



**Review of operations  
for the year ended 31 December 2009  
Aristocrat Leisure Limited  
ABN 44 002 818 368**

**SUMMARY**

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

	Constant Currency** FY 2009 \$Million	FY 2009 \$Million	FY 2008 \$Million	Variance vs FY 2008	
				Constant Currency** %	Reported %
<b>Normalised Results*</b>					
Total Revenue from Ordinary Activities	907.5	908.6	1,079.9	(16.0)%	(15.9)%
Earnings before Interest, Tax and D&D Costs	286.9	283.3	330.1	(13.1)%	(14.2)%
Earnings before Interest and Tax ("EBIT")	176.9	169.9	212.9	(16.9)%	(20.2)%
Profit after Tax and Minority Interest	121.7	116.4	140.3	(13.3)%	(17.0)%
Earnings Per Share (Fully Diluted)	24.1c	23.0c	30.5c	(21.0)%	(24.6)%
Total Dividend Per Share	4.5c	4.5c	36.0c	(87.5)%	(87.5)%
<b>Reported Results</b>					
Earnings before Interest and Tax ("EBIT")	(187.0)	(194.0)	156.7	(219.3)%	(223.8)%
(Loss) / Profit after Tax and Minority Interest	(152.5)	(157.8)	101.2	(250.7)%	(255.9)%
<b>Balance Sheet / Cashflow</b>					
Net Working Capital / Revenue	20.6%	17.2%	14.4%	6.2pts	2.8pts
Operating Cash Flow *	161.8	157.8	173.8	(6.9)%	(9.2)%
Cash Flow Per Share (Fully Diluted) *	32.0c	31.2c	37.8c	(15.3)%	(17.5)%
Closing Net Debt	103.5	75.3	376.4	(72.5)%	(80.0)%

\* Before the net impact of abnormal and one off items that are not representative of the underlying operational performance of the Group. Refer page 4.

\*\* 2009 result adjusted for translational exchange rates using rates applying in 2008.

The Group reported a normalised profit after tax and minority interest of \$116.4 million, representing a 17.0% decline compared with the prior corresponding period's result of \$140.3 million. The decline reflects reduced profits in each region, other than Australia and New Zealand, partially offset by reductions in unallocated expenses, interest and income taxes.

More specifically the result was driven by:

*North America:* Increased market share was more than offset by continuing weak economic conditions coupled with a slower replacement cycle and fewer new casino openings.

*Australia:* Whilst overall market conditions during the year were challenging, there were signs of an improvement in the latter part of the year, driven by the Group's stronger games offerings, demand for *Viridian™* cabinets and *Gen7™* platforms (*Viridian™ Gen7™*) and the new 3-year licence model.

*Japan:* The pachislot market contracted approximately 30% in 2009, with units shipped estimated at 650,000.

*Rest of World:* Performance across the remaining business reflected the generally weak economic and operating conditions across most jurisdictions causing operators to take a cautious approach to capital expenditure and reinvestment in gaming floors. The exception was New Zealand where mandated regulatory change enforced game replacement. The Group held share in this segment despite intense competition.

Whilst the economic and operating conditions across the Group's markets have been challenging this year, underlying business performance was stronger despite the relative weaker market. This was represented by increased ship share and the significant increase in gaming operations (high-yielding win per day recurring revenue products) installations in North America. In Australia, improved content and customer support for the Group's new 3-year licence model drove platform volumes, higher revenues and increased ship share. While only in the early stages, strategic initiatives have led to cost efficiencies and improved processes.

Reported results were abnormally impacted by a net loss after tax of \$274.3 million arising from a number of abnormal or one-off items.

Operating cash flow per share declined by 17.5% to 31.2 cents.

## PROFIT AND LOSS

Analysis throughout this section refers to results reported on a normalised management basis prior to recognising a number of transactions/adjustments taken during the year 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.

