Review of operations
for the half-year ended 30 June 2010
Aristocrat Leisure Limited
ABN 44 002 818 368

Summary

Key performance indicators for the current and prior corresponding period are set out below:

$ million	Constant currency** HY 2010	HY 2010	HY 2009	Variance vs HY 2009 Constant currency**	Variance vs HY 2009 Reported
Normalised results*				%	%
Total revenue from ordinary activities	396.5	340.5	441.7	(10.2)%	(22.9)%
Earnings before interest, tax and D&D costs	120.9	104.5	129.4	(6.6)%	(19.2)%
Earnings before interest and tax ("EBIT")	59.9	49.6	69.6	(13.9)%	(28.7)%
Profit after tax	44.6	36.8	44.2	0.9%	(16.7)%
Profit after tax and non-controlling interest	44.3	36.6	44.0	0.7%	(16.8)%
Earnings per share (Fully diluted)	8.3c	6.9c	9.1c	(8.8)%	(24.2)%
Total dividend per share	3.5c	3.5c	4.5c	(22.2)%	(22.2)%
Reported results					
Earnings before interest and tax ("EBIT")	72.6	62.3	(13.0)	nm	nm
Profit / (loss) after tax and non-controlling interest	57.0	49.3	(33.4)	nm	nm
Balance sheet / cashflow					
Net working capital / revenue	16.9%	18.5%	12.4%	4.5pts	6.1pts
Operating cash flow *	92.9	77.4	74.7	24.4%	3.6%
Cash flow per share (fully diluted) *	17.4c	14.6c	15.4c	13.0%	(5.2)%
Closing net debt	52.9	49.0	111.5	52.6%	56.1%

* Before the net impact of abnormal and one-off items that are not representative of the underlying operational performance of the Group. Refer page 5.
** First half 2010 result adjusted for translational exchange rates using rates applying in the first half of 2009.

The Group reported a normalised profit after tax and non-controlling interest of $36.6 million, representing a 16.8% decline compared with the prior corresponding period's result of $44.0 million. In constant currency terms, the half-year result was marginally ahead of the prior year.

More specifically the result was driven by:

North America: Local currency performance was ahead of the prior corresponding period despite continued challenging market conditions, unchanged replacement cycle and less expansions. Market share increased, average selling price improved and overall contribution from gaming operations increased driving improved margins.

Australia: Performance was significantly down on the prior corresponding period mainly driven by poor *Gen7*™ game performance in New South Wales (NSW) and a lack of product into Queensland (QLD). Poor performing games required product support resulting in reduced revenues, reduced selling prices and margins. The prior period was also favourably impacted by the *Indian Dreaming*™ revocation.

Japan: Consistent with the prior corresponding period, performance was impacted by the lack of a key licensed game this period and a shift in the market towards big titles. Reduced profits were offset by improved mix due to increased use of higher margin products and savings in selling, marketing, general and administration (SMG&A) costs.

Rest of World: Despite weak economic conditions across most of the portfolio and limited activity from the New Zealand market was mitigated by strong performance in Asia-Pacific and Europe. Importantly the Group held share in the segment despite continuing intense competition.

Reported results included an abnormal profit recognised on the disposal of the Group's investment in Elektronček.

Fully diluted normalised operating earnings per share of 6.9 cents represent a 24.2% decline on the prior half. Operating cash flow per share declined by 5.2% to 14.6 cents.

Profit and loss

Analysis throughout this section refers to results reported on a normalised management basis prior to recognising transactions/adjustments taken during the half which are considered abnormal on the basis that they are not representative of the ongoing operations of the Group and are non-recurring in nature.

Note that with effect from this reporting period, supply chain margins, which previously had been treated as unallocated, have now been allocated to the individual segment whose activity generated the margin so as to better reflect the underlying profitability of individual segments.

$ million	HY 2010	HY 2009	Var %
Segment revenue			
Australia	69.6	89.6	(22.3)%
North America	181.3	227.7	(20.4)%
Japan	8.3	21.1	(60.7)%
Rest of World	81.3	103.3	(21.3)%
Total segment revenue	**340.5**	**441.7**	**(22.9)%**
Segment profit			
Australia	11.8	21.8	(45.9)%
North America	76.3	86.5	(11.8)%
Japan	(2.5)	(4.5)	44.4%
Rest of World	27.6	33.8	(18.3)%
Total segment profit	**113.2**	**137.6**	**(17.7)%**
Unallocated expenses			
Group D&D expense	(54.9)	(59.8)	8.2%
Foreign exchange	(0.5)	3.4	(114.7)%
Corporate	(7.6)	(9.5)	20.0%
Share of losses - Elektronček	(0.6)	(2.0)	70.0%
Total unallocated expenses	**(63.6)**	**(67.9)**	**6.3%**
EBIT	**49.6**	**69.6**	**(28.7)%**
Interest	(1.2)	(10.0)	88.0%
Profit before tax	**48.4**	**59.6**	**(18.8)%**
Income tax	(11.6)	(15.4)	24.7%
Profit after tax	**36.8**	**44.2**	**(16.7)%**
Non-controlling interest	(0.2)	(0.2)	0.0%
Profit after tax after non-controlling interest	**36.6**	**44.0**	**(16.8)%**

