



**Management discussion and analysis  
for the year ended 31 December 2008  
Aristocrat Leisure Limited  
ABN 44 002 818 368**

**Summary**

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

| Normalised Results*                                   | Constant<br>Currency**<br>2008<br>\$Million | 2008<br>\$Million | 2007<br>\$Million | Variance                    |             |
|---|---|-------------------|-------------------|-----------------------------|-------------|
|   |   |                   |                   | Constant<br>Currency**<br>% | Actual<br>% |
| Total Revenue from Ordinary Activities                | 1,027.2                                     | 1,079.9           | 1,122.0           | -8.4%                       | -3.8%       |
| Operating Earnings Before Interest, Tax and R&D Costs | 315.8                                       | 330.1             | 436.5             | -27.7%                      | -24.4%      |
| Operating Earnings Before Interest and Tax ("EBIT")   | 200.0                                       | 212.9             | 332.3             | -39.8%                      | -35.9%      |
| Operating Profit after Tax                            | 131.8                                       | 141.0             | 247.9             | -46.8%                      | -43.1%      |
| Operating Profit after Tax and Minority Interest      | 131.1                                       | 140.3             | 247.2             | -47.0%                      | -43.2%      |
| Net Working Capital/Revenue                           | 12.6%                                       | 14.4%             | 12.1%             | 0.5pts                      | 2.3pts      |
| Operating Cash Flow                                   | 164.1                                       | 173.8             | 222.2             | -26.1%                      | -21.8%      |
| Closing Net Debt                                      | (346.5)                                     | (376.4)           | (111.8)           | 209.9%                      | 236.7%      |
| Earnings Per Share (Fully Diluted)                    | 28.5c                                       | 30.5c             | 52.8c             | -46.0%                      | -42.2%      |
| Cash Flow Per Share (Fully Diluted)                   | 35.7c                                       | 37.8c             | 47.4c             | -24.7%                      | -20.3%      |
| Total Dividends Per Share                             | 36.0c                                       | 36.0c             | 49.0c             | -26.5%                      | -26.5%      |
| <b>Reported Results</b>                               |   |                   |                   |                             |             |
| Earnings Before Interest and Tax ("EBIT")             | 143.8                                       | 156.7             | 332.3             | -56.7%                      | -52.8%      |
| Profit after Tax                                      | 92.7  | 101.9             | 247.9             | -62.6%                      | -58.9%      |

\* Before the net impact of the Class Action settlement, disposal of land and buildings and the impairment charge against the investment in PokerTek Inc, which are considered abnormal on the basis that they are non recurring in nature and are not representative of the underlying operational performance of the Group

\*\* Normalised result adjusted for translational exchange rates using rates applying in 2007

The Group's performance was primarily driven by difficulties experienced in the rollout of its new *Viridian™* cabinet and *Gen7™* platform (*ViridianGen7*) and the depth of the *Gen7™* game library. Performance was also impacted by economic and regulatory conditions in its two largest regions – Australia and North America. The Group's third largest region, Japan, delivered significant growth, a strong turnaround from the prior two years. The lack of new venue openings in the Asia-Pacific region was also a key contributor to the decline in earnings, having been the fastest growing region in 2007.

Market conditions in Australia deteriorated markedly as a result of the combined impact of a number of adverse external factors and delays in launching *ViridianGen7* with sales in the year falling to a level which imply a 35 year replacement cycle.

In North America, the replacement cycle has also continued to lengthen driven by depressed operator capital spending impacted by prevailing economic conditions.

Following the full transition of the Japanese market to Regulation 5 in October 2007, the overall size of the pachislot installed base has continued to decline. The Group did however sell over 57,000 units in 2008, almost double 2007 volumes, achieving its highest market share, estimated at between 6.0% and 7.0%, since operations commenced in the country.

Results from businesses in emerging markets were mixed. The lack of new venue openings, in the Asia-Pacific region where a number of significant new property openings occurred in the prior year, resulted in a substantial decline in regional results. Elektronček was also impacted by a lack of new openings, as well as approval delays for its *G4™ Organic™* (G4) product range. The European market remained relatively soft as a result of the progressive deterioration of economic conditions coupled with the ongoing impact of smoking bans. South Africa and South America delivered underlying operating revenue and profit growth as the Group continues to build its presence in these regions. The New Zealand region was impacted by increasing competition as operators delayed upgrading their floors to meet new responsible gaming legislation ahead of a 1 July 2009 deadline.

The Australian dollar had a mixed performance against the US dollar and Yen over the course of the year, appreciating in the first half, but depreciating in the second half when compared against the respective periods in 2007. With the Group's earnings from the Americas and Japan weighted towards the second half, the translated value of foreign denominated earnings ("translational impact"), increased reported Revenue by \$52.7 million and Profit after Tax by \$9.2 million when compared with rates prevailing in 2007. Year on year, the Australian dollar depreciated 3.0% against the US dollar and 20.2% against the Yen (on a weighted average basis). The net transactional foreign exchange impact ("transactional impact") on underlying local currency denominated transactions over the period was immaterial. In overall terms, adjusting for the translational impact, Operating Revenue would have been \$1,027.2 million and Operating Profit after Tax \$131.8 million. Further discussion on foreign exchange translational and transactional impacts and their management is included later in this report.