### Summary P&L

Full Year	FY 2009 \$Million	FY 2008 \$Million	Var %
<b>Segment Revenue</b>			
North America	405.6	470.4	(13.8)%
Australia	207.8	185.3	12.1%
Japan	106.1	214.3	(50.5)%
Rest of World	189.1	209.9	(9.9)%
<b>Total Segment Revenue</b>	<b>908.6</b>	<b>1,079.9</b>	<b>(15.9)%</b>
<b>Segment EBIT</b>			
Segment Profits	282.2	356.6	(20.9)%
Supply Chain Margins	21.7	1.6	1,256.3%
<b>Total Segment EBIT</b>	<b>303.9</b>	<b>358.2</b>	<b>(15.2)%</b>
<b>Unallocated Expenses</b>			
Design and Development	(113.4)	(117.2)	3.2%
Foreign Exchange	2.3	(6.9)	N/A
Corporate	(21.2)	(21.6)	1.9%
Share of JV profits / (losses) - Elektronček	(1.7)	0.4	N/A
<b>Total Unallocated Expenses</b>	<b>(134.0)</b>	<b>(145.3)</b>	<b>(7.8)%</b>
<b>Earnings before Interest and Tax</b>	<b>169.9</b>	<b>212.9</b>	<b>(20.2)%</b>
Interest	(13.9)	(19.8)	29.8%
<b>Profit before Tax</b>	<b>156.0</b>	<b>193.1</b>	<b>(19.2)%</b>
Income Tax	(39.1)	(52.1)	25.0%
<b>Profit after Tax</b>	<b>116.9</b>	<b>141.0</b>	<b>(17.1)%</b>
Minority Interest	(0.5)	(0.7)	28.6%
<b>Profit after Tax and Minority Interest</b>	<b>116.4</b>	<b>140.3</b>	<b>(17.0)%</b>
<b>Relative to Revenue Performance</b>	<b>% of Revenue</b>		<b>Var</b>
	<b>FY 2009</b>	<b>FY 2008</b>	<b>Pts</b>
Segment EBIT	33.4%	33.2%	0.2
Design and Development	12.5%	10.9%	1.6
Earnings before Interest and Tax	18.7%	19.7%	(1.0)
Profit after Tax and Minority Interest	12.8%	13.0%	(0.2)

## Revenue

Revenue declined \$171.3 million (15.9%), 16.0% in constant currency terms, reflecting the impact of significantly lower sales volumes in Japan and adverse economic conditions across most jurisdictions in which the Group operates. These negatives were partially offset by increased sales in Australia with high performing games and strong demand for the new 3-year licence model, New Zealand driven by regulatory changes and higher ACE Video Lottery Terminal (VLT) sales.

North American revenue decreased \$64.8 million (13.8%) in Australian dollar terms while in local currency the decline was 16.8% (US\$65.3 million) primarily due to lower sales volumes as a result of continuing difficult economic and operator trading conditions.

Australian revenue increased by \$22.5 million (12.1%) mainly driven by higher EGM sales volume (increased 37.3%). The business gained momentum with the introduction of the new 3-year licence model, the release of higher performing games, in particular *JAWS™*<sup>1</sup> and *Hit the Heights™* during the fourth quarter. Average pricing increased 3.8% driven by product mix. The 2009 volumes associated with the new 3-year licensing model will deliver benefits in 2010 and 2011.

In Japan, revenue fell \$108.2 million (50.5%) in Australian dollar terms while in local currency the decline was Yen 8.3 billion (49.3%). This sharp reversal results from the launch of only one key licensed game compared to two in the prior period. Unit sales were further adversely impacted by depressed market demand.

In the Rest of World segments revenue was down by \$20.8 million (9.9%), 8.7% in constant currency terms. This was principally due to poor economic conditions in most parts of the world, partially offset by increased demand in New Zealand and a higher volume of VLT units placed by ACE under the Norsk Tipping contract.

## Earnings

Segment profit declined \$74.4 million (20.9%) compared with the prior corresponding period. Japan and North America were the key contributors to the decline, with EBIT falling \$35.9 million and \$35.3 million respectively. This was offset by a \$20.1 million improvement in supply chain margins, mostly driven by manufacturing recoveries on the back of economies of scale on increased *Viridian™ Gen7™* production and lower provisioning levels. Segment EBIT declined \$54.3 million (15.2%), increasing as a percentage of revenue by 0.2 percentage points to 33.4%.

Total unallocated expenses decreased \$11.3 million (7.8%) principally reflecting foreign currency hedging gains and cost efficiencies in design and development costs.

The Group's investment in its future through design and development spend rose as a percentage of revenue to 12.5% (12.1% on a constant currency basis) from 10.9% of revenues in the prior year. Total spend declined to \$113.4 million, a 3.2% decrease compared to 2008 (6.1% decline in constant currency terms). This reflected improved efficiencies and more focused spend. Offshoring to India will further improve efficiencies going forward.

Corporate costs were adversely impacted by legal expenses incurred on the US Convertible Bonds litigation, which overshadowed cost savings achieved as part of the initial execution stages of the Group's transformation strategy.

These lower expenses were partially offset by a \$1.7 million share of the losses made by Elektronček, compared to a \$0.4 million profit in 2008.

The \$5.9 million decrease in interest expense (29.8%) 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 25.1%. This is lower than the 27.0% recorded in the 2008 full year, as a result of the mix of earnings particularly influenced by the weaker result from Japan where profits are taxed at 46%.

The decline in profit after tax has resulted in fully diluted operating earnings per share falling by 7.5 cents (down 24.6%) to 23.0 cents.