Key metrics	HY 2010	HY 2009	Var Pts
Margin %			
Australia	17.0%	24.3%	(7.3)
North America	42.1%	38.0%	4.1
Japan	(30.1)%	(21.3)%	(8.8)
Rest of World	33.9%	32.7%	1.2
Overall segment profit margin	**33.2%**	**31.2%**	**2.0**
% of Revenue			
Group D&D expense	16.1%	13.5%	2.6
Earnings before interest and tax	14.6%	15.8%	(1.2)
Profit after tax and non-controlling interest	10.7%	10.0%	0.7

Revenue

Segment revenue declined $101.2 million (22.9%) in reported currency (10.2% in constant currency), reflecting the impact of lower sales volumes predominantly across the Group's core markets of North America, Australia and Japan. Economic conditions in North America, poor game performance in Australia, the lack of a key licensed game and more aggressive competition in Japan resulted in lower volumes. Unfavourable foreign exchange translation impacts also influenced reported North America and Japan revenue.

These negatives were partially offset by strong performance in Asia-Pacific driven by sales to the two new Singapore casinos¸ Resorts World Sentosa and Marina Bay Sands, where the Group achieved the highest individual supplier floor shares.

North American revenue decreased $46.4 million (20.4%) in Australian dollar terms while in local currency the decline was 3.0% (US$5.0 million) primarily driven by lower sales volumes as a result of continuing difficult economic and operator trading conditions. While platform volumes and game conversions declined compared to the prior corresponding period, the Group successfully drove an improvement in average selling prices as well as realised a higher overall contribution to revenue from gaming operations off the higher installed base achieved in 2009.

Australian revenue declined $20.0 million (22.3%) mainly driven by lower conversion sales (declined 53.2%) as a result of poor game performance, lower average pricing (down 6.7%) and the *Indian Dreaming*™ revocation in 2009.

In Japan, revenue fell $12.8 million (60.7%) to $8.3 million driven by lower unit sales in a highly competitive market.

In the Rest of World segment overall revenue was down by $22.0 million (21.3%), where positive performance in Asia-Pacific was offset by unfavourable movements in New Zealand and ACE.

Earnings

Segment profit declined $24.4 million (17.7%) compared with the prior corresponding period. The decline was driven by Australia where profit was down $10.0 million due to lower revenues, New Zealand where profit was down $12.7 million on the prior corresponding period which had benefitted from regulatory enforced game replacement in 2009 and North America where profit was down $10.2 million in reported terms (up 5.5% in local currency). The declines were offset by strong performance from Asia-Pacific.

Cost control remains a key focus of the Group's turnaround strategy. As a result, SMG&A costs across the Group (excluding legal costs) were down 6.0% on a constant currency basis (down 10.3% including savings in legal fees). These savings were driven primarily by lower personnel costs due to rightsizing undertaken in 2009.

Total unallocated expenses decreased by $4.3 million (6.3%) principally reflecting lower reported design and development costs and lower corporate costs. Corporate costs reduced 20.0%, excluding legal costs savings of 5.1% were primarily driven by lower personnel costs and other areas of discretionary spend. These savings were in part offset by the reversal of foreign currency hedging gains. Minor foreign currency hedging losses were realised in the half compared to profits in the prior corresponding period.

The Group's investment in its future through design and development spend rose as a percentage of revenue to 16.1% (15.4% on a constant currency basis) from 13.5% of revenues in the prior corresponding period. Total spend declined $4.9 million or 8.2% compared to the prior corresponding period, however, in constant currency terms spend increased by 2.0%. This increase is consistent with the Group's turnaround strategy as it invests in better games development and new technology. The design and development headcount has grown significantly in the period and is currently at 733 full-time equivalents

(FTE's) compared to 644 FTE's as at 31 December 2009, influenced by the ramp up of the Indian Development Centre.

Losses from Elektronček of $0.6 million were more favourable than the prior corresponding period (loss of $2.0 million) further adding to the favourable movement in unallocated expenses.

