefinite life, which is included in the Wagering and Maxgaming segments respectively.

2 Software includes capitalised development costs being an internally generated intangible asset.

## ESTIMATED IMPAIRMENT OF GOODWILL, LICENCES AND BRANDS

The Group tests 6 monthly whether goodwill, licences and brands have suffered any impairment. These calculations require the use of assumptions.

These key assumptions apply for the impairment testing for all of the Group's indefinite life intangible assets. The impairment calculations are on a value-in-use basis.

## IMPAIRMENT TESTS FOR GOODWILL

Goodwill is allocated to the Group's cash-generating units (CGU) expected to benefit from the synergies of those business combinations.

A segment-level summary of the goodwill allocation is presented below.

	2016 \$'000	2015 \$'000
Lotteries	1,510,999	1,510,853
Wagering	1,454,242	1,454,242
Maxgaming	500,000	500,000
Bytecraft Systems	10,291	10,291
Talarius	-	175,125
<b>Total</b>	<b>3,475,532</b>	<b>3,650,511</b>

The recoverable amount of each CGU is determined based on the higher of fair value less costs of disposal and value in use. These calculations use cash flow projections based on the budget approved by the Board for the next financial year and management's forecasts covering a 5 year period. Cash flows beyond the 5 year period are extrapolated using a growth rate not exceeding the long term growth rate for the business in which the CGU operates.

## KEY ASSUMPTIONS

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and other non-cash assets.

## CASH FLOW FORECASTS

Cash flow forecasts are based on the 2017 financial year budget approved by the Board and management's 5 year forecasts.

## TERMINAL VALUE

Terminal value is calculated using a perpetuity growth rate based on the cash flow forecast for year 5, pre-tax weighted average cost of capital and forecast growth rates.

## FORECAST GROWTH RATES

Forecast EBITDA growth rates are principally based on management's expectations for future performance in each business segment. These growth rates take into account historical growth rates for each CGU. The growth rates range from 2.5% to 3.0% for each CGU (2015: 3.0% to 4.0%).

## DISCOUNT RATES

Discount rates used are based on the Group's pre-tax weighted average cost of capital and reflect specific risks relating to the relevant segments and the countries in which they operate. The pre-tax discount rates used range from 8.1% to 12.0% (2015: 8.28% to 12.2%).

# 11. Intangible Assets (CONTINUED)

30 JUNE 2016

## IMPACT OF POSSIBLE CHANGES IN KEY ASSUMPTIONS

Management do not believe that reasonably possible changes to any of the key assumptions would trigger considerations of impairment of any of the Group's CGU's except as outlined below.

### WAGERING CGU

Management have assessed that the Wagering CGU is sensitive to reasonable changes in key assumptions. Based on assumptions made, the recoverable amount of this CGU would equal its carrying amount if the following key assumptions were to change as follows:

	FROM	TO
Long-term growth rate (%)	3.0	2.6
Pre-tax discount rates (%)	9.6	9.9
Year 5 EBITDA forecast (%)		Decrease of 4.5%

## LICENCE RENEWALS

The exclusivity period for the Group's South Australian Authorised Betting Operations licence expires December 2016. In addition, New South Wales licences to operate Inter-club and Inter-hotel linked gaming systems and the Victorian lotteries licences expire, October 2017, October 2019 and June 2018 respectively.

Impairment models have been performed and assessed on the basis these licences will be renewed on an ongoing basis.

If these licences are not renewed or licences granted on terms not acceptable to or less favourable to the Group than the current licence terms:

- (i) there is a possibility that this would result in the Group being unable to conduct the specific businesses which operate pursuant to these licences or being unable to guarantee revenues equal to those currently being generated by these businesses; and
- (ii) the Group would be required to review the carrying values of goodwill associated with the cash-generating units under which these licences operate. If the licences were not renewed or were significantly altered, there may be an impairment risk.

On 3 November 2015, Tatts was granted a 20 year exclusive totalisator license in the Northern Territory.

On 25 February 2016, Tatts secured the exclusive monitoring rights for all NSW hotel and club gaming machines until 2032.

The initial amount paid for the NSW monitoring rights commencing in November 2017 has been treated as a non current asset within the current financial year. The remaining instalments have been recognised as Commitments (refer note 26).

# 12. Provisions

30 JUNE 2016

## RECOGNITION AND MEASUREMENT

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

	2016 \$'000	2015 \$'000
<b>Current</b>		
Employee benefits	17,742	17,582
Onerous leases	-	145
Dilapidations	-	1,272
	<b>17,742</b>	<b>18,999</b>

	2016 \$'000	2015 \$'000
<b>Non-current</b>		
Employee benefits - long service leave	2,896	2,727
Onerous leases	-	597
	<b>2,896</b>	<b>3,324</b>

## ONEROUS LEASES

A provision for onerous leases was recognised in the prior year for venues in the United Kingdom which have closed but are contracted to future payments under an operating lease and for property leases acquired through the Tote Tasmania acquisition.

## DILAPIDATIONS

A provision for dilapidations was recognised in the prior year for leasehold properties requiring remedial dilapidations work at the expiry of the lease arrangement.



# 13. Retirement Benefit Obligations

30 JUNE 2016

All employees of the Group are entitled to benefits from one of the Group's superannuation plans on retirement, disability or death.

Golden Casket Lottery Corporation Limited contributes to the Queensland State Public Sector Superannuation Scheme (Q-Super), with all contributions recognised as an expense when incurred. Benefits are provided to employees on either a defined benefit basis or through an accumulation fund. Both funds are administered by the Queensland Government Superannuation Office. No liability is recognised for superannuation benefits in respect of defined benefit and accumulation plans to which Golden Casket Lottery Corporation Limited contributes as this liability is held on a Whole of Government basis and reported in the Whole of Government financial statements.

## RECOGNITION AND MEASUREMENT

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the end of each reporting period less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the end of each reporting period, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the end of each reporting period on high quality Corporate Bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in the statement of comprehensive income.

Past service costs are recognised immediately in the income statement.

Future taxes that are funded by the entity as part of the provision of the existing benefit obligation (e.g. taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset.

Contributions to defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## DEFINED BENEFIT SUPERANNUATION PLAN - NEW SOUTH WALES LOTTERIES CORPORATION PTY LIMITED

Following the Group's acquisition of New South Wales Lotteries Corporation Pty Limited on 31 March 2010, the Group has consolidated the net liability relating to Tatts Employment Co (NSW) Pty Limited's defined benefit plans for those employees who transferred employment to Tatts Employment Co (NSW) Pty Limited, a subsidiary of Tatts Group Limited.

Sub-funds were created in relation to the transferred employees who are members of the following New South Wales public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS).

These schemes are all defined benefit schemes - at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All these schemes are closed to new members.

Employees contribute to the schemes at various percentages of their salaries. Tatts Employment Co (NSW) Pty Limited contributes to the investment of the plans based on actuarial advice, but generally at a multiple of the employees' contributions, depending on the fund.

Actuarial based gains and losses are recognised in the statement of comprehensive income in the year in which they occur.

The figures below relate only to those employees who transferred to Tatts Employment Co (NSW) Pty Limited on 31 March 2010.

## DESCRIPTION OF THE REGULATORY FRAMEWORK

The schemes in the Pooled Fund are established and governed by the following NSW legislation: *Superannuation Act 1916*, *State Authorities Superannuation Act 1987*, *Police Regulation (Superannuation) Act 1906*, *State Authorities Non-Contributory Superannuation Scheme Act 1987*, and their associated regulations.

The schemes in the Pooled Fund are exempt public sector superannuation schemes under the *Commonwealth Superannuation Industry (Supervision) Act 1993 (SIS)*. The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Pooled Fund is performed every 3 years. The last actuarial investigation was performed as at 30 June 2015. The next actuarial investigation is due as at 30 June 2018 and the report is expected to be released by the end of 2018.

## DESCRIPTION OF OTHER ENTITIES' RESPONSIBILITIES FOR GOVERNANCE OF THE FUND

The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of fund beneficiaries. The Trustee has the following roles:

- administration of the fund and payment to the beneficiaries from fund assets when required in accordance with the fund rules;
- management and investment of the fund assets; and
- compliance with other applicable regulations.

## DESCRIPTION OF RISKS

There are a number of risks to which the Fund exposes Tatts Group Limited. The more significant risks relating to the defined benefits are:

- Investment risk - The risk that investment returns will be lower than assumed and the Company will need to increase contributions to offset this shortfall.
- Longevity risk - The risk that pensioners live longer than assumed, increasing future pensions.
- Pension indexation risk - The risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- Salary growth risk - The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- Legislative risk - The risk that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

# 13. Retirement Benefit Obligations (CONTINUED)

30 JUNE 2016

## DESCRIPTION OF SIGNIFICANT EVENTS

There were no fund amendments, curtailments or settlements during the year.

## SENSITIVITY ANALYSIS

The Company's total defined benefit obligation is not materially sensitive to changes in assumptions.

### RECONCILIATION OF THE NET DEFINED BENEFIT LIABILITY/(ASSET)

	2016 \$'000	2015 \$'000
<b>Net defined balance at the start of the year</b>	<b>7,493</b>	12,084
Revaluation from change in assumption	-	2,054
Current service cost	82	174
Net interest on the net defined benefit liability	359	504
Actual return on Fund assets less interest income	247	(1,148)
Actuarial (gains)/losses arising from changes in demographic assumptions	665	-
Actuarial gains/(losses) arising from changes in financial assumptions	4,039	(4,751)
Actuarial gains/(losses) arising from liability experience	1,474	(1,361)
Employer contributions	(36)	(63)
<b>Net defined benefit liability at end of year</b>	<b>14,323</b>	7,493

### RECONCILIATION OF THE FAIR VALUE OF FUND ASSETS

	2016 \$'000	2015 \$'000
<b>Fair value of Fund assets at start of the year</b>	<b>14,663</b>	14,999
Interest income	683	516
Actual return on Fund assets less interest income	(247)	1,148
Employer contributions	36	63
Contributions by participants	26	75
Benefits paid	(1,444)	(2,220)
Taxes, premiums & expenses paid	43	82
<b>Fair value of Fund assets at end of the year</b>	<b>13,760</b>	14,663

## SENSITIVITY ANALYSIS (CONTINUED)

### RECONCILIATION OF THE DEFINED BENEFIT OBLIGATION

	2016 \$'000	2015 \$'000
<b>Present value of the defined benefit obligation at start of the year</b>	<b>22,156</b>	27,083
Fair value of defined benefit plan assets	-	2,054
Current service cost	82	174
Interest cost	1,042	1,020
Contributions by participants	26	75
Actuarial (gains)/losses arising from changes in demographic assumptions	665	-
Actuarial (gains)/losses arising from changes in financial assumptions	4,039	(4,751)
Actuarial (gains)/losses arising from liability exposure	1,474	(1,361)
Benefits paid	(1,444)	(2,220)
Taxes, premiums & expenses paid	43	82
<b>Present value of defined benefit obligation at end of the year</b>	<b>28,083</b>	22,156

### FAIR VALUE OF FUND ASSETS

All Pooled Fund assets are invested by STC at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund.

The percentage invested in each asset class at the reporting date is:

AS AT	30 JUNE 2016
Short-term securities	5.4%
Australian fixed interest	7.1%
International fixed interest	2.2%
Australian equities	25.5%
International equities	31.7%
Property	9.6%
Alternatives	18.5%
<b>Total</b>	<b>100.0%</b>

Additional to the assets disclosed above, at 30 June 2016 the Pooled Fund had provisions for receivables/ (payables) estimated to be around \$2.83 billion, giving total estimated assets around \$41.1 billion.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the Pooled Fund assets as at 30 June 2016 included \$189.6 million in NSW Government Bonds.

# CAPITAL

## 14. Equity

30 JUNE 2016

### RECOGNITION AND MEASUREMENT

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options/rights are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options/rights, for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

### ORDINARY SHARES

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

Every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Voting power may be subject to certain restrictions arising from a combination of the Company's Constitution, statute, the ASX listing rules and other general law.