### Abnormal Items

The following abnormal items are summarised below:

	<b>Before Tax</b>	<b>After Tax</b>
	<b>\$Million</b>	<b>\$Million</b>
Property Sales	8.8	8.8
Restructuring Costs	(17.8)	(12.6)
Legal Settlement	(4.3)	(3.3)
Impairment of Multi-Terminal Gaming Businesses	(83.1)	(79.9)
Provision for Convertible Bond damages	(267.6)	(187.3)
<b>Net abnormal (loss)</b>	<b>(364.0)</b>	<b>(274.3)</b>

*Property sales:* The Group completed its program to divest its Australian manufacturing sites during the first half of 2009. This commenced in 2007 with the closure and transition of its traditional manufacturing operations. The remaining two sites were disposed of during the period.

*Restructuring costs:* As was reported at the half year, the Group initiated a strategic review and cost alignment program with an objective of optimising future performance. Costs associated with the implementation of this program totalled \$12.6 million (after tax) and predominately represented termination costs of over 140 full time equivalent roles.

*Legal settlement:* The Group settled the Torango intellectual property litigation during the period.

*Impairment of multi-terminal gaming businesses:* As was reported at the half year, the Group has booked a one-off (abnormal/non-cash) charge against the carrying values of its investments and inventories in its multi-terminal gaming businesses, Elektronček and PokerTek, Inc.

*Provision for Convertible Bond damages:* In line with the Group's 1 February 2010 announcement to the market, the Group has recognised an abnormal provision relating to the expected damages liability associated with the US Convertible Bonds litigation which includes interest calculated to 30 April 2010. The decision to record this provision does not pre-empt the US District Court's final judgement on damages, nor the Group's position on any potential appeal.

## BALANCE SHEET

The balance sheet can be summarised as follows:

	31 Dec 2009 \$Million	31 Dec 2008 \$Million
Net Working Capital	156.6	156.0
Other Current/Non-Current Assets	66.8	65.8
Property, Plant and Equipment	120.5	150.8
Investments in Associate and Other Companies	6.2	89.8
Intangibles	118.5	154.4
Other Current/Non-Current Liabilities	(357.1)	(97.8)
Provision for Supplementary Unfranked Dividend	-	(9.1)
Net Tax Balances	117.6	58.9
<b>Funds Employed</b>	<b>229.1</b>	<b>568.8</b>
Net Debt	(75.3)	(376.4)
<b>Shareholders' Funds</b>	<b>153.8</b>	<b>192.4</b>

Net working capital as a percentage of the last 12 months revenue was 17.2% at 31 December 2009, up 2.8 percentage points from 14.4% at 31 December 2008.

Significant balance sheet movements from 31 December 2008 are discussed below:

*Property, plant and equipment:* The \$30.3 million decline was largely due to a \$20.1 million translational foreign exchange. Total capital spend was \$60.3 million of which \$47.9 million was on gaming operation units as the Group increased its global net installed base. The depreciation charge for the year was \$63.8 million.

*Investments in associate and other companies:* The \$83.6 million decline primarily represents the impairment charge recognised against the Group's multi-terminal gaming businesses, Elektronček and PokerTek, Inc. in the period.

*Intangible assets:* The \$35.9 million decline reflects the retranslation of foreign currency denominated intangible assets (primarily in the North American and ACE businesses) at closing foreign exchange rates and \$4.8 million of amortisation.

*Other current/non-current liabilities:* The \$259.3 million increase is mainly driven by the provision of damages relating to the Convertible Bonds litigation.

*Provision for supplementary dividend:* At 31 December 2008 a provision of \$9.1 million was recorded in respect of the supplementary unfranked dividend of 2 cents per share paid on 5 January 2009. The Group has suspended the payment of further supplementary unfranked dividends.

*Net tax balances:* The \$58.7 million increase is the combined result of the tax impact from the provision for damages relating to the Convertible Bonds litigation, lower profits in the period and tax refunds received in respect of the 2008 year.

*Net debt:* The Group's net debt reduced \$301.1 million from the net debt position at 31 December 2008. This decline primarily reflects the benefits of the Group's \$236.7 million capital raising together with the strong operating cash flow for the period offset by dividends and capital expenditure. Debt ratios remain at conservative levels, with debt coverage (net debt/EBITDA) at 0.4 times and interest cover at 23.6 times.

*Shareholders' funds:* The change in shareholders' funds reflects the net capital raising of \$236.7 million, shares issued as a result of the dividend reinvestment plan \$14.6 million, partially offset by a net reported loss of (\$157.8 million) for the period, dividends (\$69.2 million) and a (\$65.7 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 priorities.