The $8.8 million decrease in net interest expense reflects lower average net debt levels during the period following the Group's capital raising in April 2009.

The effective tax rate on the normalised result is 23.8%. This is lower than the 25.8% recorded in the prior corresponding period. The reduction in the effective tax rate was driven by a more favourable mix of earnings.

The decline in profit after tax has resulted in basic and fully diluted earnings per share falling by 2.2 cents (down 24.2%) to 6.9 cents.

Abnormal items

$ million	**H1 2010**		**H1 2009**	
	Before tax	**After tax**	**Before tax**	**After tax**
Profit on disposal of investment in Elektronček	12.7	12.7		
Property sales			8.8	8.8
Restructuring costs			(4.0)	(3.0)
Legal settlement			(4.3)	(3.3)
Impairment of multi-terminal gaming businesses			(83.1)	(79.9)
Net abnormal	**12.7**	**12.7**	**(82.6)**	**(77.4)**

Profit on disposal of investment in Elektronček: The Group's reported result after tax for the period included an abnormal net profit after tax of $12.7 million arising from the disposal of its investment in Elektronček. The divestment of Elektronček is aligned with the Group's strategy to exit non-core businesses and to focus resources on its core business of video and stepper reel games and systems.

The transaction has been recognised pending expected regulatory approval in the second half, at which time the proceeds from the divestment will be received.

Balance sheet

The balance sheet can be summarised as follows:

$ million	30 Jun 2010	31 Dec 2009	30 Jun 2009
Net working capital	149.7	129.7	131.2
Other current/non-current assets	135.5	93.7	78.6
Property, plant and equipment	116.7	120.5	132.7
Investments in associate and other companies	1.7	6.2	11.5
Intangibles	135.5	118.5	131.1
Other current/non-current liabilities	(397.2)	(357.1)	(97.0)
Net tax balances	122.3	117.6	40.5
Funds employed	264.2	229.1	428.6
Net debt	(49.0)	(75.3)	(111.5)
Total equity	215.2	153.8	317.1

Significant balance sheet movements from 31 December 2009 are discussed below:

Net working capital: As a percentage of the last 12 months revenue, net working capital was 18.5% at 30 June 2010, up 4.2% from 14.3% at 31 December 2009. This was principally driven by reduced revenues and a relative increase in credit terms including the Australian 3-year licence model.

Other current/non-current assets: The increase primarily represents the proceeds receivable on the disposal of the Group's interest in Elektronček ($17.2 million) and an increase in financial assets.

Property, plant and equipment: The $3.8 million decline was primarily driven by $15.3 million in depreciation and a $1.2 million increase due to translational foreign exchange partially offset by net capital spend on gaming operation units.

Investments in associate and other companies: The $4.5 million decline primarily represents the disposal of the Group's investment in Elektronček in the period.

Intangible assets: The $17.0 million increase primarily reflects the acquisition of intangible assets in Japan and the re-translation of foreign currency denominated intangible assets (primarily in North American and ACE businesses) at closing foreign exchange rates.

Shareholders' funds: The change in shareholders' funds reflects net reported profit of $49.3 million for the period, and a $10.5 million movement in the foreign currency translation reserve.

Statement of cash flows

Effective cash flow management continues to be one of the Group's key strategies.

The movement in net debt (debt less cash), after eliminating foreign exchange movements is set out below:

$ million	HY 2010	HY 2009
Net debt - opening balance (31 December)	**(75.3)**	**(376.4)**
Normalised net cash inflow from operating activities	**77.4**	**74.7**
Cash effect of abnormal items	0.0	(4.0)
Net cash inflow from operating activities	**77.4**	**70.7**
Investing cash flows	(47.2)	(12.3)
Financing cash flows	0.0	189.6
Movement in net cash	**30.2**	**248.0**
Effect of exchange rate changes on net debt	(3.9)	16.9
Net debt - closing balance (30 June)	**(49.0)**	**(111.5)**

Operating cash flow of $77.4 million was $6.7 million higher than in the first half of 2009 ($2.7 million higher excluding the cash effect of abnormal items in 2009) and represented 22.7% of revenues. Despite lower earnings, higher operating cash flows were driven by debtor receipts and lower interest payments partially offset by tax payments.

Fully diluted operating cash flow per share decreased from 15.4 cents to 14.6 cents.

The net cash outflow from investing and financing activities primarily represents investment in profit generating capital for gaming operations in North America.

There was no cash impact from abnormal items recognised in the half-year result.