### SHARE CAPITAL

	2016 SHARES	2015 SHARES	2016 \$'000	2015 \$'000
Ordinary shares - fully paid	<b>1,464,523,643</b>	1,460,807,302	<b>2,854,416</b>	2,841,366

### MOVEMENTS IN ORDINARY SHARE CAPITAL

DATE	DETAILS	NUMBER OF SHARES	ISSUE PRICE	\$'000
1 July 2014	Opening balance	1,434,447,341		2,748,417
2 July 2014	Performance rights issue	49,228	\$1.87	92
2 July 2014	Performance rights issue	49,228	\$1.36	67
25 August 2014	Performance options issue	244,650	\$2.87	702
6 October 2014	Dividends reinvestment plan issues	10,212,249	\$3.17	32,373
23 October 2014	Performance rights issue	125,000	\$1.81	226
23 October 2014	Performance rights issue	120,050	\$1.26	151
23 October 2014	Performance rights issue	512,202	\$3.25	1,665
25 February 2015	Performance options issue	216,150	\$2.87	620
26 February 2015	Performance options issue	239,600	\$2.87	688
2 April 2015	Dividends reinvestment plan issues	14,344,204	\$3.88	55,655
30 April 2015	Performance options issue	247,400	\$2.87	710
30 June 2015	Closing balance	1,460,807,302		2,841,366
<b>1 July 2015</b>	<b>Opening balance</b>	<b>1,460,807,302</b>		<b>2,841,366</b>
5 October 2015	Dividends reinvestment plan issues	3,183,005	\$3.54	11,268
28 October 2015	Performance rights issue	150,000	\$3.25	488
28 October 2015	Performance rights issue	360,314	\$3.49	1,256
3 November 2015	Performance rights issue	11,511	\$1.87	22
3 November 2015	Performance rights issue	11,511	\$1.36	16
<b>30 June 2016</b>	<b>Closing balance</b>	<b>1,464,523,643</b>		<b>2,854,416</b>

### DIVIDEND REINVESTMENT PLAN (DRP)

The Company has a DRP in operation under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the provision of ordinary shares rather than being paid in cash.

### OPTIONS AND RIGHTS ISSUES

Refer to Note 17 regarding options and rights issued as share-based payments.

### OTHER RESERVES AND RETAINED EARNINGS

#### RECOGNITION AND MEASUREMENT

##### AVAILABLE-FOR-SALE FINANCIAL ASSETS REVALUATION RESERVE

Changes in the fair value and exchange differences arising on translation of investments, such as equities, classified as available-for-sale financial assets, are recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts are reclassified to the income statement when the associated assets are sold or impaired.

##### FOREIGN CURRENCY TRANSLATION RESERVE

Exchange differences arising on translation of foreign controlled entities are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the income statement upon disposal of the net investment.

##### HEDGE RESERVE

The hedge reserve is used to recognise the portion of the gain or loss on a hedging instrument in a net investment or cash flow hedge that is determined to be an effective hedge. Amounts are reclassified to the income statement if the hedge is ineffective.

##### SHARE-BASED PAYMENT RESERVE

The share-based payments reserve is used to recognise the fair value at grant date of performance options and performance rights issued but not exercised.

##### RESERVES

The following table shows a breakdown of the balance sheet line item 'other reserves' and the movements in these reserves during the year.

	2016 \$'000	2015 \$'000
Available-for-sale financial assets revaluation reserve	<b>(67)</b>	(54)
Hedge reserve	<b>(3,737)</b>	37,516
Share-based payments reserve	<b>1,889</b>	2,105
Foreign currency translation reserve	<b>(239)</b>	(49,545)
	<b>(2,154)</b>	(9,978)

## 14. Equity (CONTINUED)

30 JUNE 2016

### OTHER RESERVES AND RETAINED EARNINGS (CONTINUED)

	2016 \$'000	2015 \$'000
<b>Movements:</b>		
<b>Available-for-sale financial assets revaluation reserve</b>		
Balance 1 July	(54)	38
Revaluation	(18)	(115)
Tax on these items	5	23
<b>Balance 30 June</b>	<b>(67)</b>	<b>(54)</b>
<b>Hedge reserve</b>		
Balance 1 July	37,516	41,515
Interest rate swap movement	(16)	1,599
Forward foreign exchange contracts movements	(80)	116
Cross currency interest rate swaps	564	7,382
Foreign currency net investment hedge movements	4,217	(10,367)
Disposal of controlled entities	(45,798)	-
Tax on these items	(140)	(2,729)
<b>Balance 30 June</b>	<b>(3,737)</b>	<b>37,516</b>
<b>Share-based payments reserve</b>		
Balance 1 July	2,105	3,784
Performance options and rights expense	1,572	(505)
Options and rights exercised	(1,782)	(1,174)
Forfeited rights to equity	(6)	-
<b>Balance 30 June</b>	<b>1,889</b>	<b>2,105</b>
<b>Foreign currency translation reserve</b>		
Balance 1 July	(49,545)	(54,099)
Currency translation differences arising during the year	(2,369)	4,554
Disposal of controlled entities	51,675	-
<b>Balance 30 June</b>	<b>(239)</b>	<b>(49,545)</b>
<b>Retained earnings</b>		
Movements in retained earnings were as follows:		
Balance 1 July	139,684	92,006
Net profit for the period	233,794	251,964
Actuarial gains on retirement benefit obligation, net of tax	(4,329)	3,908
Dividends	(248,691)	(209,073)
Transfer from share-based payment reserve	6	879
<b>Balance 30 June</b>	<b>120,464</b>	<b>139,684</b>

## 15. Dividends

30 JUNE 2016

### RECOGNITION AND MEASUREMENT

Provision is made for the amount of any dividend determined, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

### ORDINARY SHARES

	2016 \$'000	2015 \$'000
Final dividend for the year ended 30 June 2015 of 7.5 cents per fully paid share paid on 5 October 2015 (2015: 5.5 cents paid on 6 October 2014) Fully franked based on tax paid @ 30%	109,561	78,914
Interim dividend for the year ended 30 June 2016 of 9.5 cents per fully paid share paid on 31 March 2016 (2015: 9.0 cents paid on 2 April 2015) Fully franked based on tax paid @ 30.0%	139,130	130,159
	<b>248,691</b>	<b>209,073</b>

### DIVIDENDS NOT RECOGNISED AT YEAR END

In addition to the above dividends, since the balance sheet date the Directors have determined the payment of a final dividend of 8.0 cents (2015: Final - 7.5 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend to be paid on 4 October 2016 out of retained earnings, but not recognised as a liability at year end, is \$117.2 million (2015: \$116.9 million).

### FRANKED DIVIDENDS

The franked portions of the final dividends determined after 30 June 2016 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2017.

	2016 \$'000	2015 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30.0% (2015 - 30.0%)	159,700	197,054

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted as necessary for:

- franking credits that will arise from the payment of the amount of the provision for income tax
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting period, and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting period.

The consolidated amounts include franking credits that are available to the Company if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the final dividend determined by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of \$50.2 million (2015: \$47.0 million).

# 16. Earnings Per Share

30 JUNE 2016

## BASIC EARNINGS PER SHARE

	2016 CENTS	2015 CENTS
From continuing operations attributable to the ordinary equity holders of the Company	18.0	17.5
Total basic earnings per share attributable to the ordinary equity holders of the Company	16.0	17.4

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

## DILUTED EARNINGS PER SHARE

	2016 CENTS	2015 CENTS
From continuing operations attributable to the ordinary equity holders of the Company	18.0	17.5
Total diluted earnings per share attributable to the ordinary equity holders of the Company	16.0	17.4

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financial costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive ordinary shares.

## RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE

BASIC AND DILUTED EARNINGS PER SHARE	2016 \$'000	2015 \$'000
Profit from continuing operations	263,382	253,836
Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	263,382	253,836
Profit attributable to the ordinary equity shareholders of the Company used in calculating basic and diluted earnings per share	233,794	251,964

## WEIGHTED AVERAGE NUMBER OF SHARES USED AS DENOMINATOR

	2016 NUMBER OF SHARES	2015 NUMBER OF SHARES
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,463,504,818	1,446,437,013
Adjustments for calculation of diluted earnings per share:		
Performance options and performance rights	520,139	613,916
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,464,024,957	1,447,050,929

# 17. Share-based Payments

30 JUNE 2016

## RECOGNITION AND MEASUREMENT

Share-based compensation benefits are provided to certain employees who have greater potential impact on share price and long-term value generation as part of any annual incentive awarded to them in the form of rights exercisable in 12 months from grant date into restricted shares, provided the employee remains employed with the Group.

The assessed fair value at determination date of options and rights granted to the individuals under the currently inactive Long-Term Incentive Plan (LTIP) was allocated equally over a 3 year period from determination date. Fair values at determination date were determined using a Monte Carlo Simulation Valuation methodology that takes into account the exercise price, the term of the option and right, the impact of dilution, the share price at determination date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option and right.

## INCENTIVE PLAN

Executives, senior managers and other employees who have greater potential impact on share price and long-term value generation receive part of any annual incentive awarded to them as cash and part as rights to restricted shares.

Rights granted under this incentive plan are priced at the VWAP of the ten trading days prior to the day the Remuneration and Human Resources Committee decides to recommend to the Board that it award them. The rights will be able to be exercised into restricted shares 12 months after grant provided the employee remains employed with the Group. Once the shares are acquired, they will be placed in a restricted class and employees will be required to retain them for a further 2 years. No exercise price is payable upon the exercise of the rights. The rights granted under this structure carry no dividend or voting rights. The restricted shares do carry dividend and voting rights.

## LONG-TERM INCENTIVE PLAN PRIOR TO 2011 FINANCIAL YEAR

Staff eligible to participate in the LTIP prior to 2011 financial year were those of senior manager level and above (including Executive Directors).

Performance options and performance rights granted under the LTIP were for no consideration. Options and rights granted were for a 3 year vesting period for the earnings per share performance level with a subsequent 1 or 2 year testing period to achieve the requisite total shareholder return. The exercise period for these instruments granted to date will expire on the seventh anniversary of their allocation date. The performance rights issued to the former Chief Executive expire 90 days after the last date for vesting.

Performance options and performance rights granted under the LTIP carry no dividend or voting rights.

The exercise price of performance options was based on the weighted average price at which the Company's shares are traded on the Australian Securities Exchange during the 30 days immediately before the determination date. No exercise price is payable upon the exercise of performance rights.

# 17. Share-based Payments (CONTINUED)

30 JUNE 2016

## OPTIONS AND RIGHTS GRANTED UNDER THE INCENTIVE PLANS

Set out below are summaries of the performance options and rights granted or to be granted in respect of the 2016 financial year under the incentive plans:

2016	GRANT DATE	EXPIRY DATE	EXPIRY PRICE	BALANCE AT THE START OF THE YEAR NUMBER	GRANTED DURING AND IN RESPECT OF THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	LAPSED/FORFEITED DURING THE YEAR NUMBER	BALANCE AT END OF YEAR NUMBER	VESTED AND EXERCISABLE AT END OF YEAR NUMBER
Performance rights									
	30 Nov 2009	30 Nov 2016		23,022	-	(23,022)	-	-	-
	27 Oct 2011	10 Jan 2016		4,950	-	-	(4,950)	-	-
	- Chief Executive								
	22 Nov 2014	01 Nov 2015		510,314	-	(510,314)	-	-	-
	3 Nov 2015	01 Nov 2016		-	500,971	-	-	500,971	-
<b>Total</b>				<b>538,286</b>	<b>500,971</b>	<b>(533,336)</b>	<b>(4,950)</b>	<b>500,971</b>	<b>-</b>

2015	GRANT DATE	EXPIRY DATE	EXPIRY PRICE	BALANCE AT THE START OF THE YEAR NUMBER	GRANTED DURING AND IN RESPECT OF THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	LAPSED/FORFEITED DURING THE YEAR NUMBER	BALANCE AT END OF YEAR NUMBER	VESTED AND EXERCISABLE AT END OF YEAR NUMBER
Performance options									
	16 Dec 2007	30 Nov 2014	\$3.99	861,371	-	-	(861,371)	-	-
	16 Dec 2008	30 Nov 2015	\$2.56	947,800	-	(947,800)	-	-	-
	Weighted average exercise price		\$3.24		-	\$2.56	\$3.99	-	-

2015	GRANT DATE	EXPIRY DATE	EXPIRY PRICE	BALANCE AT THE START OF THE YEAR NUMBER	GRANTED DURING AND IN RESPECT OF THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	LAPSED/FORFEITED DURING THE YEAR NUMBER	BALANCE AT END OF YEAR NUMBER	VESTED AND EXERCISABLE AT END OF YEAR NUMBER
Performance rights									
	30 Nov 2009	30 Nov 2016		121,478	-	(98,456)	-	23,022	23,022
	27 Oct 2011	10 Jan 2016		125,000	-	(120,050)	-	4,950	-
	- Chief Executive								
	27 Oct 2011	10 Jan 2015		125,000	-	(125,000)	-	-	-
	- Chief Executive								
	22 Nov 2013	01 Nov 2014		210,074	-	(210,074)	-	-	-
	22 Nov 2013	01 Nov 2014		302,128	-	(302,128)	-	-	-
	22 Nov 2014	01 Nov 2015		-	535,385	-	(25,071)	510,314	-
<b>Total</b>				<b>883,680</b>	<b>535,385</b>	<b>(855,708)</b>	<b>(25,071)</b>	<b>538,286</b>	<b>23,022</b>

The weighted average share price at the date of the exercise of rights exercised during the year ended 30 June 2016 was \$3.86 (2015: \$3.13).