The Group continues to invest in its future through research and development, which is expensed against profit. Total research and development spend for the year was \$117.2 million, a \$13.0 million (12.5%) increase on 2007. As a percentage of revenue, research and development expenditure rose to 10.9% for the period compared to 9.3% in 2007 driven by the combination of the increased dollar spend and the depressed level of revenue in the period.

The normalised result includes a \$10.3 million after tax charge representing additional inventory provisioning taken as a result of the Group carrying multiple product lines while it rolls out ViridianGen7 globally.

The Group's reported profit and loss for the year was abnormally impacted by a net loss after tax of \$39.1 million arising from the settlement of the Shareholder Class Action (\$40.2 million), the impairment of its investment in PokerTek Inc (\$19.9 million) and offset by profits realised on the disposal of properties (\$21.0 million).

Operating cash flow declined from the prior year to \$173.8 million, representing 16.1% of revenue. This decrease was driven by lower earnings with a greater relative contribution from the lower margin generating Japanese business, increased inventory and higher interest payments, offset by lower tax payments. Nevertheless, the Group's profit to cash conversion and its ability to produce significant operating cash flows remains sound.

At period end, debt exceeded cash on hand by \$376.4 million, a \$264.6 million increase from the net debt position at 31 December 2007. This increase primarily reflects the net impact of \$334.6 million returned to shareholders through dividends and other capital management initiatives together with capital expenditure for the period offset by operating cash flow. Debt

ratios remain at conservative levels, with debt coverage (net debt/EBITDA) at 1.4 times and interest cover at 13.9 times.

Fully diluted operating earnings per share of 30.5 cents represent a 42.2% decline on 2007. Operating cash flow per share declined by 20.3% to 37.8 cents.

### **Profit and Loss**

Analysis throughout this section refers to results reported on a normalised management basis\*.

This normalised result is stated prior to recognising a number of transactions/adjustments taken during the 2008 period 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.

These abnormal items are summarised below.

*Shareholder Class Action Settlement:* In line with previous announcements to the market, the Shareholder Class Action was settled during the period resulting in a net expense after tax of \$40.2 million (\$57.4 million pre tax).

*Property sales:* The Group continued its program to divest its Australian manufacturing sites. This commenced in 2007 with the closure and transition of its traditional manufacturing operations. During the current period, the remaining operations based at the old manufacturing site were relocated to a new purpose built facility allowing for the further divestment of property with two plants disposed realising a profit after tax of \$21.0 million (no tax effect). The remaining two sites are contracted for sale and are expected to settle during 2009.

*Impairment of investment in PokerTek Inc:* As at 31 December 2008, the Group has recognised an impairment charge of \$19.9 million after tax (no tax effect) against its minority holding in PokerTek Inc (NASDAQ: PTEK). Under accounting principles, this investment is marked to market with movements held in a revaluation reserve. Over the past 12 months PokerTek has experienced a significant decline in its share price. Due to the significance of this decline and the uncertainty as to whether it will be prolonged the Group has taken a conservative approach and transferred accumulated revaluation losses held in reserves through the profit and loss account in accordance with the requirements of IFRS. The Group continues to support its relationship with PokerTek Inc, and has recently extended its distribution arrangement as it seeks to widen its product portfolio. The business has successfully extended its regulatory approvals and continues to gain traction.

The Group reported a normalised Profit after Tax and Minorities of \$140.3m million, representing a 43.2% decline compared with the prior corresponding period. In constant currency terms, normalised Profit after Tax and Minorities was \$131.1 million.

The normalised result includes a \$10.3 million after tax (\$14.7 million pre tax) charge representing additional inventory provisioning taken as a result of the Group carrying multiple product lines while it rolls out ViridianGen7 globally.

Normalised operating results are summarised below.