Foreign exchange movements had an unfavourable impact of $3.9 million on the net debt position during the half.

Cash flow in the statutory format is set out in the half-year financial statements.

Transformation program

A year ago, the Group announced its transformation program aimed at delivering sustainable value growth over the next 3-5 years.

The program focuses the business on delivering the best games and systems to grow its major markets of North America, Australia and Japan. The program is based on four major strategic themes:

- *Player-led, technology-driven:* Obtain privileged insights to generate competitive advantage.
- *Best games and systems:* Apply insights to build the best games and systems.
- *Right markets and segments:* Focus on the most profitable large markets and segments.
- *World-class organisation:* Build a lean, effective organisation to deliver the best products.

During the first half of 2010, the Group invested in a number of specific initiatives towards delivering on the strategic direction. Highlights of progress to date include:

- In North America, the first major outcomes from our player-led, technology-driven approach to product development have been realised with the release of the *VIRIDIAN WS*™ and *VERVE hd*™ cabinets. The Group also increased its development and sales resources targeting gaming operations, with first half revenue from gaming operations up on the prior corresponding period and a strong pipeline of games for the second half. A new stepper studio has been formed that will deliver new games in the second half. Additional resources, including in our Indian Development Centre, have been deployed towards enhancing our systems capability.
- In Japan, the Group has expanded its access to regulatory approval slots through a small acquisition and has begun to expand studio capacity. To match the strong competitive intensity in the market, a new cabinet is in development that will enhance our graphics and sound technology, and we are pursuing strong licences.
- In Australia, the Group has now created a locally focused business. A major change program to lift sales and marketing capability is underway, including changes to sales models and incentive schemes. There has also been a strong focus on dedicated game development tailored to the Australian market, including the establishment of an Australian focussed games development studio.
- The Group continued to benefit from the personnel cost reduction initiatives conducted in the second half of 2009 and is realising cost savings from initiatives on indirect procurement and supply chain.
- Across the Group, improving the effectiveness of our product development process is a major focus of the transformation program. A stage gate approach has been implemented to manage our games development pipeline. A new platform team has been established in Austin, Texas to deliver greater flexibility and powerful tools for our games developers, with the first of these delivered in the first half. There has also been a significant investment in building a stronger innovation culture and capability across our development teams.

The early stages of the program in late 2009 released costs to allow further investment. These initial investments are beginning to translate into improved business performance in our priority North American market.

Regional segment review

In this review, segment profit/(loss) is before abnormal items, charges for design and development expenditure, and corporate costs. The total amount of these items, excluding abnormal items, is disclosed in the Group statement of comprehensive income. Constant currency amounts refer to 2010 results restated using exchange rates applying in 2009.

Note that with effect from this reporting period, supply chain margins, that previously had been treated as unallocated, have now been allocated to the individual segment whose activity generated the margin so as to better reflect the underlying profitability of individual segments.

North America

US$ million	HY 2010	HY 2009	Variance	Variance %
Revenue	159.8	164.8	(5.0)	(3.0)%
Profit	66.8	63.3	3.5	5.5%
Margin %	41.8%	38.4%	-	3.4 pts

A$ million	HY 2010	HY 2009	Variance	Variance %
Revenue	181.3	227.7	(46.4)	(20.4)%
Profit	76.3	86.5	(10.2)	(11.8)%
Margin %	42.1%	38.0%	-	4.1 pts
Volume				
- Platforms	4,040	4,264	(224)	(5.3)%
- Conversions	3,372	4,417	(1,045)	(23.7)%
Average US$ price/unit	15,081	14,819	262	1.8%

	HY 2010	HY 2009	Variance	Variance %
Gaming operations units	6,204	5,987	217	3.6%
Gaming operations US$/day	40.08	43.12	(3.04)	(7.1)%

Market conditions continue to be challenging with no notable change in the market replacement cycle over the first half and a significant decline in the number of new casinos and expansions.

North American performance was ahead of the prior corresponding period despite sales volumes (platforms and conversions) continuing to be impacted by the difficult market and operator trading conditions. Local currency profitability improved 5.5% to US$66.8 million. Overall margin also improved 3.4 percentage points to 41.8%, primarily driven by higher average unit selling prices, higher systems margins, a greater contribution from gaming operations to the overall result and cost management.

The Group increased ship share during the reporting period, however due to lower market activity, platform volumes in the period were down 5.3% on the prior period. A significant driver of first half sales and the higher average selling price was the release in the second quarter of the new *VIRIDIAN WS™* product at the Native Indian Gaming Show. The *VIRIDIAN WS™* has proved extremely popular with customers and represented over 60% of sales in the second quarter. Early indications of performance have been very encouraging with all titles released currently performing above floor average at customer properties.