The weighted average share price at the date of the exercise of options exercised during the year ended 30 June 2016 was nil (2015: \$3.80).

The weighted average remaining contractual life of exercisable rights outstanding at the end of the period was 1.26 years (2015: 1.42 years).

There were no outstanding share options at the end of the period and the prior period.

## OPTIONS AND RIGHTS GRANTED UNDER THE INCENTIVE PLANS (CONTINUED)

### FAIR VALUE OF RIGHTS GRANTED

The model inputs for rights granted during the year ended 30 June 2016 included:

PERFORMANCE CONDITIONS	RIGHTS GRANTED TO QUALIFYING EMPLOYEES UNDER CURRENT INCENTIVE PLAN	PERFORMANCE RIGHTS
Grant date		<b>Oct-16</b>
Expiry date		<b>Oct-17</b>
Share price at grant date		<b>\$4.15</b>
Expected life		<b>1.0 year</b>
Vesting period		<b>1.0 year</b>
Volatility		<b>N/A</b>
Risk free interest rate		<b>N/A</b>
Dividend yield		<b>4.2%</b>
Fair value		<b>\$4.01</b>

The model inputs for options granted during the year ended 30 June 2015 included:

PERFORMANCE CONDITIONS	RIGHTS GRANTED TO QUALIFYING EMPLOYEES UNDER CURRENT INCENTIVE SCHEME	PERFORMANCE RIGHTS
Grant date		Oct-15
Expiry date		Oct-16
Share price at grant date		\$3.97
Expected life		1.0 year
Vesting period		1.0 year
Volatility		N/A
Risk free interest rate		N/A
Dividend yield		4.1%
Fairvalue		\$3.99

### EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2016 \$'000	2015 \$'000
Performance rights issued <sup>1</sup>	<b>171</b>	439
Performance rights issued under incentive schemes <sup>2</sup>	<b>1,877</b>	1,389
	<b>2,048</b>	1,828

<sup>1</sup> Represents the amortised cost charged in the relevant financial year for all grants that are still in, or remain to enter into, their vesting period.

<sup>2</sup> Represents the total value of the rights to be granted in respect of the relevant financial year.

# FINANCIAL MANAGEMENT

## 18. Financial Assets

30 JUNE 2016

### RECOGNITION AND MEASUREMENT

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

### IMPAIRMENT AND PRICE RISK EXPOSURE

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss.

Information concerning exposure to price and credit risk is set out in Note 20.

The Group has recognised no impairment loss on its available-for-sale financial assets during the year ended 30 June 2016 (2015: \$Nil).

### FINANCIAL ASSETS INCLUDE THE FOLLOWING CLASSES OF FINANCIAL ASSETS:

	2016 \$'000	2015 \$'000
<b>Non-current assets</b>		
Unlisted investments		
Managed fund investment - at fair value	19,884	19,394
<b>Total available-for-sale financial assets</b>	<b>19,884</b>	<b>19,394</b>
Investment - term deposits	35,240	-
<b>Total held-to-maturity investments</b>	<b>35,240</b>	<b>-</b>

# 19. Interest Bearing Liabilities

30 JUNE 2016

### RECOGNITION AND MEASUREMENT

Interest bearing liabilities, such as loans, are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Interest bearing liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

	2016 \$'000	2015 \$'000
<b>Current</b>		
<b>Unsecured</b>		
Bank loans	-	333,168
<b>Total current interest bearing liabilities</b>	<b>-</b>	<b>333,168</b>
<b>Non-current</b>		
<b>Unsecured</b>		
Bank loans	611,053	91,725
Loan notes (US Private Placement)	319,882	301,470
Tatts Bonds	192,788	192,164
<b>Total non-current interest bearing liabilities</b>	<b>1,123,723</b>	<b>585,359</b>

All interest bearing liabilities are unsecured, and are disclosed net of capitalised borrowing costs of \$6.4 million (2015: \$7.0 million).

### FAIR VALUE AND MATURITY ANALYSIS DISCLOSURES

Details of the fair value borrowings for the Group and the maturity analysis are set out in Note 20.

# 20. Financial Risk Management

30 JUNE 2016

Financial risk management is carried out by a central treasury department, Group Treasury, under a framework and policies approved by the Board of Directors. Group Treasury identifies, monitors and manages financial risks in close cooperation with the Group's operating units. Compliance with these policies is monitored regularly by the Audit, Risk and Compliance Committee of the Board.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses various risk management approaches including derivative financial instruments to hedge relevant risk exposures. Derivatives are used exclusively for hedging purposes, not for speculative purposes. The Group uses a variety of methods to quantify different types of risk to which it is exposed, including market or fair value, or face value as appropriate.

## CLASSIFICATION

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date (refer to Notes 6 and 18).

## RECOGNITION AND MEASUREMENT

Purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Policies for recognition and measurement of Receivables and Available-for-sale Financial Assets are in Notes 6 and 18.

## IMPAIRMENT AND PRICE RISK EXPOSURE

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of 1 or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

## RECOGNITION AND MEASUREMENT (CONTINUED)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment testing of trade receivables is described in Note 6.

## DERIVATIVES AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed further in this Note. Movements in the hedging reserve in shareholder's equity are shown in Note 14. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months from balance sheet date; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

## FAIR VALUE HEDGE

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

## CASH FLOW HEDGE

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.



# 20. Financial Risk Management (CONTINUED)

30 JUNE 2016

## RECOGNITION AND MEASUREMENT (CONTINUED)

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

## NET INVESTMENT HEDGES

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

## DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

## DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are only used for economic hedging purposes and not as trading or speculative instruments. The Group has the following derivative financial instruments:

	2016 \$'000	2015 \$'000
<b>Current assets</b>		
Forward foreign exchange contracts - cash flow hedges	-	80
<b>Total current derivative financial instrument assets</b>	-	80
<b>Non-current assets</b>		
Cash flow hedges - Cross currency interest rate swaps (US Private Placement)	94,872	76,075
	94,872	76,075
<b>Current liabilities</b>		
Cash flow hedges - interest rate swap contracts	751	461
	751	461
<b>Non-current liabilities</b>		
Cash flow hedges - interest rate swap contracts	5,973	6,247
	5,973	6,247

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group financial risk management policies.

## INTEREST RATE SWAP - CASH FLOW HEDGES

The Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and pay interest at fixed rates. Swaps currently in place cover approximately 24.7% of the loan principal outstanding (2015: 32.8%) and are timed to match each interest rate payment as it falls due. The contracts require settlement of interest receivable or payable every 1, 3 or 6 months, and are settled on a net basis. Variable interest rates range between 1.89% and 2.27% (2015: 2.09% and 2.15%) while the fixed interest rates average AUD 3.06% (2015: AUD 3.25%).

The gain or loss from remeasuring the hedging instruments at fair value is recognised in the statement of comprehensive income and deferred in equity in the hedging reserve to the extent that the hedge is effective.

## DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### CROSS CURRENCY INTEREST RATE SWAP CONTRACTS/LOAN NOTES (US PRIVATE PLACEMENT) - CASH FLOW HEDGES

The gain or loss from remeasuring the loan notes at fair value is recognised in the statement of comprehensive income and deferred in the hedging reserve to the extent that the hedge is effective.

## MARKET RISK

### FOREIGN EXCHANGE RISK

The Group operates internationally and is exposed to foreign exchange risk arising predominantly from currency exposures to the British Pound (GBP), United States Dollar (USD), and various other currencies from time to time.

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's functional currency, and from net investments in foreign operations. The goal of managing foreign exchange risk is minimising the volatility of Group financial results to adverse exchange rate movements.

This is achieved through a combination of risk management approaches including forward foreign exchange contracts, cross currency interest rate swaps, holding foreign currency cash balances against exposures, and minimising offshore net asset holdings through foreign currency denominated debt.

The Group's material exposure to foreign currency risk at the end of the reporting period, was as follows:

	30 JUNE 2016		30 JUNE 2015	
	GBP £'000	USD \$'000	GBP £'000	USD \$'000
Interest bearing liabilities	-	-	46,070	-
Cross currency interest rate swap - receivable	-	(225,000)	-	(225,000)
Loan notes (US Private Placement)	-	225,000	-	225,000
<b>Total</b>	-	-	46,070	-

### MARKET RISK SENSITIVITY ANALYSIS

The Group's exposure to foreign exchange movements is not material.

### CASH FLOW AND FAIR VALUE INTEREST RATE RISK

Interest rate risk is the risk that the Group will suffer a financial or economic opportunity loss due to an unfavourable change in interest rates. The Group's interest rate risk arises from the Group's variable interest rate bearing assets and liabilities.

### INTEREST RATE RISK EXPOSURE

Cash at bank is bearing floating interest rates between zero and 1.95% (2015: zero and 2.20%).

# 20. Financial Risk Management (CONTINUED)

30 JUNE 2016

## CASH FLOW AND FAIR VALUE INTEREST RATE RISK (CONTINUED)

Fixed and floating rate interest securities are bearing fixed interest rates with a weighted average of 2.95% (2015: 2.63%) and have maturities between 4 days and 2,455 days.

The Group may enter into interest rate hedge instruments, ranging from 0% to 100.0% of the net variable interest rate exposure of the Group.

Group Treasury manage interest rate risk by executing fixed or floating interest rate swaps in accordance with the Board approved policy.

As at the end of the period, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	2016			2015		
	AVAILABLE FACILITY \$'000	BALANCE DRAWN DOWN \$'000	% OF TOTAL LOANS	AVAILABLE FACILITY \$'000	BALANCE DRAWN DOWN \$'000	% OF TOTAL LOANS
Bank overdrafts and bank loans	1,200,000	615,000	55.30	1,200,000	428,588	46.30
Loan Notes (US Private Placement)	301,973	301,973	27.20	291,943	291,943	32.70
Bonds	194,664	194,664	17.50	194,664	194,664	21.00
Bilateral facility	100,000	-		100,000	-	
Interest rate swaps (notional principal amount)	- (275,000)			- (300,000)		
<b>Net exposure to cash flow interest rate risk</b>	<b>1,796,637</b>	<b>836,637</b>		<b>1,786,607</b>	<b>615,195</b>	

All other financial assets and liabilities are either non-interest bearing or not subject to interest rate risk or exposures to such risk are not material.

## CASH FLOW AND FAIR VALUE INTEREST RATE RISK SENSITIVITY ANALYSIS

At 30 June 2016, if interest rates had increased/decreased by 100 basis points (2015: 100 basis points) from the year-end rates with all other variables held constant, the post-tax profit for the year and equity for the Group would have been \$2.4 million lower/higher and \$5.1 million lower/\$5.2 million higher respectively (2015: \$0.9 million lower/higher and \$5.4 million lower/\$5.3 million higher respectively).