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

	<b>FY 2009</b> <b>\$Million</b>	<b>FY 2008</b> <b>\$Million</b>
<b>Net Debt - Opening Balance (31 December)</b>	<b>(376.4)</b>	<b>(111.8)</b>
<b>Normalised Net Cash Inflow from Operating Activities</b>	<b>157.8</b>	<b>173.8</b>
Cash Effect of Abnormal Items	(16.4)	(57.4)
<b>Net Cash Inflow from Operating Activities</b>	<b>141.4</b>	<b>116.4</b>
Investing Cash Flows	<b>(39.9)</b>	<b>(17.1)</b>
Financing Cash Flows	<b>171.4</b>	<b>(334.0)</b>
<b>Movement in Net Cash</b>	<b>272.9</b>	<b>(234.7)</b>
Effect of Exchange Rate Changes on Net Debt	28.2	(29.9)
<b>Net Debt - Closing Balance (31 December)</b>	<b>(75.3)</b>	<b>(376.4)</b>

Operating cash flow decreased to \$157.8 million, \$16.0 million lower than in 2008, and represented 17.4% of revenue. This decrease resulted from lower earnings and was further adversely impacted by foreign exchange movement.

The cash impact of abnormal items recognised in the full year result was \$16.4 million.

The net cash inflow from investing and financing activities primarily represents the net proceeds of \$236.7 million from the capital raising undertaken in April 2009 offset by dividend payments.

Foreign exchange movement had a favourable impact of \$28.2 million on the net debt position.

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

## TRANSFORMATION PROGRAM

At the half year, the Group announced its transformation program aimed at reducing volatility in earnings and 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. A series of initiatives have been launched under four 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 second half of 2009, the Group has focused on the implementation of a detailed investment program to support this strategy. Highlights of progress to date include:

- In North America the Group increased its resources and focus in gaming operations as we pursue growth in recurring revenue. Focused teams have been put in place to lead the execution of stepper and systems strategies.
- In Japan the Group has begun to expand studio capacity and to build a library of strong licensed characters. A three year games pipeline has been put in place, which will help to address performance volatility in Japan over the medium term. The Japanese subsidiary also signed a conditional agreement to make a non-material acquisition that will assist in increasing its annual game approval slots.
- In Australia the Group restructured its operations from a sales organisation into a full regional business unit, along similar lines to the North American business unit, and is led by a new Managing Director supported by a dedicated regional marketing team to drive games content tailored to the local market.
- A number of cost reduction initiatives have been undertaken during the period. This includes the rightsizing of functions to realign resources with the Group's strategic focus, resulting in over 140 full time equivalent roles being removed from the business, representing a 7% reduction in total staff costs. Further benefits were realised from the optimisation of supply chain and changes to procurement policies and processes. In addition, the Group successfully established its Indian Development Centre and the ramp-up of production work in India to free up local studios to focus on creative game content.

The early stages of the program have positioned the Group to realise productivity gains and cost savings which will facilitate investment in support of the execution of strategic initiatives.

## REGIONAL SEGMENT REVIEW

In this review, segment profit/(loss) is before abnormal items, charges for design and development expenditure, corporate costs and supply chain variances. The total amount of these items, excluding abnormal items, is disclosed in the Group profit and loss statement. Constant currency amounts refer to 2009 results restated using exchange rates applying in 2008.

### North America

USD	FY 2009 \$Million	FY 2008 \$Million	Variance \$Million	Variance %
Revenue	322.4	387.7	(65.3)	(16.8)%
Profit	122.1	154.4	(32.3)	(20.9)%
Margin %	37.9%	39.8%	-	(1.9) pts

A\$	FY 2009 \$Million	FY 2008 \$Million	Variance \$Million	Variance %
Revenue	405.6	470.4	(64.8)	(13.8)%
Profit	152.3	187.6	(35.3)	(18.8)%
Margin %	37.5%	39.9%	-	(2.4) pts

Volume				
- Platforms	8,262	10,841	(2,579)	(23.8)%
- Conversions	7,723	8,684	(961)	(11.1)%
Average USD price/unit	14,675	15,117	(442)	(2.9)%

	FY 2009	FY 2008	Variance	Variance %
Gaming Operations Units	6,409	5,459	950	17.4%
Gaming Operations \$/Day	42.12	45.84	(3.72)	(8.1)%

Challenging economic conditions in the North American market during the period had a significant impact on operator trading conditions driving lower sales volumes and lower participation fees per day.

In local currency, revenue declined US\$65.3 million (16.8%) and profit declined US\$32.3 million (20.9%) compared to the prior corresponding period. Gross margin percentage improved modestly although this was offset by the impact of lower sales volumes combined with a flat fixed cost base.