As expected sales of software conversions decreased 23.7% to 3,372 reflecting the release of fewer Mk 6 game titles to market as customers transition to *VIRIDIAN™ Gen7™*.

The average selling price achieved during the period was US$15,081 per unit which represented a 1.8% improvement over the prior corresponding period and was driven by the release of the new *VIRIDIAN WS™* and *VIRIDIAN Slant Vii™* products.

Gaming operations revenue increased 7.8% as a result of the higher installed base compared to the prior corresponding period. One key participation game *Kentucky Derby™*, a linked progressive on our *VIRIDIAN™ RFX™* platform, was approved and released in the period. The decline in the gaming operations installed base from December 2009 was expected as most of our key new gaming operation releases are due in the second half of the year. The gaming operations average fee per day declined from US$43 to US$40 in the same period. This decline was largely attributable to the reduction in operator (customer) revenues and the aging profile of the Group's installed base. In addition to the gaming operations installed base, there were a total of 1,957 standard game leases, earning an average US$20 per day, compared to 2,072 earning US$19 per day as at 30 June 2009.

Due to continuing difficult economic and operator trading conditions, combined with significantly fewer new casinos opening in North America compared to prior periods, the systems business had a challenging half with combined revenues from sales and maintenance decreasing 17.3% to US$28.2 million. However, during the period the number of properties which use the *OASIS 360™* Casino Management System in North America continued to grow with the Group adding 6 new *OASIS 360™* Casino Management System sites, taking the number of properties at 30 June 2010 to a record 268. Investment in key systems projects launched in 2009 including *OASIS 360™* One Card and the next generation *Sentinel™* player communication technology continues. These projects are aimed at providing additional feature rich functionality to our customers.

While economic conditions and the replacement cycle are expected to remain unchanged in the second half of 2010, the Group is confident of being able to maintain ship share with the new *VIRIDIAN WS™* product which is expected to represent the majority of sales in this period. The Group also expects to grow its gaming operations installed base on the back of a strong pipeline of new product releases in the fourth quarter and its new *VERVE hd™* cabinet launched in August. *VERVE hd™* will be launched as a participation game designed around the artwork of best selling US artist Michael Godard and his *Rockin' Olives™*. The balance of year will be more challenging for our systems business given the expected smaller number of new casino openings.

A number of jurisdictions are still expected to open or expand from 2011 onwards.

Australia

A$ million	HY 2010	HY 2009	Variance	Variance %
Revenue	69.6	89.6	(20.0)	(22.3)%
Profit	11.8	21.8	(10.0)	(45.9)%
Margin %	17.0%	24.3%	-	(7.3) pts
Volume				
- Platforms	2,075	2,189	(114)	(5.2)%
- Conversions	3,128	6,677	(3,549)	(53.2)%
Average A$ price/unit	16,597	17,790	(1,193)	(6.7)%

The improving commercial environment experienced in late 2009 did not continue into the first half of 2010 with market conditions remaining difficult. Capital investment into gaming products has reduced primarily due to the general decline in turnover, compared to the prior corresponding period, coupled with the uncertainty surrounding the outcomes of the Productivity Commission report. One positive note, was the completion by the Victorian Government of the auction of entitlements, at values generally well below market expectations, which is expected to benefit venues.

Revenue declined 22.3% and profit declined by 45.9% compared to the prior corresponding period primarily driven by lower game conversions.

Platform unit sales were marginally ahead of the prior period, when adjusted for *Indian Dreaming™* units revoked in 2009. Performance in Victoria/Tasmania was favourable in comparison to other jurisdictions with a significant increase in sales from the prior corresponding period driving increased penetration of *VIRIDIAN*™ *Gen7*™ with key customers. Declines were driven by poor *Gen7*™ game performance in NSW and by a lack of product in QLD. The 3-year licence model continued to be offered in NSW, accounting for 29.5% of platform sales in the half.

Game conversions were down 53.2% compared to the prior corresponding period, 26.9% when adjusted for the impact of the *Indian Dreaming*™ revocation in 2009. This reduction (excluding *Indian Dreaming*™*)* was driven by poor game performance in NSW, the lack of product in QLD and lower conversions in Victoria (VIC).

Margin declined 7.3 percentage points as a result of product mix (lower conversions) and lower average pricing. VIC and QLD both experienced unfavourable impacts on margin due to product mix with VIC encountering a mix towards outright sales over recurring revenue and in QLD the continued roll out of *VIRIDIAN*™ *Gen7*™ has resulted in a higher proportion of platform sales to conversions resulting in lower margin. This penetration strategy combined with poor game performance also drove an increase in promotional pricing and product support in the market.