## PRICE RISK

The Group is exposed to managed fund securities price risk. This arises from investments held by the Group and classified in the consolidated balance sheet as available-for-sale financial assets (Refer to Note 18 for further information).

These managed fund investments are part of the usual business operations or strategies of the Group and do not represent a material exposure to the Group. As at 30 June 2016, the amount held is \$19.9 million (2015: \$19.4 million).

## PRICE RISK SENSITIVITY ANALYSIS

Based on the equity securities and managed fund securities held at 30 June 2016, had the price increased/decreased by 10% (2015: 10%) with all other variables held constant, the Group's post tax profit for the year would have been unaffected while equity would have been \$2.0 million higher/lower (2015: \$1.9 million higher/lower).

## CREDIT RISK

Credit risk is the risk that the Group will suffer a financial loss due to the inability of a counterparty to meet its financial and/or contractual obligations. Treasury activities generate credit risk arising primarily from investments, and the use of derivative instruments. Credit risk relating to other instruments is not material.

## CREDIT RISK (CONTINUED)

The Board-approved Treasury policy requires that approved financial institutions counterparties maintain a minimum long-term credit rating of BBB+. As at 30 June 2016, and 30 June 2015, all current counterparties for Treasury activities had a credit rating that exceeded this requirement. Additionally, Group Treasury seeks to spread transactions across a range of approved counterparties to minimise the concentration of credit risk with any one financial institution.

Business and trade related credit risk is managed through procurement policies in place for the Group.

## LIQUIDITY RISK

Liquidity risk is the risk that the Group may not be able to meet its obligations with respect to financial liabilities. Prudent liquidity risk management requires maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Group Treasury manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and liabilities, and maintaining appropriate committed funding lines in anticipation of future requirements.

## MATURITIES OF FINANCIAL ASSETS

The financial assets of the Group, with the exception of available-for-sale financial assets disclosed in Note 18 have maturity periods ranging from 4 to 2,455 days. (2015: 29 to 241 days).

## MATURITIES OF FINANCIAL LIABILITIES

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting date to the contractual maturity date. The amounts disclosed are undiscounted cash flows.

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES	LESS THAN 6 MONTHS	6 TO 12 MONTHS	1 TO 2 YEARS	2 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL CONTRACTUAL CASH FLOWS <sup>4</sup>	CARRYING VALUE
AT 30 JUNE 2016	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>							
Trade and other payables <sup>1</sup>	536,096	57,868	74,376	53,327	65,184	786,851	781,335
Bank loans <sup>2</sup>	10,774	8,622	16,665	659,928	-	695,989	627,086
Tatts Bonds <sup>2</sup>	5,080	4,766	9,383	206,510	-	225,739	194,664
Loan Notes (USPP) <sup>3</sup>	7,477	7,477	87,156	257,476	-	359,586	301,973
<b>Total non-derivatives</b>	<b>559,427</b>	<b>78,733</b>	<b>187,580</b>	<b>1,177,241</b>	<b>65,184</b>	<b>2,068,165</b>	<b>1,905,058</b>
<b>Derivatives</b>							
<b>Net settled (interest rate swaps)</b>	<b>-</b>	<b>751</b>	<b>-</b>	<b>5,832</b>	<b>141</b>	<b>6,724</b>	<b>6,724</b>
<b>AT 30 JUNE 2015</b>							
<b>Non-derivatives</b>							
Trade and other payables <sup>1</sup>	465,392	133,116	97,072	48,307	48,950	792,837	777,357
Bank loans <sup>2</sup>	4,957	339,670	2,530	99,327	-	446,485	428,589
Tatts Bonds <sup>2</sup>	5,093	5,028	10,297	221,182	-	241,600	194,664
Loan Notes (USPP) <sup>3</sup>	7,228	7,228	14,456	110,055	237,585	376,553	291,942
<b>Total non-derivatives</b>	<b>482,670</b>	<b>485,042</b>	<b>124,355</b>	<b>478,871</b>	<b>286,535</b>	<b>1,857,475</b>	<b>1,692,552</b>
<b>Derivatives</b>							
<b>Net settled (interest rate swaps)</b>	<b>-</b>	<b>461</b>	<b>1,461</b>	<b>4,786</b>	<b>-</b>	<b>6,708</b>	<b>6,708</b>

1 Non-interest bearing

2 Floating interest rate

3 Fixed interest rate

4 Excludes the impact of financial derivatives

# 20. Financial Risk Management (CONTINUED)

30 JUNE 2016

## LIQUIDITY RISK (CONTINUED)

### FINANCING ARRANGEMENTS

The Group's existing debt facilities and their maturities at the end of the reporting period were as follows:

	SECURITY	MATURITY	UTILISED		FACILITY LIMIT	
			2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Bilateral Facility	Unsecured	Feb-2019	-	-	100,000	100,000
Syndicated Facility	Unsecured	Feb-2019	180,000	-	250,000	250,000
Syndicated Facility	Unsecured	Mar-2016	-	334,672	-	350,000
Syndicated Facility	Unsecured	Sep-2020	-	-	350,000	-
Syndicated Facility	Unsecured	Jul-2018	135,000	93,916	300,000	300,000
Syndicated Facility	Unsecured	Sep-2017	300,000	-	300,000	300,000
USPP	Unsecured	Dec-2017	73,816	71,364	73,816	71,364
USPP	Unsecured	Dec-2020	228,157	220,579	228,157	220,579
Tatts Bonds	Unsecured	Jul-2019	194,664	194,664	194,664	194,664

This table excludes the impact of any derivatives at the end of each reporting period.

Loans provided under the syndicated multi-currency revolving facility agreement and the bilateral facility are subject to covenants on the Group. The USD Private Placement Notes contain undertakings and covenants similar to the loan agreements. The financial undertakings state that (subject to certain exceptions) the companies party to these facilities would limit security given over their assets, and will ensure that certain financial ratios are maintained.

No financial covenants apply to the Tatts Bonds. The Group complied with all debt covenants imposed on it under its debt facilities during the period.

### CAPITAL RISK MANAGEMENT

The Group's policy is to maintain a capital structure for the business which ensures sufficient liquidity and support for business operations, maintains shareholder and market confidence, provides strong stakeholder returns, and positions the business for future growth.

The ongoing maintenance and pursuit of this policy is characterised by:

- maintaining a leverage ratio that ensures an investment grade credit profile of the Group;
- maintaining appropriate sources of debt funding that ensures an appropriate maturity profile for the Group;
- a dividend policy aimed at dividend payout ratios of circa 90% on a fully franked basis; and
- investment criteria that consider earnings accretion and risk adjusted rate of return requirements based on the Group's weighted average cost of capital.

The leverage ratios that management monitor as key metrics for capital management are calculated as net debt divided by total capital (balance sheet leverage ratio), and net debt divided by EBITDA (earnings leverage ratio).

Net debt is calculated as total borrowings (interest bearing liabilities as shown in the balance sheet, plus derivative financial liabilities and bank guarantees) less cash and cash equivalents (less prize reserves and other committed cash amounts).

Total capital is calculated as 'equity' as shown in the balance sheet (including non-controlling interests) plus net debt. EBITDA (leverage) is the earnings before interest, tax, depreciation and amortisation as shown in the income statement, adjusted to reflect full-year outcomes of continuing operations, adjusted for non-recurring significant or extraordinary items which are non-cash in nature, adjusted for acquisitions/disposals during the past financial year on a pro forma 12-month basis and with the addition of interest income.

## CAPITAL RISK MANAGEMENT (CONTINUED)

Two measures are used for leverage to provide both a balance sheet and earnings/cash flow perspective of the leverage of the business.

In addition, the interest cover ratio is used to monitor the annual earnings leverage in the income statement. Interest cover ratio is calculated as EBITDA (leverage) as outlined above less the acquisition/disposal adjustment (EBITDA (interest cover)), divided by interest expense as disclosed in the accounts adjusted for any non-recurring non-cash items.

	2016 \$'000	2015 \$'000
EBITDA (leverage)	499,365	510,944
EBITDA (interest cover)	486,104	510,944
Interest expense	74,049	59,274
Interest bearing and other liabilities	1,182,325	859,465
Less: cash and cash equivalents (excluding prize reserves)	(70,191)	(259,081)
Net debt	1,112,134	600,384
Equity	2,972,726	2,971,072
<b>Total Capital</b>	<b>4,084,860</b>	<b>3,571,457</b>
Balance sheet leverage ratio	27.23%	16.81%
Earnings leverage ratio	2.29:1	1.18:1
Interest cover ratio	6.74:1	8.62:1

### KEY FINANCIAL DISCLOSURES FOR TATTS BONDS

In accordance with the requirements of clause 13.2 of the Trust Deed, the following Key Financial Disclosures are made:

- Tatts Bonds rank equally among themselves and at least equally with all other senior and unsecured creditors of the Group, other than those obligations mandatorily preferred by law;
- the Group has not materially breached any loan covenants or any debt obligations (whether or not relating to Tatts Bonds) during the period covered by this report; and
- the key financial ratios for the Group at 30 June 2016 calculated in accordance with section 713B of the Corporations Act are:

$$\text{Interest Coverage Ratio}^1 = \frac{\text{EBITDA}}{\text{Net Interest Expense}} = 12.0 \text{ times}$$

$$\text{Gearing Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}} = 76.0\%$$

$$\text{Working Capital Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = 59.3\%$$

1. Calculated on EBITDA on continuing operations

# 20. Financial Risk Management (CONTINUED)

30 JUNE 2016

## CAPITAL RISK MANAGEMENT (CONTINUED)

### KEY FINANCIAL DISCLOSURES FOR TATTS BONDS (CONTINUED)

A description of these ratios and how they are calculated is included in section 2.3(b) of the Tatts Bonds Prospectus.

The Group received \$540.5 million on 27 June 2014 in accordance with orders made by the Supreme Court of Victoria in proceedings commenced against the State of Victoria. This event had a positive impact on the Earnings leverage ratio in the previous corresponding period. In March 2016 the Group repaid the original amount plus interest to the State of Victoria. This is the principle reason why the Earnings leverage ratio has increased to 2.29:1 (2015: 1.18:1).

The Board and management continually assess the relative merits of the potential for higher returns from increased leverage and the advantages of operational stability and strategic flexibility from a strong capital base.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, other than normal banking requirements.

## FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

### RECOGNITION AND MEASUREMENT

#### FAIR VALUE MEASUREMENTS

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Derivative financial instruments
- Available-for-sale financial assets

#### ON-BALANCE SHEET

The fair value of cash and cash equivalents, and non-interest bearing monetary financial assets and financial liabilities of the Group approximates their carrying amounts.

The fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

Equity investments traded in active markets have been valued by reference to market prices prevailing at balance sheet date. For non-traded equity investments, the fair value is an assessment by management based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment.

#### FAIR VALUE HIERARCHY

Other than those classes of financial assets and liabilities denoted as 'listed' (Refer to Note 18), none of the classes of financial assets and liabilities are readily traded on organised markets in standardised form. The fair value of financial assets and liabilities is exclusive of costs which would be incurred on realisation of an asset, and inclusive of costs which would be incurred on settlement of a liability. The fair values of financial assets and liabilities of the Group are approximately the same as the carrying amount shown in the balance sheet.

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy (consistent with the hierarchy applied to financial assets and financial liabilities):

- Level 1 - the fair value is calculated using quoted prices in active market
- Level 2 - the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3 - the fair value is estimated using inputs for the asset or liability that are not based on observable market data

AASB 7 *Financial Instruments*: Disclosures requires disclosure of fair value measurements by level of the above fair value measurement hierarchy.

## VALUATION TECHNIQUES USED TO DERIVE LEVEL 2 FAIR VALUES

### RECURRING AND NON-RECURRING FAIR VALUE MEASUREMENTS

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Borrowings within Level 2 are measured at fair value on initial recognition.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.

The main inputs used by the Group are derived and evaluated as follows:

- Discount rates for financial assets and financial liabilities are determined using publicly available pre-tax discount rates in the relevant currency, which reflects the market's assessment of the present value of the future cashflows of the individual instruments.
- Risk adjustments specific to the counterparties (including assumptions about credit default rates) are derived from credit risk gradings determined by Tatts Group Limited's internal credit risk management group.