While units sold in the period declined 23.8% to 8,262, the Group did increase its ship share across the total North American market. This growth in ship share was influenced predominantly from video unit sales with a minor contribution from stepper sales. The decline in unit sales was due to the continuation of difficult operator conditions and the associated reduction in their capital spend on new gaming equipment implying a theoretical replacement cycle of approximately 25 years. The decline in unit sales was also influenced by the significantly lower number of new casino openings during 2009 as compared to 2008. Sales of software conversions decreased 11.1% to 7,723 reflecting both the capital constraints on operators and the reduction in the number of new Mk 6 titles marketed.

The competitive environment driven by weak economic conditions and the associated decline in demand did not have a significant influence on the average unit selling price achieved during the period of US\$14,675 per unit. This was down by 2.9% and was primarily due to shifts in customer and product mix. The *Viridian™ Gen7™* is now well embedded across the North American marketplace with over 13,000 installations at the period end. The *Gen7™* game library is also now well established with over 100 game titles approved and available for sale.

The Group launched its new *Viridian™ RFX™* stepper (RFX™ stepper) during the second quarter. The product is approved in all key North American jurisdictions with approximately 400 units sold during the period. As expected RFX™ stepper sales were constrained by the limited library of games available for sale. However, the stability and robustness of the platform has now been proven and the Group is focused on significantly building its RFX™ stepper games library and is currently in the process of establishing an additional RFX™ stepper games studio in North America.

The Group realised 17.4% (950 units) growth in its gaming operations installed base during the year, from 5,459 at 31 December 2008 to 6,409 at 31 December 2009. This growth was driven by the release and success of new games such as *JAWS™<sup>1</sup>*, *Hit the Heights™* and *The Sopranos™<sup>2</sup>*, with low cannibalisation of existing placements. As at 31 December 2009, the Group had close to 1,200 *JAWS™<sup>1</sup>* units installed. The gaming operations average fee per day declined from US\$46 in 2008 to US\$42 in 2009. This decline was largely attributable to the reduction in operator revenues and the age profile of the Group's installed base. The average fee per day will benefit from improvement in operators' revenues and the Group's continued release and installation of new product. In addition to the gaming operations installed base, there were a total of 2,335 standard game leases, earning an average US\$18 per day, compared to 2,256 earning US\$19 per day as at 31 December 2008.

Performance of the systems business was down this period due to a lower number of new casino installations. Systems revenue, including the maintenance revenue derived from the systems business, was US\$60.8 million, down 18.2% on last year's record result. The number of properties which use the *OASIS™* Casino Management System in North America continued to grow and now stands at a record 264 compared to 250 at the end of the prior corresponding period. The Group launched a number of key systems projects which are scheduled for completion in 2010 including *OASIS™ One Card™* and the next generation *Sentinel™*. These projects are aimed at providing additional feature rich functionality to customers.

The 2010 outlook for improved industry and customer operating conditions will depend on the rate at which macro economic conditions and general consumer confidence improves. The Group expects a slight improvement in the replacement cycle to be more than offset by lower expansions. The Group will continue to build on 2009 momentum in North America, and focus on growing the gaming operations base on the back of planned new product releases.

Major jurisdictional expansion and new casino openings are expected to be realised from 2011 onwards.

## Australia

A\$	FY 2009 \$Million	FY 2008 \$Million	Variance \$Million	Variance %
<b>Revenue</b>	207.8	185.3	22.5	12.1%
<b>Profit</b>	63.1	51.9	11.2	21.6%
<b>Margin %</b>	30.4%	28.0%	-	2.4 pts
<b>Volume</b>				
- Platforms	5,292	3,853	1,439	37.3%
- Conversions	11,636	13,445	(1,809)	(13.5)%
<b>Average AUD price/unit</b>	17,214	16,584	630	3.8%

Overall market conditions were difficult during the year with an improving commercial environment evidenced in the later part of the period in part driven by the strength of the Group's games offerings and strong demand for the new 3-year licence model. Although many venues are still facing operational difficulties due to tight credit markets, themed content such as *JAWS™*<sup>1</sup> and *Hit The Heights™* was well received by the market with over 400 platforms sold under the *JAWS™*<sup>1</sup> theme in the final quarter.

Revenue increased 12.1% and profit rose 21.6% as a result of increased platform sales, increased average selling price and a prepaid licence fee partially offset by declining conversion sales. Platform unit sales increased 37.3% driven mainly by the increased penetration of *Viridian™ Gen7™* in New South Wales (NSW) and its release in Queensland (QLD) supported by new and stronger game offerings, in particular, themed content such as *JAWS™*<sup>1</sup> and *Hit the Heights™*, and the new 3-year licence model. Higher new platform sales resulted in conversions declining 13.5%. The increased penetration of *Viridian™ Gen7™* in NSW and its introduction into the QLD market has seen average selling price improve by approximately 3.8% overall for the year. Licence fees received also contributed to the strong revenue and profit growth. Underlying business performance, excluding this, grew compared to the prior corresponding period.