Specifically on game performance, at the end of last year the Group was optimistic given the initial sales results from two of our new big titles *JAWS*™ and *Hit the Heights*™. *Hit the Heights*™ has performed well with consistent above floor average performance while *JAWS*™ performance was unfavourable. Approximately 45% of the games sold were supported, replaced by the follow up game *Nighthunter*™ as well as *Fa Fa Fa*™*.* Performance of the balance of the *JAWS*™ installed base has stabilised with 240 installations remaining in the market as at 30 June 2010. The unit installed base gained, with the initial sale of *JAWS*™ in 2009, was also maintained.

Whilst general market conditions are expected to remain challenging throughout the second half of 2010, the Group expects to benefit from the release of more *Gen7*™ games, the strong initial performance of *Fa Fa Fa*™ and the continued performance of *Hit the Heights*™. In addition to this, the release of *Rose Tattoo*™ and *Beat the Bandits*™ (link) into NSW later this year presents a strong opportunity for the Group. Further, the Group expects improved performance in QLD on the back of a significant number of planned new game releases. The Group is also continuing to accelerate the implementation of its strategy to develop a world class business model for Australia that should position the Group well when market and economic conditions improve.

[1]JAWS is a trademark and copyright of Universal Studios. Licensed by Universal Studios Licensing LLLP. All rights reserved.

Japan

¥ million	HY 2010	HY 2009	Variance	Variance %
Revenue	658.1	1,555.3	(897.2)	(57.7)%
Loss	(198.8)	(284.4)	85.6	30.1%
Margin %	(30.2)%	(18.3)%	-	(11.9) pts

A$ million	HY 2010	HY 2009	Variance	Variance %
Revenue	8.3	21.1	(12.8)	(60.7)%
Loss	(2.5)	(4.5)	2.0	44.4%
Margin %	(30.1)%	(21.3)%	-	(8.8) pts
Volume - Games	2,342	5,747	(3,405)	(59.2)%
Average ¥ price/unit	267,321	263,283	4,038	1.5%

The financial situation of pachinko/pachislot hall operators has remained tight. According to the National Police Agency, the total number of halls at December 2009 was 12,652, a decrease of 2.2 % against the prior year. Spend was concentrated on the top 5 games released this half, which secured 75% of the total volumes and effectively diverted growth away from the small to medium sized manufacturers. However, there are indications of a recovery in the pachislot market, driven by a shift by operators from pachinko to pachislot games, with an estimated 435,000 pachislot units shipped during the first half of 2010, an increase of approximately 45% on the prior corresponding period.

Revenue in local currency declined in the first half of 2010 by 57.7% against the prior corresponding period influenced by the decline in unit volumes. Two games (*Kaiden Maru*™ and *Kyofu Shinbun 2*™) were newly marketed during the period, but neither were strong licensed characters. Despite the decrease in unit volumes, the Group managed to reduce first half losses by 44.4%, compared to the prior period, through various cost reduction initiatives and improved machine margins via a higher utilisation ratio of rebuild machines with lower machine cost per unit.

The rigorous testing process of new game submissions by the testing authority SECTA continues to determine the dynamics of the market with 44% of game submissions approved, a slight increase on recent years' approval levels. The Group currently has three games approved and a further seven are in the development/regulatory approval process. Another membership in NDK (pachislot manufacturers association) which was recently acquired will provide increasing chances of game submissions, supporting consistent game launches to reduce the volatility in revenues.

The Group continues to focus investment in game design and development for quality games as well as acquiring strong licensed titles as part of its strategy to target consistent launches of two key titled games per annum and reduce the volatility in performance.

The outlook for the pachislot industry for the rest of 2010 is expected to be very competitive with operators focused on major titles and a reduced allocation to smaller titles. Halls have imposed a delivery self-restriction period during APEC (Asia-Pacific Economic Cooperation) meetings to be held in early November which will influence activity levels in the second half. Overall market demand is expected to be down compared to the first half given the delivery self-restriction period. While the Group plans to release a key licensed title in the second half, given current market dynamics this title is not expected to be as competitive as previous key titles launched.