Equity investments traded in active markets have been valued by reference to market prices prevailing at balance sheet date. For non-traded equity investments, the fair value is an assessment by management based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment.

#### OFF-BALANCE SHEET

The Company and certain controlled subsidiaries have potential financial liabilities which may arise from certain contingencies disclosed in Note 25. No material losses are anticipated in respect of any of those contingencies.

### DERIVATIVE FINANCIAL INSTRUMENTS

For forward foreign exchange contracts, the fair value is taken to be the unrealised gain or loss at balance sheet date calculated by reference to the current forward exchange rates for contracts with similar remaining maturity profiles.

For interest rate swaps, the fair value is taken to be the unrealised gain or loss at balance sheet date calculated by reference to the current interest rate curve with similar remaining maturity profiles.

For cross-currency interest rate swaps, the fair value is taken to be the unrealised gain or loss at balance sheet date calculated by reference to the current forward exchange rates and interest rate curve with similar maturity profiles.

## 20. Financial Risk Management (CONTINUED)

30 JUNE 2016

### RECOGNISED FAIR VALUE MEASUREMENTS

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2016.

30 JUNE 2016	LEVEL 1 \$'000	LEVEL 2 \$'000	LEVEL 3 \$'000	TOTAL \$'000
<b>Financial assets</b>				
Financial assets at fair value through profit or loss				
Cross currency interest rate swaps	-	94,872	-	<b>94,872</b>
Available-for-sale financial assets	-	19,884	-	<b>19,884</b>
<b>Total financial assets</b>	<b>-</b>	<b>114,756</b>	<b>-</b>	<b>114,756</b>
<b>Financial Liabilities</b>				
Interest rate swap contracts	-	6,724	-	<b>6,724</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>6,724</b>	<b>-</b>	<b>6,724</b>
30 JUNE 2015				
Financial assets				
Financial assets at fair value through profit or loss				
Cross currency interest rate swaps	-	76,075	-	76,075
Available-for-sale financial assets	-	19,394	-	19,394
Forward foreign exchange contracts	-	80	-	80
Total financial assets	-	95,549	-	95,549
Financial liabilities				
Interest rate swap contracts	-	6,708	-	6,708
Total financial liabilities	-	6,708	-	6,708

There were no transfers between Levels 1 and 2 for recurring fair value measurements during the period. There were no recurring or non-recurring transfers in or out of Level 3 measurements.

## GROUP STRUCTURE 21. Discontinued Operations

30 JUNE 2016

### RECOGNITION AND MEASUREMENT

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

### TOTAL GROUP DISCONTINUED OPERATIONS

#### FINANCIAL PERFORMANCE AND CASH FLOW INFORMATION

	2016 \$'000	2015 \$'000
Revenue	<b>103,612</b>	115,927
Expenses	<b>(103,845)</b>	(100,808)
Loss on disposal of assets held for sale	<b>(302)</b>	(2,642)
Loss on sale of Talarius	<b>(206)</b>	-
<b>EBITDA</b>	<b>(741)</b>	12,477
Depreciation and amortisation	<b>(7,606)</b>	(10,233)
Interest income	<b>30</b>	29
Finance costs	<b>(29,302)</b>	(3,367)
Income tax benefit/(expense)	<b>8,031</b>	(778)
<b>Loss after income tax of discontinued operations</b>	<b>(29,588)</b>	(1,872)
Net cash inflow/(outflow) from operating activities	<b>(10,196)</b>	14,945
Net cash inflow from investing activities	<b>181,672</b>	22,980
Net cash (outflow) from financing activities	<b>(176,640)</b>	-
<b>Net cash (decrease)/increase generated by Total Group</b>	<b>(5,164)</b>	37,925

### TATTS POKIES

#### DESCRIPTION

On 15 August 2012 the gaming operator's licence held by the Company expired. This gaming operator's licence enabled Tatts Pokies to own and operate gaming machines in venues within the State of Victoria. The expiry of this licence means that Tatts Pokies no longer generates earnings and cash flows from the activities which were conducted under this licence. As part of the transition to the new gaming machine monitoring licence holder, the Group provided monitoring services and support through to 15 February 2013.

The Group entered into agreements with third parties to sell its gaming machines classified as plant and equipment with the effective date of sale of these machines being the date when the gaming operator's licence expired on 15 August 2012. As a result of the sale agreements, the Group changed the depreciation estimate of the gaming machines to a zero depreciation rate from 31 March 2011 as the sale value of the gaming machines exceeded their written down book value. The remainder of the gaming assets classified under plant and equipment relating to the gaming operator's licence continued to be depreciated at existing rates up to the expiry of the licence on 15 August 2012.

On 2 March 2016 the High Court of Australia upheld the State of Victoria's appeal in relation to the matter of the State of Victoria v Tatts Group Limited (M83 of 2015). Consequently on 3 March 2016, Tatts repaid the State \$540.5 million plus our estimate of interest of \$26.6 million. Tatts is also required to pay the State's costs of the appeal and its costs of the proceedings in the Victorian Supreme Court of Appeal. This amount and the interest benefit has not yet been agreed. The estimated interest and costs amounts are included in discontinued operations.

# 21. Discontinued Operations (CONTINUED)

30 JUNE 2016

## FINANCIAL PERFORMANCE AND CASH FLOW INFORMATION

The financial performance and cash flow information presented are for the full year ended 30 June 2016 and the corresponding prior period ended 30 June 2015.

	2016 \$'000	2015 \$'000
Expenses	(3,833)	(1,265)
Loss on disposal of assets classified as held for sale	(302)	(2,642)
<b>EBITDA</b>	<b>(4,135)</b>	<b>(3,907)</b>
Interest income	-	5
Finance costs	(26,632)	(9)
Income tax benefit	10,799	89
<b>Loss after income tax of discontinued operation</b>	<b>(19,968)</b>	<b>(3,822)</b>
Net cash (outflow) from operating activities	(17,711)	(1,882)
Net cash inflow from investing activities	-	34,956
<b>Net cash (decrease)/increase generated by Tatts Pokies</b>	<b>(17,711)</b>	<b>33,074</b>

## TALARIUS

### DESCRIPTION

On 24 June 2016 the Group sold its 100% interest in Talarius. The results include the contribution from Talarius as a discontinued operation up until 19 March 2016 (being the effective date of sale).

## FINANCIAL PERFORMANCE AND CASH FLOW INFORMATION

The financial performance and cash flow information presented are for the full year ended 30 June 2016 and the corresponding prior period ended 30 June 2015.

	2016 \$'000	2015 \$'000
Revenue	103,612	115,927
Expenses	(90,351)	(99,543)
<b>EBITDA</b>	<b>13,261</b>	<b>16,384</b>
Depreciation and amortisation	(7,606)	(10,233)
Interest income	30	24
Finance costs	(2,182)	(3,358)
Income tax expense	(1,560)	(867)
<b>Profit after income tax of discontinued operation</b>	<b>1,943</b>	<b>1,950</b>
Net cash inflow from operating activities	10,161	16,827
Net cash (outflow) from investing activities	(7,189)	(11,976)
<b>Net cash (decrease)/increase generated by Talarius</b>	<b>2,972</b>	<b>4,851</b>

## TALARIUS (CONTINUED)

### DETAILS OF THE SALE OF THE TALARIUS SEGMENT

	2016 \$'000
<b>Consideration received or receivable</b>	
Cash*	217,654
Carrying amount of net assets sold	(217,860)
<b>Loss on sale after income tax</b>	<b>(206)</b>
*Total consideration received of \$217.6 million, includes proceeds of \$188.9 million plus cash extracted from Talarius Group prior to disposal.	
<b>Sale of Talarius</b>	<b>2016 \$'000</b>
Expenses including recycling of reserves	(9,661)
Loss on sale of Talarius	(206)
<b>EBITDA</b>	<b>(9,867)</b>
Finance costs	(488)
Income tax	(1,208)
<b>Total loss on sale after expenses</b>	<b>(11,563)</b>
Net cash (outflow) from operating activities	(2,646)
Net cash inflow from investing activities	188,861
Net cash (outflow) from investing activities	(176,640)
<b>Net cash (decrease)/increase generated by Talarius</b>	<b>9,575</b>

The carrying amounts of assets and liabilities as at the effective date of sale (19 March 2016) were:

	19 MARCH 2016 \$'000
Cash and cash equivalents	28,793
Trade receivables	5,129
Inventories	199
Property, plant and equipment	32,222
Intangible assets	167,379
Deferred tax asset	7,822
<b>Total assets</b>	<b>241,544</b>
Trade and other payables	(22,255)
Provisions	(1,429)
<b>Total liabilities</b>	<b>(23,684)</b>
<b>Net assets</b>	<b>217,860</b>

## 22. Investments in Controlled Entities

30 JUNE 2016

Shareholdings in all controlled entities are classed as ordinary shares.

NAME OF ENTITY	COUNTRY OF INCORPORATION	EQUITY HOLDING	
		2016 %	2015 %
Ubet Qld Limited <sup>(1)</sup>	Australia	100	100
Ubet Enterprises Pty Ltd	Australia	100	100
Ubet NT Pty Ltd <sup>(1)</sup>	Australia	100	100
Ubet Radio Pty Ltd	Australia	100	100
Ubet SA Pty Ltd <sup>(1)</sup>	Australia	100	100
TAB Queensland Pty Ltd <sup>(2)</sup>	Australia	100	100
Ubet Tas Pty Ltd <sup>(1)</sup>	Australia	100	100
Agility Interactive Pty Ltd <sup>(2)</sup>	Australia	100	100
Tasradio Pty Ltd <sup>(2)</sup>	Australia	100	100
Maxgaming Holdings Pty Ltd <sup>(1)</sup>	Australia	100	100
Maxgaming NSW Pty Ltd <sup>(1)</sup>	Australia	100	100
Maxgaming Qld Pty Ltd <sup>(1)</sup>	Australia	100	100
Maxgaming Vic Pty Ltd	Australia	100	100
Bytecraft Systems Pty Ltd <sup>(1) (3)</sup>	Australia	100	100
Bytecraft Systems (NSW) Pty Ltd <sup>(1)</sup>	Australia	100	100
Bytecraft Systems (NZ) Limited	New Zealand	100	100
EGM Tech Pty Ltd <sup>(2)</sup>	Australia	100	100
Reaftin Pty Ltd <sup>(1)</sup>	Australia	100	100
Bytecraft Systems Pty Ltd <sup>(1) (3)</sup>	Australia	100	100
Tattersall's Holdings Pty Ltd <sup>(1)</sup>	Australia	100	100
Tatts Online Pty Ltd	Australia	100	100
Tattersall's Sweeps Pty Ltd <sup>(1)</sup>	Australia	100	100
Tattersall's Gaming Pty Ltd <sup>(1)</sup>	Australia	100	100
Tattersall's Club Keno Pty Ltd <sup>(2)</sup>	Australia	100	100
tatts.com Pty Ltd	Australia	100	-
New South Wales Lotteries Corporation Pty Limited <sup>(1)</sup>	Australia	100	100
Tatts Employment Co (NSW) Pty Ltd	Australia	100	100
George Adams Pty Ltd	Australia	100	100
Tattersall's Australia Pty Ltd <sup>(2)</sup>	Australia	100	100
Tatts NT Lotteries Pty Ltd <sup>(1)</sup>	Australia	100	100
Golden Casket Lottery Corporation Limited <sup>(1)</sup>	Australia	100	100
Tattersall's Investments (South Africa) (Pty) Limited	South Africa	100	100
Wintech Investments Pty Ltd <sup>(1)</sup>	Australia	100	100
Tattersall's Gaming Systems (NSW) Pty Ltd	Australia	100	100
Tatts Lotteries SA Pty Ltd <sup>(1)</sup>	Australia	100	100
Thelott Enterprises Pty Ltd <sup>(4)</sup>	Australia	100	-
Tatts Employment Share Plan Pty Ltd <sup>(6)</sup>	Australia	100	100

NAME OF ENTITY	COUNTRY OF INCORPORATION	EQUITY HOLDING	
		2016 %	2015 %
TattsTech Pty Ltd <sup>(2)</sup>	Australia	100	100
50-50 Software Pty Ltd <sup>(4)</sup>	Australia	100	-
Talarius Holdings Limited <sup>(4)</sup>	United Kingdom	100	-
European Gaming (Finance) Limited	United Kingdom	100	100
George Adams Holdings Limited	United Kingdom	100	100
European Gaming Limited	United Kingdom	100	100
Talarius Limited <sup>(5)</sup>	United Kingdom	-	100
Bytecraft Systems (UK) Limited <sup>(2) (5)</sup>	United Kingdom	-	100
In-To-Save Limited <sup>(2) (5)</sup>	United Kingdom	-	100
Blackheath Leisure (Carousel) Limited <sup>(2) (5)</sup>	United Kingdom	-	100
RAL Limited <sup>(5)</sup>	United Kingdom	-	100
RAL Employee Benefit Trustee Limited <sup>(5)</sup>	United Kingdom	-	100
RAL Interactive Limited <sup>(5)</sup>	United Kingdom	-	100
CZ Trading Limited <sup>(2) (5)</sup>	United Kingdom	-	100
Leisure Promotions Limited <sup>(2) (5)</sup>	United Kingdom	-	100
Kellams Limited <sup>(2) (5)</sup>	United Kingdom	-	100
Displaymatics Holdings Limited <sup>(2) (5)</sup>	United Kingdom	-	100
Winners Amusements Limited <sup>(2) (5)</sup>	United Kingdom	-	100
Palma Leisure Limited <sup>(2) (5)</sup>	United Kingdom	-	100
National Leisure Limited <sup>(2) (5)</sup>	United Kingdom	-	100

1 These subsidiaries have, where applicable, been granted relief from the necessity to prepare financial statements in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. (Refer to Note 23 for further information).