Margin increased 2.4 percentage points driven largely by stronger *Viridian™ Gen7™* margins, savings in fixed overheads of 5% and the contribution from licence fees. This was partially offset by discounting associated with the mandatory revocation of *Indian Dreaming™* in the NSW market and the accounting impact of the 3-year licence model.

The increase in platform sales has driven an improvement in the replacement cycle, down to 23 years from 35 years in the prior corresponding period.

In Australia, the Group expects the market to remain flat with increasing competition through 2010. The Group will accelerate the implementation of its strategy, and make the significant changes still required to build a world-class business model in Australia. The Group will continue to improve the pipeline of strong game releases, and expects to see some benefit from the continued roll out of strong content, such as *JAWS™*<sup>1</sup>, *Hit The Heights™* and *Fa Fa Fa™*. A key market development will be the release of the Productivity Commission Report expected in late February 2010. The Group has been preparing for this report for some time and is confident that it will be well equipped to respond to any of the findings.

## Japan

Yen	FY 2009 \$Million	FY 2008 \$Million	Variance \$Million	Variance %
Revenue	8,493.5	16,758.1	(8,264.6)	(49.3)%
Profit	1,425.9	4,452.7	(3,026.8)	(68.0)%
Margin %	16.8%	26.6%	-	(9.8) pts

  

A\$	FY 2009 \$Million	FY 2008 \$Million	Variance \$Million	Variance %
Revenue	106.1	214.3	(108.2)	(50.5)%
Profit	16.4	52.3	(35.9)	(68.6)%
Margin %	15.5%	24.4%	-	(8.9) pts

  

<b>Volume - Games</b>	29,760	57,437	(27,677)	(48.2)%
-----------------------	--------	--------	----------	---------

The pachislot market remained very tight in 2009, with an estimated 650,000 total units shipped during the period, approximately a 30% decline on the prior corresponding period. Market volumes were particularly depressed in the first and fourth quarters as operators focused on higher volatility and strong titled pachinko games. It is currently estimated by the Nichidenkyo (NDK: Pachislot Manufacturers Association) that the number of hall operators declined 3.8% to 12,450 halls during 2009 and the number of installed pachislot units declined 11.0% to approximately 1.3 million units over the period.

Revenue and profits declined significantly by 49.3% and 68.0% respectively in local currency. Unit volumes were the key driver for this sharp decline in performance, with a total of 29,760 units sold in 2009 down from 57,437 units in 2008. This sharp reversal reflects a combination of the overall depressed market demand and the release of one key licensed game this period compared to two key licensed game launches in 2008. Four games (*Judoz™*, *Get the Ranker™*, *Zettai Shogeki™* and *Tetsuya Shinjuku vs. Ueno™*) were marketed during 2009. Only one title, *Tetsuya Shinjuku vs. Ueno™*, was a key brand licensed game with sales of 18,342 units, whereas there were two key licensed games (*Kyojin no Hoshi 4™* and *Mach Go Go 2™*) in 2008, which sold a combined total of 52,980 units.

Despite continued operator focus on competitive pricing during the period, the Group maintained its Yen gross profit per unit by successfully lowering the cost per unit. However, this variable contribution was insufficient to offset the operation's fixed cost base given the reduction in sales volumes resulting in a margin of 16.8% in 2009 (26.6% in 2008).

The rigorous testing process of new game submissions by the testing authority (SECTA) continues to determine the dynamics of the market with only 43% of game submissions approved (43% for 2008). The Group currently has two games approved and a further ten are in the development and regulatory approval process.

The Group expects the Japanese market, which saw significant decline last year, to be flat in 2010 in the absence of significant regulatory changes. The Group will continue to execute its transformation program to plan, focused on investment in game design and development as well as acquiring strong licensed titles, targeting consistent launches of two key titles per annum to reduce the volatility in revenue and profits over time. While a number of game releases are planned for 2010 in Japan, the Group is scheduled to release only one key licensed title during the year.

## Rest of World

<b>\$A Constant Currency Revenue</b>	<b>FY 2009 \$Million</b>	<b>FY 2008 \$Million</b>	<b>Variance \$Million</b>	<b>Variance %</b>
South America	22.3	43.5	(21.2)	(48.7)%
New Zealand	30.0	21.7	8.3	38.2%
Other International	103.3	124.8	(21.5)	(17.2)%
ACE	36.0	19.9	16.1	80.9%
<b>Total Revenue</b>	<b>191.6</b>	<b>209.9</b>	<b>(18.3)</b>	<b>(8.7)%</b>
<b>\$A Constant Currency Profit</b>	<b>FY 2009 \$Million</b>	<b>FY 2008 \$Million</b>	<b>Variance \$Million</b>	<b>Variance %</b>
South America	9.9	13.4	(3.5)	(26.1)%
New Zealand	13.6	8.4	5.2	61.9%
Other International	29.6	44.2	(14.6)	(33.0)%
ACE	(1.7)	(1.2)	(0.5)	(41.7)%
<b>Total Profit</b>	<b>51.4</b>	<b>64.8</b>	<b>(13.4)</b>	<b>(20.7)%</b>