Rest of World

A$ million Revenue	Constant Currency HY 2010	HY 2009	Variance	Variance %
Other International	75.1	49.1	26.0	53.0%
Latin America	12.8	15.3	(2.5)	(16.3)%
New Zealand	4.8	22.0	(17.2)	(78.2)%
ACE	5.0	16.9	(11.9)	(70.4)%
TOTAL	**97.7**	**103.3**	**(5.6)**	**(5.4)%**

A$ million Profit	Constant Currency HY 2010	HY 2009	Variance	Variance %
Other International	32.0	15.1	16.9	111.9%
Latin America	5.4	9.2	(3.8)	(41.3)%
New Zealand	(0.2)	12.5	(12.7)	(101.6)%
ACE	(3.1)	(3.1)	0.0	0.0%
TOTAL	**34.1**	**33.7**	**0.4**	**1.2%**
Margin %	34.9%	32.6%	-	2.3 pts

A$ million	HY 2010	HY 2009	Variance	Variance %
Revenue	81.3	103.3	(22.0)	(21.3)%
Profit	27.6	33.8	(6.2)	(18.3)%
Margin %	33.9%	32.7%	-	1.2 pts
Volume - Platforms	3,470	3,412	58	1.7%

Whilst economic and market conditions in the Rest of World generally mirrored those elsewhere, the Group experienced substantial growth in Asia-Pacific and Europe resulting in delivery of an overall 1.7% increase in platforms together with 1.2% increase in profit and a 2.3 percentage points improvement in margin on constant currency terms.

Asia-Pacific was the strongest performing region in the Rest of World portfolio. In constant currency terms, Asia-Pacific revenues and profits grew significantly over the prior corresponding period with growth of 154.9% and 247.9% respectively. This was driven largely off the back of sales to the two new Singapore casinos¸ Resorts World Sentosa and Marina Bay Sands, where the Group achieved the highest individual supplier floor shares. In Europe, constant currency profit margin improved 5.5 percentage points, despite revenues declining 7.1%, driven by benefits from rightsizing activities conducted in late 2009 resulting in a reduction in fixed cost structures. South African performance declined reflecting sustained depressed economic and operating conditions with operator's capital budgets being constrained.

The Group continued to maintain or grow its market share, with European markets rising modestly on the back of good performance in the Spanish urban arcade market, the South African business maintaining its casino market share at 26% (41% video) and its Limited Payout Market share at 85% and the Group's percentage of market share in key Macau venues remaining stable at 55% to 60%.

In Latin America, constant currency sales declined 16.3%, as the 2009 comparative had been positively impacted by sales to new and expanding casinos in Argentina, with a larger decline in profitability of 41.3% due to change in customer mix and increased fixed costs in the region. During the period the company opened an office in Mexico City and has commenced sales activity in this market.

As expected, the New Zealand market has been relatively inactive this half given the capital spend undertaken in 2009 related to the introduction of random interruptive Player Information Displays (PID's).

The ACE business continues to grow its revenue base through sales of *TruServ*™ system upgrades and related services under its Norsk Tipping contract. No further terminals have been delivered compared to 1,809 in the prior corresponding period. Over 4,400 terminals have been delivered under the Norsk Tipping contract to date. Game performance continues to improve following the release of Aristocrat's *Ball Power*™ and *Arishinko*™ in the prior year. Game performance is expected to be further enhanced with the release of additional Aristocrat games in the second half, which would also be expected to provide support for further roll-out of terminals by Norsk Tipping. In constant currency, the ACE business delivered a loss in line with the prior corresponding period. We are very encouraged by the deal ACE recently signed with Cogetech to enter the Italian VLT market and extend our presence in Europe. We believe the global VLT market has strong growth prospects in the medium terrm. The Group continues to actively explore further value-adding opportunities for deploying its *TruServ*™ system solution and terminals in emerging VLT markets and is investing in business development and further improvements to its VLT offer.

Trading conditions across the Rest of World portfolio are expected to remain challenging for the remainder of 2010 with benefits expected to come from the Group's strong game performance in Asia-Pacific and further opportunities from the Mexican market.

Capital management

The Group remains prudent in its balance sheet management with debt levels maintained well within those expected of its BBB- investment grade credit rating.

The outlook for cash flow remains positive, with the business requiring limited capital investment to grow organically combined with a continued focus on cash flow management aimed at maintaining conservative gearing levels, despite the expected impact from the settlement of damages under the US Convertible Bonds matter.

Dividends

The directors have authorised an interim dividend in respect of the half-year ended 30 June 2010 of 3.5 cents per share ($18.7 million). The interim dividend will be unfranked and is expected to be declared and paid on 30 September 2010 to shareholders on the register at 5.00pm on 9 September 2010. The Dividend Reinvestment Plan (DRP) will be activated in respect of this dividend (for shareholders resident in Australia and New Zealand), with DRP participants to be issued shares. In accordance with the DRP rules, the DRP issue price will be calculated by reference to the arithmetic average of the daily VWAP's over a period of five days commencing on 10 September 2010. No discount is applicable, however the number of ordinary shares DRP participants will receive will be rounded to the nearest share. The DRP will not be underwritten.