2 Dormant entity.

3 Owned 50% by Tatts Group Limited and 50% by Reaftin Pty Ltd. 100% equity holding within the Group.

4 Entity acquired or incorporated during the current financial year.

5 Entity disposed of in current financial year.

6 Entity renamed during the current financial year. Previous name was Tatts Interactive Pty Ltd.

## 23. Deed of Cross Guarantee

30 JUNE 2016

As at 1 July 2015, Tatts Group Limited, Tattersall's Holdings Pty Ltd, Tattersall's Gaming Pty Ltd, Tattersall's Sweeps Pty Ltd, Reaftin Pty Ltd, Wintech Investments Pty Ltd, Bytecraft Systems Pty Ltd, Ubet Qld Limited, Ubet SA TAB Pty Ltd, Maxgaming Holdings Pty Ltd, Maxgaming NSW Pty Ltd, Maxgaming Qld Pty Ltd, Golden Casket Lottery Corporation Limited, New South Wales Lotteries Corporation Pty Limited, Ubet Tas Pty Ltd, Tatts Lotteries SA Pty Ltd, Bytecraft Systems NSW Pty Ltd, Tatts NT Lotteries Pty Ltd and Ubet NT TAB Pty Ltd were party to a Deed of Cross Guarantee (Deed) dated 1 May 2009, under which each company guarantees the debts of the others in the event of the winding up of any of those companies in the circumstances contained in the Deed.

By entering into the current Deed, the wholly owned entities have been relieved under ASIC Class Order 98/1418 from certain requirements including preparing and lodging a financial report and Directors' Report.

### CONSOLIDATED INCOME STATEMENT, STATEMENT OF COMPREHENSIVE INCOME AND SUMMARY OF MOVEMENTS IN CONSOLIDATED RETAINED EARNINGS

The above companies represent a 'Closed Group' for the purposes of the Class Order and they also represent the 'Extended Closed Group'. Set out below is a consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings for the year ended 30 June 2016 of the Closed Group consisting of the companies listed above.

	2016 \$'000	2015 \$'000
<b>Consolidated income statement</b>		
Revenue from continuing operations	2,950,887	2,786,606
<b>Statutory outgoings</b>		
Government share	(1,370,885)	(1,271,452)
Venue share/commission	(436,719)	(417,027)
Product/program fees	(202,691)	(203,138)
<b>Other expenses from ordinary activities</b>		
Employee expenses	(177,414)	(179,527)
Operating fees and direct costs	(56,626)	(64,094)
Telecommunications and technology	(38,043)	(35,503)
Marketing and promotions	(61,164)	(55,506)
Information services	(23,631)	(22,984)
Property expenses	(23,617)	(23,572)
Restructuring costs	(4,036)	(1,727)
Other expenses	(34,325)	(34,016)
<b>Profit before interest, income tax, depreciation, amortisation and impairment</b>	<b>521,736</b>	478,060
Depreciation and amortisation expense	(74,622)	(75,615)
Interest income	5,281	7,373
Finance costs	(46,297)	(58,220)
<b>Profit before income tax</b>	<b>406,098</b>	351,598
Income tax expense	(107,089)	(105,644)
<b>Profit for the year from continuing operations</b>	<b>299,009</b>	245,954
Loss from discontinued operations	(76,107)	(3,822)
<b>Profit attributable to owners of Tatts Group Limited</b>	<b>222,902</b>	242,132

### CONSOLIDATED INCOME STATEMENT, STATEMENT OF COMPREHENSIVE INCOME AND SUMMARY OF MOVEMENTS IN CONSOLIDATED RETAINED EARNINGS (CONTINUED)

	2016 \$'000	2015 \$'000
<b>Profit for the year</b>	<b>222,902</b>	242,132
Items that may be reclassified to profit or loss		
Changes in the fair value of available-for-sale financial assets	(18)	(115)
Changes in the fair value of cash flow hedges	564	7,382
Exchange differences on translation of foreign operations	(2,723)	1,763
Changes in the value of net investment hedges	(41,648)	(10,367)
Changes in the value of interest rate swaps	-	1,599
Changes in the fair value of forward foreign exchange contracts	-	116
Income tax relating to these items	(164)	(2,706)
<b>Other comprehensive income for the year, net of tax</b>	<b>(43,989)</b>	(2,328)
<b>Total comprehensive income for the year</b>	<b>178,913</b>	239,804

### Summary of movements in consolidated retained earnings

<b>Retained earnings at the beginning of the financial year</b>	<b>161,079</b>	127,141
Net profit for the year	222,902	242,132
Dividends (Note 15)	(248,691)	(209,073)
Share options lapsed	6	879
<b>Retained earnings at the end of the financial year</b>	<b>135,296</b>	161,079



## 23. Deed of Cross Guarantee (CONTINUED)

30 JUNE 2016

### CONSOLIDATED BALANCE SHEET

Set out below is a consolidated balance sheet as at 30 June 2016 of the Closed Group consisting of the companies listed.

	2016 \$'000	2015 \$'000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	190,977	346,851
Trade and other receivables	46,831	101,284
Inventories	2,324	3,501
Derivative financial instruments	-	80
Current tax receivables	49,891	-
Assets classified as held for sale	2,980	-
Other current assets	49,353	47,598
<b>Total current assets</b>	<b>342,356</b>	<b>499,314</b>
<b>Non-current assets</b>		
Trade and other receivables	70,606	116
Available-for-sale financial assets	19,884	19,394
Other financial assets	3,872	128,915
Property, plant and equipment	140,312	149,736
Derivative financial instruments	94,872	69,828
Intangible assets	4,458,271	4,472,346
Held-to-maturity investments	35,240	-
<b>Total non-current assets</b>	<b>4,823,057</b>	<b>4,840,335</b>
<b>Total assets</b>	<b>5,165,413</b>	<b>5,339,649</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	527,341	541,460
Derivative financial instruments	751	461
Current tax liabilities	-	26,610
Provisions	17,150	16,601
Interest bearing liabilities	-	333,168
Other current liabilities	49,353	588,066
<b>Total current liabilities</b>	<b>594,595</b>	<b>1,506,366</b>
<b>Non-current liabilities</b>		
Trade and other payables	187,371	178,849
Interest bearing liabilities	1,123,723	400,688
Provisions	2,881	2,708
Derivative financial instruments	5,973	-
Deferred tax liabilities	267,514	208,792
<b>Total non-current liabilities</b>	<b>1,587,462</b>	<b>791,037</b>
<b>Total liabilities</b>	<b>2,182,057</b>	<b>2,297,403</b>
<b>Net assets</b>	<b>2,983,356</b>	<b>3,042,246</b>
<b>EQUITY</b>		
Contributed equity	2,854,411	2,841,361
Reserves	(6,351)	39,806
Retained earnings	135,296	161,079
<b>Total equity</b>	<b>2,983,356</b>	<b>3,042,246</b>

## 24. Parent Entity Financial Information

30 JUNE 2016

### RECOGNITION AND MEASUREMENT

The financial information for the Parent Entity, Tatts Group Limited has been prepared on the same basis as the consolidated financial statements, except as set out below.

### INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are accounted for at cost in the financial statements of the Parent Entity. Dividends received from associates are recognised in the Parent Entity's profit or loss rather than being deducted from the carrying amount of these investments.

### TAX CONSOLIDATION LEGISLATION

Tatts Group Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, Tatts Group Limited.

The head entity and its controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate the head entity for any current tax payable assumed, and are compensated by the head entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the head entity under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable as a contribution to (or distribution from) wholly owned tax consolidated entities.

## 24. Parent Entity Financial Information (CONTINUED)

30 JUNE 2016

### SUMMARY FINANCIAL INFORMATION

The individual financial statements for the Parent Entity show the following aggregate amounts:

	2016 \$'000	2015 \$'000
<b>Balance sheet</b>		
Current assets	1,435,944	1,095,781
Total assets	4,061,225	3,722,173
Current liabilities	34,983	189,046
Total liabilities	1,097,794	705,394
<b>Shareholders' equity</b>		
Issued capital	3,953,884	3,940,834
Reserves		
Hedge reserve	(3,737)	(4,065)
Foreign currency translation reserve	-	(3,148)
Share-based payments	1,889	2,105
Retained earnings	(988,605)	(918,947)
<b>Total equity</b>	2,963,431	3,016,779
<b>Profit for the year</b>	192,192	209,927
<b>Total comprehensive income</b>	195,668	213,908

### GUARANTEES ENTERED INTO BY THE PARENT ENTITY

The Parent Entity has not provided any financial guarantees in respect of bank overdrafts or loans to subsidiaries as at 30 June 2016 or 30 June 2015.

There are cross guarantees given by the Parent Entity and its nominated subsidiaries as described in Note 23. No deficiencies of assets exist in any of these entities.

### CONTINGENT LIABILITIES OF THE PARENT ENTITY

The Parent Entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015.

### CONTRACTUAL COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT OR EQUIPMENT

The Parent Entity did not have any contractual commitments for the acquisition of property, plant and equipment as at 30 June 2016 or 30 June 2015.

## UNRECOGNISED ITEMS 25. Contingent Liabilities

30 JUNE 2016

The Group had contingent liabilities at 30 June 2016 in respect of:

### BANK GUARANTEES

Guarantees in respect of bank facilities drawn down but not included in the accounts of the Company or the Group are \$140.3 million (2015: \$3.4 million).

Financial guarantee contracts are recognised as a contingent financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

### DISPOSAL OF TALARIUS

Upon the sale of Talarius Limited and its controlled entities, the Group provided warranties and undertakings customary for a transaction with an existing industry participant. It is not possible to determine at this point in time if any claims will be made.

## 26. Commitments for Expenditure

30 JUNE 2016

### CAPITAL COMMITMENTS

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2016 \$'000	2015 \$'000
<b>Property, plant and equipment - payable:</b>		
Within 1 year	8,744	8,981
	<b>8,744</b>	<b>8,981</b>

### OPERATING LEASE COMMITMENTS

The Group leases motor vehicles and various buildings under non-cancellable operating leases. The leases have varying terms and renewal rights. On renewal, the terms of the leases are to be negotiated.