<b>A\$</b>	<b>FY 2009 \$Million</b>	<b>FY 2008 \$Million</b>	<b>Variance \$Million</b>	<b>Variance %</b>
<b>Revenue</b>	189.1	209.9	(20.8)	(9.9)%
<b>Profit</b>	50.4	64.8	(14.4)	(22.2)%
<b>Margin %</b>	26.7%	30.9%	-	(4.2) pts

<b>Volume - Platforms</b>	6,123	9,546	(3,423)	(35.9)%
---------------------------	-------	-------	---------	---------

In constant currency terms, revenue and profit declined 8.7% and 20.7% respectively.

The strongest performing region in the Rest of World was New Zealand where the mandated requirement to comply with responsible gaming legislation requiring random interruptive Player Information Displays (PIDs) by 1 July drove sales during the period, growing 38.2% for the full year in constant currency. Profits increased 61.9% over the prior year reflecting fixed cost leverage and improved margins as a result of a shift in the mix towards PIDs game conversions and the introduction of *Viridian™ Gen7™* into the casino market. Over the longer term, the New Zealand market is expected to remain in gradual decline.

In the Group's South American region, sales declined 48.7% as the 2008 comparative had been positively impacted by the expansion of the Chilean gaming market. The decline in overall profitability was 26.1%, however the profit decline from lower sales volumes was partially offset by improved margins and cash collections from sales made in 2008. Improvements in the average selling price combined with supply chain efficiencies driving lower refurbishment costs per unit contributed to the higher margins. During the year the Group also established a presence in Mexico and commenced sales activities there late in the fourth quarter. The Group expects a greater contribution in 2010 from the South American region mainly due to the activities in Mexico.

Revenues for Europe, South Africa and Asia Pacific all declined reflecting sustained depressed economic and operating conditions with operator's capital budgets being constrained, coupled with a lack of new venue openings. In addition, Asia Pacific was affected by the unexpected closing in February 2009 of the Cambodian arcade/club market that had been a steady source of sales in recent years. Profitability declines in these businesses were not offset by the reduction in their fixed cost structures. Despite the decline in profitability across these regions, the Group continued to maintain or grow its market share, with European markets rising modestly, 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%.

The ACE business continues to grow its revenue base through sales of *Indago™* Video Lottery Terminals (VLT), *TruServ™* system upgrades and related services under the Norsk Tipping contract. During 2009 a total of 3,640 terminals were delivered driving the 80.9% increase in revenues and taking the total number of terminals delivered under the contract to

date to 4,431. A total of 6,500 terminals are forecasted to be deployed however the exact timing of the remaining terminals is difficult to predict. Game performance has been steadily improving and is exceeding initial expectations, especially with the release of Aristocrat's *Ball Power™* and *Arishinko™*. Game performance is expected to be further enhanced with the release of additional Aristocrat games in 2010, which would also be expected to provide support for an accelerated roll out of terminals by Norsk Tipping. Despite the significant volume of terminals delivered under the Norsk Tipping contract during the year, the business reported a loss of \$1.7 million due to costs incurred as it continues to actively pursue and identify other VLT opportunities in Europe as well as global server based market opportunities. As a result, ACE expects to engage with the Italian gaming operator Cogetech to jointly enter the Italian VLT market. In addition, the Group continues to trial ACE's server based gaming platform *TruServ™* in the Class III casino environment.

Whilst trading across the Rest of World portfolio is anticipated to remain difficult going into 2010, it is expected improvements in performance will benefit through the continued rollout and strong performance of the *Viridian™ Gen7™* platform in the Asia Pacific region, new venue openings in Singapore, ACE's engagement with Cogetech, an increase of opportunities in the Mexican market and from greater focus on high value, growing markets.

## **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.

In April 2009 the Group raised \$236.7 million (after costs) through a capital raising to:

- Strengthen the Group's balance sheet to deal with the current operating environment;
- Improve credit metrics to support its investment grade credit rating;
- Provide additional debt facility headroom to counter:
  - o reliance on debt refinancing given credit market conditions;
  - o a range of outcomes in relation to outstanding litigation matters; and
- Provide financial flexibility to execute strategic opportunities as they arise.

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. This, coupled with the capital raising, will curtail the impact of any cash outflows that may be realised on the settlement of damages under the US Convertible Bonds litigation.