The Group's ability to pay franked dividends is primarily influenced by its mix of earnings and agreed positions with various taxation authorities around the world. As noted previously, based on the current mix of earnings and the impact of prior period abnormal items, the 2010 interim dividend and dividends paid over the medium term are not expected to be fully franked.

This dividend represents a payout ratio of 51% of normalised earnings, consistent with the Group's stated intention to maintain an annual earnings payout ratio of 50% - 70% over the medium term.

Bank facilities

The Group had committed bank facilities of $697 million at 30 June 2010, of which $93.9 million was drawn compared to $127.1 million at 31 December 2009. Net debt levels at 30 June 2010 reduced to $49.0 million from $75.3 million as at 31 December 2009.

The Group's facilities are summarised as follows:

Facility	Drawn as at 30 June 2010	Limit	Maturity Date
364 Day Debt	Nil	A$197.4m	February 2011
3 Year Debt	A$93.9m	A$500.0m	June 2013

In June 2010 the Group refinanced its $585 million term facility with a new $500 million, 3 year facility maturing in June 2013. This facility was competitively priced and executed with existing lenders, with the impact of higher relative facility margins reduced through lower overall facility requirements.

These facilities will continue to satisfy the ongoing requirements of the business and provide sufficient flexibility to enable the Group to respond to outcomes in relation to settlement of damages under the US Convertible Bonds matter and execute strategic opportunities as they arise.

Debt ratios

The Group's interest and debt coverage ratios remain strong:

Ratio	30 June 2010	31 Dec 2009	30 June 2009
EBITDA*/interest expense**	22.5X	12.6X	8.5X
Debt/EBITDA*	0.5X	0.7X	1.7X
Net debt/EBITDA*	0.3X	0.4X	1.4X

* EBITDA and interest expense are based on the preceding 12 months results. EBITDA represents bank EBITDA which is inclusive of interest received but excludes profit on disposal of investment in Elektronček, profits on the disposal of land and buildings, convertible bond damages and the impairment charge against the investment in Elektronček and PokerTek, Inc. .

** Interest expense shown above includes ongoing finance fees relating to bank debt facility arrangements, such as line fees.

For financial management purposes, the Group pays particular attention to the interest cover ratio (EBITDA*/interest expense**) as it reflects the ability of the Group to service its debt and is regarded as more relevant than gearing calculations.

Credit rating

The Group's objective is to maintain conservative debt levels and to continue to operate at debt coverage ratios which are well within those considered appropriate of an investment grade rating. The Group's Standard & Poor's credit rating is BBB- which is investment grade, reflecting the Group's strong strategic, operational and financial position and outlook.

Foreign exchange

Given the extent of the Group's global operations and the percentage of its earnings derived from overseas, its reported results are impacted by movements in foreign exchange rates.

The Australian dollar was stronger against the US dollar and Yen on average in the first half of 2010, compared to the first half of 2009. The impact of translating foreign currency ("translational impact") decreased reported revenue by $56.0 million while decreasing profit after tax by $7.7 million when compared with rates prevailing in the respective months in the prior year.

In addition, the net effect of the re-translation of the net assets of foreign controlled entities (recognised through the foreign currency translation reserve) was a favourable $52.5 million (compared to a favourable $63.1 million as at 31 December 2009) as the Australian dollar at 30 June 2010 was weaker than at 31 December 2009.

Based on the Group's 2010 mix of profitability, the major exposure to translational foreign exchange results from the Group's US dollar profits. A US dollar 1 cent change in the US$:A$ exchange rate results in an estimated $1.1 million translational impact on the Group's reported profit after tax. This impact will vary as the magnitude of overseas profits change.

Foreign exchange rates compared with prior periods for key currencies are as follows:

A$:	30 Jun 2010	31 Dec 2009	30 Jun 2009	H1 2010 Average*	H1 2009 Average*
USD	0.8523	0.8969	0.8114	0.8880	0.7176
NZD	1.2308	1.2354	1.2428	1.2660	1.2550
JPY	75.46	82.82	77.76	80.96	68.81
EUR	0.6979	0.6241	0.5751	0.6779	0.5352
SEK	6.6185	6.3788	6.2245	6.5943	5.8135
ZAR	6.5059	6.6070	6.2999	6.7086	6.3919

*Average monthly exchange rates only. No weighting applied.