	2016 \$'000	2015 \$'000
<b>Commitments for minimum lease payments not recognised as liabilities in relation to non-cancellable operating leases are payable as follows:</b>		
Within 1 year	17,478	19,014
Later than 1 year but not later than 5 years	36,449	29,434
Later than 5 years	94,243	10,871
	<b>148,170</b>	<b>59,319</b>

### OPERATING COMMITMENTS

Operating commitments contracted for at the reporting date but not recognised as liabilities are as follows:

	2016 \$'000	2015 \$'000
<b>Commitments in relation to non-cancellable operating activities are payable as follows:</b>		
Within 1 year	81,901	28,518
Later than 1 year but not later than 5 years	78,655	8,797
Later than 5 years	1,590	-
	<b>162,146</b>	<b>37,315</b>

Included in operating commitments are the remaining instalments for the Maxgaming NSW monitoring rights.

### EMPLOYEE REMUNERATION COMMITMENTS

	2016 \$'000	2015 \$'000
<b>Commitments under non-cancellable employment contracts not provided for in the financial statements payable:</b>		
Within 1 year	2,000	1,013
Later than 1 year but not later than 5 years	2,333	-
	<b>4,333</b>	<b>1,013</b>

## OTHER INFORMATION 27. Related Party Transactions

30 JUNE 2016

### PARENT ENTITIES

The ultimate parent entity within the Group is Tatts Group Limited.

### CONTROLLED ENTITIES

Interests in controlled entities are set out in Note 22.

### DIRECTORS AND KEY MANAGEMENT PERSONNEL

Disclosures relating to Directors and specified executives are set out in Note 29.

### TRANSACTIONS WITH OTHER RELATED PARTIES

	2016 \$'000	2015 \$'000
<b>Superannuation contributions</b>		
Contribution to superannuation funds on behalf of employees	17,766	17,860

### OUTSTANDING BALANCES

There are no outstanding balances at 30 June 2016 (2015: Nil) in relation to transactions with related parties.

### TERMS AND CONDITIONS

Transactions relating to dividends were on the same terms and conditions that applied to other shareholders.

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of principal on loans advanced by the Company. There was no interest charged on loans during the year (2015: nil).

Outstanding balances are unsecured and are repayable in cash.

## 28. Remuneration of Auditors

30 JUNE 2016

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

### PWC AUSTRALIA

#### AUDIT AND OTHER ASSURANCE SERVICES

	2016 \$	2015 \$
<b>Audit and other assurance services</b>		
Audit and review of financial reports and other audit work under the Corporations Act	843,000	871,912
<b>Other assurance services</b>		
Audit of regulatory returns	59,500	54,000
<b>Total remuneration for audit and other assurance services</b>	<b>902,500</b>	<b>925,912</b>
<b>Taxation services</b>		
Tax compliance services	53,533	-
<b>Total remuneration of PwC Australia</b>	<b>956,033</b>	<b>925,912</b>

#### NETWORK FIRMS OF PWC AUSTRALIA

	2016 \$	2015 \$
<b>Audit and other assurance services</b>		
Audit and review of financial statements	60,904	228,005
<b>Total remuneration of network firms of PwC Australia</b>	<b>60,904</b>	<b>228,005</b>
<b>Total auditor's remuneration</b>	<b>1,016,937</b>	<b>1,153,917</b>

Subject to maintaining their independence it is the Group's policy to employ PwC on assignments additional to their statutory audit duties where PwC's expertise and experience with the Group are important. These assignments are principally tax advice.

## 29. Key Management Personnel Disclosures

30 JUNE 2016

### KEY MANAGEMENT PERSONNEL COMPENSATION

	2016 \$	2015 \$
Short-term employee benefits - cash salary, fees and cash bonus	6,712,610	6,292,949
Post-employment benefits	216,304	206,689
Long-term benefits	88,631	81,824
Share-based payments	1,565,875	1,321,250
	<b>8,583,420</b>	<b>7,902,712</b>

Detailed remuneration disclosures are provided in the Remuneration Report on page 70.

### LOANS TO KEY MANAGEMENT PERSONNEL

No loans were made to Directors or Key Management Personnel.

### OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

No other transactions were made with Directors or Key Management Personnel.

# 30. Other Significant Accounting Policies

30 JUNE 2016

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out throughout this report and below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Tatts Group Limited and its subsidiaries. Tatts Group Limited (the Company or the Parent Entity) and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

## EARLY ADOPTION OF STANDARDS

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2015.

## EMPLOYEE BENEFITS

### WAGES, SALARIES AND ANNUAL LEAVE

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

### LONG SERVICE LEAVE

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of each reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of each reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

### PERFORMANCE-BASED INCENTIVES

Permanent employees of the Group participate in an annual incentive plan under which employees receive cash, and for certain executives a combination of cash and share-based compensation benefits. The total incentive amount paid annually is determined by a calculation based on revenue growth, EBIT margin growth, and EPS growth, applied to target incentives of the Group's permanent employees.

For the amount payable in cash, the Group recognises a liability and an expense for such cash incentives arising from these calculations, and for any Special Circumstance incentive amounts paid or payable outside of the incentive pool arising from the calculations. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation. Share-based payments under this annual incentive plan are outlined in the next section.

### TERMINATION BENEFITS

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

## NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not yet been applied in the financial statements. The Group's assessment of the impact of these new standards and interpretations follows.

### AASB9 FINANCIAL INSTRUMENTS, AASB2009-11 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS ARISING FROM AASB 9, AND AASB2010-7 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS ARISING FROM AASB 9 (DECEMBER 2010) (EFFECTIVE FROM 1 JANUARY 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces an 'expected loss' impairment model and a revised approach to micro-hedge accounting, replacing the guidance in AASB 139. The standard is applicable for reporting periods after 1 January 2018 but is available for early adoption. There will be no material impact on the Group's accounting for financial assets or liabilities, as the new requirements for classification and measurement only affect the accounting for gains and losses on available for sale debt instruments and financial liabilities that are designated at fair value through profit and loss and the Group does not have any such assets or liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The new 'expected loss' approach to impairment will require more timely recognition of expected credit losses however these are not expected to be material for the Group. The revisions to hedge accounting align the accounting treatment with risk management activities which will require enhanced disclosures about risk management activity however is not expected to materially affect any of the amounts recorded. The Group has not yet decided when to adopt AASB 9.

### AASB 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

AASB 15 *Revenue from contracts with customers* addresses the recognition, measurement and disclosure of revenue, replacing AASB 118 covering contracts for goods and services and AASB 111 which covers construction contracts. The standard is not applicable until 1 January 2018 but is available for early adoption. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. The Group will have to adopt the new 5-step process for the recognition of revenue. The Group will have a choice of full retrospective application, or prospective application with additional disclosures. The Group has not yet decided when to adopt AASB 15.

### AASB 16 LEASES

AASB 16 *Leases* addresses the classification, measurement and recognition of almost all leases. The standard is not applicable until 1 January 2019 but is available for early adoption. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has operating lease commitments of \$148.2 million. However the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 31. Events Occurring After the Reporting Period

30 JUNE 2016

In the opinion of the Directors, there have been no other material matters or circumstances which have arisen between 30 June 2016 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the result of those operations or the state of affairs of the Group in subsequent financial periods.

## Directors' Declaration

30 JUNE 2016

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 79 to 154 are in accordance with the Corporations Act, including:
  - (i) complying with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 23 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 23.

The financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (Refer to Basis of preparation on page 86).

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act.

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



**HARRY BOON**  
Chairman



**ROBBIE COOKE**  
Managing Director and CEO

Brisbane  
18 August 2016

# Independent Auditor's Report to the Members

30 JUNE 2016



## Independent auditor's report to the members of Tatts Group Limited

### Report on the financial report

We have audited the accompanying financial report of Tatts Group Limited (the company), which comprises the consolidated balance sheet as at 30 June 2016, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Tatts Group Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

### Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In the basis of preparation in the notes to the consolidated financial statements, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

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

**PricewaterhouseCoopers, ABN 52 780 433 757**  
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001  
T: +61 7 3257 5000, F: +61 7 3257 5999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.



### Auditor's opinion

In our opinion:

- (a) the financial report of Tatts Group Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in the basis of preparation in the notes to the consolidated financial statements.

### Report on the Remuneration Report

We have audited the remuneration report included in pages 56 to 76 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### Auditor's opinion

In our opinion, the remuneration report of Tatts Group Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*Steven Bosiljevac*

Steven Bosiljevac  
Partner

Brisbane  
18 August 2016

# Shareholder Information

30 JUNE 2016

The shareholder information set out below is based on the information recorded in the Tatts Group Limited share register as at 4 August 2016.

## ORDINARY SHARES

Tatts has on issue 1,464,523,643 fully paid ordinary shares.

## TATTS BONDS

Tatts has on issue 1,946,642 Tatts Bonds, which are seven-year debt securities listed on the Australian Securities Exchange (ASX) under the code TTSHA. They were initially issued on 29 June 2012 to successful applicants pursuant to the Tatts Bonds Prospectus dated 6 June 2012, and commenced trading on a normal settlement basis on 4 July 2012.

## VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

- Ordinary shares – On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
- Performance options and rights – No voting rights.

## SUBSTANTIAL SHAREHOLDERS

The following is a summary of the current substantial shareholders pursuant to notices lodged with the ASX in accordance with section 671B of the Corporations Act:

NAME	DATE OF INTEREST	NUMBER OF ORDINARY SHARES <sup>1</sup>	% OF ISSUED CAPITAL <sup>2</sup>
Perpetual Limited	9 March 2016	98,093,010	6.70%

- As disclosed in the last notice lodged with the ASX by the substantial shareholder.
- The percentage set out in the notice lodged with the ASX is based on the total issued share capital of Tatts at the date of interest.

## ON MARKET BUY-BACK

There is no current on-market buy-back in respect of Tatts Group's ordinary shares.

## DISTRIBUTION OF SECURITIES HELD

Analysis of number of ordinary shareholders and Tatts Bond holders by size of holding:

RANGE	NUMBER OF HOLDERS	ORDINARY SHARES <sup>1</sup>		TATTS BONDS	
		NUMBER OF SECURITIES	NUMBER OF HOLDERS	NUMBER OF BONDS	
1 – 1,000	13,515	7,680,884	1,604	405,970	
1,001 – 5,000	44,257	124,094,022	92	191,137	
5,001 – 10,000	7,061	52,840,081	6	42,116	
10,001 – 100,000	5,638	128,448,219	8	373,459	
100,001 and over	374	1,151,460,437	3	933,960	
<b>Total</b>	<b>70,845</b>	<b>1,464,523,643</b>	<b>1,713</b>	<b>1,946,642</b>	

- Ordinary shares include restricted shares offered to employees under the Company's incentive arrangements.
- There were 1,271 holders of less than a marketable parcel of ordinary shares, representing 51,876 shares, and one holder of less than a marketable parcel of Tatts Bonds, representing one unit.