### **Dividends**

In light of the Company's reported loss for 2009, and any resulting cash outflow from the Convertible Bond litigation, the Board has determined that no final dividend will be paid for the 2009 year.

An interim dividend in respect of the half year ended 30 June 2009 of 4.5 cents per share, fully franked (\$23.9 million) was paid on 29 September 2009.

Given that no final dividend for 2009 was able to be paid, total dividends in respect of the 2009 year amount to 4.5 cents per share, fully franked. This represents a significant reduction on the total dividend payout of 36 cents per share (\$163.7 million), with average franking of 66.7% paid in 2008, which included 12 cents per share in supplementary unfranked dividends.

The Group is committed to providing shareholder returns through paying dividends and, subject to Board review at the appropriate times, will revert to its annual earnings payout ratio target of 50%-70% in 2010.

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. Based on the current mix of earnings and the impact of the 2009 abnormal items, any dividends determined to be paid over the medium term are currently not expected to be fully franked.

## Bank Facilities

The Group had committed bank facilities of \$805 million and a US\$100 million Letter of Credit facility at 31 December 2009, of which \$127.1 million was drawn compared to \$482.6 million at 31 December 2008. The reduction in drawn facilities primarily reflects the receipt of funds from the capital raising, continued strength in operating cash flows and lower translated USD denominated borrowings as a consequence of the higher AUD/USD exchange rate relative to last year.

The Group's facilities are summarised as follows:

Facility	Drawn as at 31 Dec 2009	Limit 31 Dec 2009	Maturity Date
364 Day Debt	Nil	A\$220.0m	February 2010
Letter of Credit	Nil	US\$100.0m	February 2010
3-year Debt	A\$127.1m	A\$585.1m	February 2011

Facility	Drawn as at 31 Dec 2008	Limit 31 Dec 2008	Maturity Date
364 Day Debt	A\$150.0m	A\$250.0m	February 2009
Letter of Credit	Nil	US\$200.0m	February 2009
3-year Debt	A\$332.6m	A\$585.1m	February 2011

Subsequent to 31 December 2009, the Group rolled over its short term facility arrangements. In light of the significant amount of headroom in the Group's committed bank facilities the overall size of these facilities has been revised down to \$782 million. Additionally, the US\$100 million Letter of Credit tranche was allowed to expire at maturity on 5 February 2010.

The Group is confident that these facilities remain adequate to meet the ongoing requirements of the business and provide sufficient flexibility to enable the Group to respond to any outcome in the US Convertible Bonds litigation and execute strategic opportunities as they arise.

## Debt Ratios

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

Ratio	31 Dec 2009	31 Dec 2008
EBITDA*/Interest Expense*	23.6X	13.9X
Debt/EBITDA*	0.7X	1.7X
Net Debt/EBITDA*	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 Class Action settlement, profits on the disposal of land and buildings, Convertible Bond litigation and the impairment charge against the investment in Elektronček and PokerTek, Inc.

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 weaker against the US dollar and Yen on average in 2009, compared to 2008. The impact of translating foreign currency (translational impact) increased reported revenue by \$1.1 million while decreased profit after tax by \$5.3 million when compared with rates prevailing in the respective months in the prior year.

The translational impact on earnings year on year was more significant than the visible depreciation in the Australian dollar against the US dollar and Yen due to the timing of when earnings were realised. While the average unweighted Yen rate was 84.9 during 2008, the effective weighted rate was 62.57 as a result of the majority of Japanese profits being earned in December.

In addition, the net effect of the retranslation of the net assets of foreign controlled entities (recognised through the foreign currency translation reserve) was an unfavourable \$58.2 million (compared to a favourable \$2.6 million as at 31 December 2008) as the Australian dollar as at 31 December 2009 was stronger than 31 December 2008.

Based on the Group's 2009 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 USD/AUD exchange rate results in an estimated \$1.3 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:

<b>AUD:</b>	<b>31-Dec-09</b>	<b>30-Jun-09</b>	<b>31-Dec-08</b>	<b>2009 Average*</b>	<b>2008 Average*</b>
USD	0.8969	0.8114	0.6928	0.7863	0.8358
NZD	1.2354	1.2428	1.1955	1.2497	1.1964
JPY	82.82	77.76	62.57	73.6038	84.9120
EUR	0.5666	0.5751	0.4919	0.5666	0.5715
SEK	6.3788	6.2245	5.3743	6.0054	5.5324
ZAR	6.5078	6.2999	6.4818	6.5078	6.9117

\* Average of monthly exchange rates only. No weighting applied.

<sup>1</sup>JAWS is a trademark and copyright of Universal Studios. Licensed by Universal Studios Licensing LLP. All rights reserved.

<sup>2</sup>The Sopranos is a trademark and copyright of Home Box Office, Inc. All rights reserved.