## TOP 20 LARGEST SHAREHOLDERS

The names of the 20 largest quoted equity security holders as they appear on the Tatts Group Limited share register are listed below:

NAME	ORDINARY SHARES	
	NUMBER OF SHARES	% OF TOTAL SHARES
1 HSBC Custody Nominees (Australia) Limited	262,671,131	17.94
2 JP Morgan Nominees Australia Limited	239,947,697	16.38
3 Citicorp Nominees Pty Limited	129,060,495	8.81
4 National Nominees Limited	81,791,672	5.58
5 BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	66,111,344	4.51
6 BNP Paribas Noms Pty Ltd <DRP>	49,493,300	3.38
7 AMP Life Limited	23,324,501	1.59
8 RBC Investor Services Australia Nominees Pty Limited <Pi Pooled A/C>	19,040,590	1.30
9 RBC Investor Services Australia Nominees Pty Limited <Bkcust A/C>	12,926,671	0.88
10 Tassyd Pty Limited <Estate Thomas Lyons A/C>	11,665,000	0.80
11 Robin Edward Davey <Est Alexander Hubbard A/C>	9,568,668	0.65
12 UBS Nominees Pty Ltd	9,137,469	0.62
13 Solid Earth Pty Ltd	9,127,640	0.62
14 Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	7,611,647	0.52
15 Wentworth Investments Pty Ltd	6,799,887	0.46
16 HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	4,566,678	0.31
17 IOOF Investment Management Limited <IPS Super A/C>	4,526,422	0.31
18 WBK Pty Ltd	4,327,340	0.30
19 HSBC Custody Nominees (Australia) Limited-Gsco Eca	4,289,512	0.29
20 Sank Pty Ltd <A/C SIF Discretionary>	3,569,231	0.24
<b>Total</b>	<b>959,556,895</b>	<b>65.52</b>

## TOP 20 LARGEST TATTS BONDS HOLDERS

The names of the 20 largest quoted Tatts Bonds holders as they appear on the Tatts Group Limited register are listed below:

NAME	TATTS BONDS	
	NUMBER OF BONDS	% OF TOTAL BONDS
1 JP Morgan Nominees Australia Limited	405,955	20.85
2 Citicorp Nominees Pty Limited	373,930	19.21
3 National Nominees Limited <Db A/C>	122,028	6.27
4 UBS Nominees Pty Ltd	104,075	5.35
5 HSBC Custody Nominees (Australia) Limited	93,497	4.80
6 National Nominees Limited	82,467	4.24
7 BNP Paribas Noms Pty Ltd <DRP>	60,000	3.08
8 IOOF Investment Management Limited <IPS Super A/C>	26,821	1.38
9 RBC Investor Services Australia Nominees Pty Limited <Multiport A/C>	14,466	0.74
10 Australian Executor Trustees Limited <No 1 Account>	12,821	0.66
11 Avanteos Investments Limited <2477966 DNR A/C>	11,229	0.58
12 RBC Investor Services Australia Nominees Pty Limited <Piselect>	9,000	0.46
13 BT Portfolio Services Limited <Maxwell Family A/C>	7,760	0.40
14 BT Portfolio Services Limited <James Investment A/C>	7,750	0.40
15 Richard Small Nominees Pty Limited <RS Holdings P/L S/F A/C>	7,000	0.36
16 Navigator Australia Ltd <MLC Investment Sett A/C>	5,357	0.28
17 HSBC Custody Nominees (Australia) Limited - A/C 2	5,249	0.27
18 Angeline Capital Pty Limited	5,000	0.26
19 Australian Friendly Society Ltd <Funeral Fund I66 A/C>	5,000	0.26
20 Duchon Holdings Pty Ltd	5,000	0.26
<b>Total</b>	<b>1,364,405</b>	<b>70.09</b>



# Shareholder Information (CONTINUED)

30 JUNE 2016

## DOMICILE OF ORDINARY SHAREHOLDERS

DOMICILE	NUMBER OF HOLDERS	% HOLDERS	NUMBER OF SHARES	% OF SHARES
Australian Capital Territory	675	0.95	3,387,915	0.23
New South Wales	9,595	13.54	592,378,828	40.45
Northern Territory	283	0.4	1,089,812	0.07
Queensland	36,652	51.74	188,899,879	12.9
South Australia	1,775	2.51	14,146,509	0.97
Tasmania	1,026	1.45	47,509,875	3.24
Victoria	16,824	23.75	584,074,918	39.88
Western Australia	3,653	5.16	26,336,256	1.8
Overseas	362	0.50	6,699,651	0.46
<b>Total</b>	<b>70,845</b>	<b>100.00</b>	<b>1,464,523,643</b>	<b>100.00</b>

## DOMICILE OF TATTS BOND HOLDERS

DOMICILE	NUMBER OF HOLDERS	% HOLDERS	NUMBER OF TATTS BONDS	% OF TATTS BONDS
Australian Capital Territory	11	0.64	2,570	0.13
New South Wales	476	27.79	479,705	24.64
Northern Territory	4	0.23	375	0.02
Queensland	312	18.21	62,255	3.2
South Australia	60	3.5	36,070	1.85
Tasmania	24	1.4	10,819	0.56
Victoria	475	27.73	1,247,965	64.11
Western Australia	344	20.08	106,151	5.45
Overseas	7	0.42	732	0.04
<b>Total</b>	<b>1,713</b>	<b>100.00</b>	<b>1,946,642</b>	<b>100.00</b>

## UNQUOTED EQUITY SECURITIES

	NUMBER ON ISSUE	NUMBER OF HOLDERS
Performance rights in respect of ordinary shares issued under the Tatts Group Rights Plan	500,971	27

Note: Excludes 227,343 performance rights approved but not yet issued as at 1 August 2016.

## GO ONLINE TO MANAGE YOUR SHAREHOLDING

Online share registry facility

Tatts offers shareholders the use of an online share registry facility through [www.computershare.com.au](http://www.computershare.com.au) or [www.investorcentre.com](http://www.investorcentre.com) to conduct standard shareholding enquiries and transactions, including:

- update registered address
- lodge or update banking details
- notify Tax File Number / Australian Business Number
- download dividend statements
- check current and previous shareholding balances
- appoint a proxy to vote at the Annual General Meeting
- participate in the Dividend Reinvestment Plan

## DIVIDEND PAYMENTS

All dividends paid by Tatts to shareholders with a registered address in Australia are paid by electronic funds transfer into the nominated bank account with an Australian financial institution. Payments are electronically credited on the payment date, allowing shareholders to utilise your funds immediately.

Shareholders can provide or update their bank account details by using the online share registry facility or by contacting Computershare.

## DIVIDEND REINVESTMENT PLAN (DRP)

Tatts operates a DRP, which enables participants to reinvest their dividends into acquiring additional Tatts shares without incurring any brokerage or handling costs. To elect to participate in the Company's DRP, contact Computershare, or update your participation preference on [www.investorcentre.com](http://www.investorcentre.com).

# Corporate Directory

30 JUNE 2016

## REGISTERED AND PRINCIPAL ADMINISTRATIVE OFFICE IN AUSTRALIA

Tatts Group Limited  
87 Ipswich Road, Woolloongabba, QLD, 4102  
Telephone: + 61 7 3435 4500  
ABN: 19 108 686 040

## WEBSITE ADDRESSES

www.tatts.com  
www.ubet.com  
www.thelott.com  
www.tattsgroup.com

## AUSTRALIAN SECURITIES EXCHANGE (ASX) LISTING

Tatts Group Limited shares are listed on the ASX under the code TTS. Tatts Group Limited Bonds are listed on the ASX under the code TTSHA.

## DIRECTORS

Refer to profiles on pages 44 to 47

## SENIOR EXECUTIVES

Refer to profiles on pages 48 to 49

## GENERAL COUNSEL AND COMPANY SECRETARY

Anne Tucker  
email: legal@tattsgroup.com

## INVESTOR RELATIONS

Giovanni Rizzo  
email: investorrelations@tattsgroup.com

## MEDIA

Carolyn Prendergast  
email: media@tattsgroup.com

## AUDITOR

PwC Australia  
Riverside Centre  
123 Eagle Street  
Brisbane, Qld 4000

## SHARE REGISTRY

Computershare Investor Services Pty Limited  
117 Victoria Street, West End, QLD, 4101  
Email: web.queries@computershare.com.au  
Telephone within Australia 1300 552 270  
Telephone outside Australia +61 7 3237 2100  
Fax +61 7 3237 2152

To maintain or update your details online and enjoy full access to all your holdings and other valuable information, simply visit [www.investorcentre.com](http://www.investorcentre.com).

## 2017 SHAREHOLDER CALENDAR

EVENT	DATES
Interim Results announcement	16 February 2017
Ex Dividend	6 March 2017
Record Date	7 March 2017
DRP Pricing period commences	9 March 2017
Dividend Payment	3 April 2017
Full year Results announcement	17 August 2017
Ex Dividend	1 September 2017
Record Date	4 September 2017
DRP Pricing period commences	6 September 2017
Dividend Payment	3 October 2017
Annual General Meeting	26 October 2017

## 2017 TATTS BONDS CALENDAR

QUARTERLY INTEREST PAYMENT	PAYMENT DATE
October 2016	5 October 2016
January 2017	5 January 2017
April 2017	5 April 2017
July 2017	5 July 2017
October 2017	5 October 2017

All dates may be subject to change, and will be updated on the Investors page at [www.tattsgroup.com/investors](http://www.tattsgroup.com/investors).

## DIVIDEND HISTORY

DATE PAID/PAYABLE	TYPE	CENTS PER SHARE	DRP SHARE PRICE (\$)
5 April 2006	FY 2006 Interim	8.75	-
26 September 2006	FY 2006 Final	7.50	-
30 March 2007	FY 2007 Interim	8.00	-
5 October 2007	FY 2007 Final	10.0	-
5 October 2007	FY 2007 Special	4.00	-
4 April 2008	FY 2008 Interim	9.50	-
3 October 2008	FY 2008 Special <sup>1</sup>	10.5	-
3 April 2009	FY 2009 Interim	10.0	2.58
2 October 2009	FY 2009 Final	11.0	2.52
6 April 2010	FY 2010 Interim	10.0	2.44
1 October 2010	FY 2010 Special <sup>2</sup>	11.0	2.29
6 April 2011	FY 2011 Interim	10.5	2.18
5 October 2011	FY 2011 Final	11.0	2.10
4 April 2012	FY 2012 Interim	11.0	2.33
3 October 2012	FY 2012 Final	12.0	2.64
5 April 2013	FY 2013 Interim	8.0	3.07
7 October 2013	FY 2013 Final	7.5	3.05
4 April 2014	FY 2014 Interim	8.0	2.90
6 October 2014	FY 2014 Final	5.0	3.17
2 April 2015	FY 2015 Interim	9.0	3.88
5 October 2015	FY 2015 Final	7.5	3.54
31 March 2016	FY 2016 Interim <sup>3</sup>	9.5	-
4 October 2016	FY 2016 Final <sup>4</sup>	8.0	-

All dividend payments are fully franked unless otherwise stated.

1. Paid in place of a 2008 Final Dividend—refer to ASX releases dated 23 June and 28 August 2008.
2. Paid in place of a 2010 Final Dividend—refer to ASX release dated 26 August 2010.
3. DRP suspended for the FY16 interim dividend.
4. Not available at date of printing—refer to [www.tattsgroup.com/investors](http://www.tattsgroup.com/investors).

## TATTS ANNOUNCEMENTS

Details of all announcements released by Tatts Group Limited can be found on our Investors page at [www.tattsgroup.com](http://www.tattsgroup.com).

# Glossary of Terms

30 JUNE 2016

AASB	Australian Accounting Standards Board
ABN	Australian Business Number
AGM	Annual General Meeting
app	A software application designed to run on smartphones, tablet computers and other mobile devices.
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited ABN 98 008 624 691, or the financial products market operated by ASX, as the context requires.
ATO	Australian Taxation Office
Board	The Company's board of directors.
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CO <sub>2</sub> e	Carbon dioxide equivalent, as defined by the Carbon Disclosure Project
Company or Tatts	Tatts Group Limited
Consolidated Entity	The Company and its subsidiaries.
COO	Chief Operating Officer
Corporations Act	Corporations Act 2001 (Cth)
CPI	Consumer Price Index
Director	A director (or their alternate) of the Company.
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortization
fixed-price betting	A betting system where the payout is agreed at the time the bet is sold.
Gaming, Max or Tatts Gaming	The Group's businesses that provide gaming solutions under various licences, permits and approvals from state governments under the brands Max, Maxgaming and Bytcraft.
Group	The Company and its wholly-owned subsidiaries (unless otherwise defined).
GST	Australian goods and services tax
Non-executive Director	A Director who is not a member of the Company's executive management team.
NPAT	Net profit after tax
parimutuel	A betting system where the payout is not determined until the pool is closed.
pcp	Prior corresponding period
PwC	Pricewaterhouse Coopers - The Company's independent auditor.
Wagering, UBET or TattsBet	The Group's businesses that provide parimutuel and fixed-price betting services under various licences from state governments in Queensland, South Australia, Tasmania and Northern Territory.
Lotteries, the Lott or Tatts lotteries	The Group's businesses that provide lottery products under various licences, permits and approvals from state governments in Victoria, Queensland, Tasmania, New South Wales, South Australia, Australian Capital Territory and Northern Territory.
Tatts Pokies	The poker machine business operated under a licence granted by the Victorian Government, and which ceased operations on 15 August 2012.
TSR	Total shareholder return

**TATTS GROUP LIMITED**

87 Ipswich Road  
Woolloongabba, Qld 4102

+61 7 3435 4500

[tattsgroup.com](http://tattsgroup.com)