## - Segment Results

| Normalised Results                                      | Segment Revenue |                |              | Profit / (Loss) |               |               | % Margin         |              |               |
|---|-----------------|----------------|--------------|-----------------|---------------|---------------|------------------|--------------|---------------|
|   | 2008<br>\$m     | 2007<br>\$m    | Var<br>%     | 2008<br>\$m     | 2007<br>\$m   | Var<br>%      | 2008<br>\$m      | 2007<br>\$m  | Var<br>Pts    |
| <b>Segment Results</b>                                  |                 |                |              |                 |               |               |                  |              |               |
| Australia   | 185.3           | 280.1          | -33.8%       | 52.0            | 109.5         | -52.5%        | 28.1%            | 39.1%        | (11.0)        |
| North America   | 470.4           | 483.6          | -2.7%        | 187.6           | 203.9         | -8.0%         | 39.9%            | 42.2%        | (2.3)         |
| South America   | 43.5            | 23.2           | 87.5%        | 13.4            | 8.7           | 54.0%         | 30.8%            | 37.5%        | (6.7)         |
| New Zealand   | 21.7            | 25.2           | -13.9%       | 8.4             | 9.5           | -11.6%        | 38.7%            | 37.7%        | 1.0           |
| Japan   | 214.3           | 91.2           | 135.0%       | 52.3            | 5.9           | 786.4%        | 24.4%            | 6.5%         | 17.9          |
| Other International                                     | 124.9           | 217.2          | -42.5%       | 44.2            | 80.1          | -44.8%        | 35.4%            | 36.9%        | (1.5)         |
| ACE Interactive   | 19.9            | 1.5            | na           | (1.2)           | (11.6)        | na            | -6.0%            | -773.3%      | na            |
| Elektronček   | 27.6            | 38.5           | -28.3%       | 0.4             | 10.1          | -96.0%        | 1.4%             | 26.2%        | (24.8)        |
| <b>Total Segment Results</b>                            | <b>1,107.6</b>  | <b>1,160.5</b> | <b>-4.6%</b> | <b>357.1</b>    | <b>416.1</b>  | <b>-14.2%</b> | <b>32.2%</b>     | <b>35.8%</b> | <b>(3.6)</b>  |
| <b>Unallocated Expenses</b>                             |                 |                |              |                 |               |               | <b>% Revenue</b> |              |               |
| Research and Development                                |                 |                |              | (117.2)         | (104.2)       | -12.5%        | -10.6%           | -9.0%        | (1.6)         |
| Foreign Exchange  |                 |                |              | (6.9)           | 6.6           | -204.5%       | -0.6%            | 0.6%         | (1.2)         |
| Corporate / Other                                       |                 |                |              | (20.1)          | 15.2          | -232.2%       | -1.8%            | 1.3%         | (3.1)         |
| <b>Total Unallocated Expenses</b>                       |                 |                |              | <b>(144.2)</b>  | <b>(82.4)</b> | <b>75.0%</b>  | <b>-13.0%</b>    | <b>-7.1%</b> | <b>(5.9)</b>  |
| <b>Operating Earnings before Interest and Tax</b>       |                 |                |              | <b>212.9</b>    | <b>333.7</b>  | <b>-36.2%</b> | <b>19.2%</b>     | <b>28.8%</b> | <b>(9.6)</b>  |
| Interest  |                 |                |              | (19.8)          | (6.0)         | -230.0%       | -1.8%            | -0.5%        | (1.3)         |
| <b>Operating Profit before Tax</b>                      |                 |                |              | <b>193.1</b>    | <b>327.7</b>  | <b>-41.1%</b> | <b>17.4%</b>     | <b>28.2%</b> | <b>(10.8)</b> |
| Income Tax  |                 |                |              | (52.1)          | (79.8)        | 34.7%         | -4.7%            | -6.9%        | 2.2           |
| <b>Operating Profit after Tax</b>                       |                 |                |              | <b>141.0</b>    | <b>247.9</b>  | <b>-43.1%</b> | <b>12.7%</b>     | <b>21.4%</b> | <b>(8.7)</b>  |
| Minority Interest                                       |                 |                |              | (0.7)           | (0.7)         | -             | -0.1%            | -0.1%        | -             |
| <b>Operating Profit after Tax and Minority Interest</b> |                 |                |              | <b>140.3</b>    | <b>247.2</b>  | <b>-43.2%</b> | <b>12.7%</b>     | <b>21.3%</b> | <b>(8.6)</b>  |
| <b>Abnormals</b>  |                 |                |              | <b>(39.1)</b>   | <b>-</b>      | <b>na</b>     | <b>-3.5%</b>     | <b>-</b>     | <b>na</b>     |
| <b>Reported Profit after Tax</b>                        |                 |                |              | <b>101.9</b>    | <b>-</b>      | <b>na</b>     | <b>9.2%</b>      | <b>-</b>     | <b>na</b>     |

\* Management basis includes the Group's share of associate company Revenue, Segmental Profit (EBIT), Interest and Tax on their respective lines. On a statutory reported basis, the Group's share of associate company Profit after Tax is included as a one line income item only.

## - Segment Revenue

Segment revenue declined \$52.9 million (down 4.6%) to \$1,107.6 million reflecting the impact of adverse economic conditions on the Group's two largest regions – Australia and North America, and the lack of new venue openings in the Asia-Pacific region. These negatives were partially offset by the significant growth delivered in Japan due to the success of *Maha GoGoGo2™* in the first half, and *Kyojin No Hoshi 4™* in the second half.

Australian revenue declined 33.8% (\$94.8 million) reflecting delays in the launch of the new ViridianGen7 product line together with a marked deterioration in trading conditions as a result of the combined impact of a number of external factors - smoking bans, increased operator taxes and economic uncertainty on venue gaming turnover as well as general negative political and regulator sentiment towards the industry. These drove a general reluctance by operators to direct capital expenditure towards their gaming floors.

North American revenue declined 2.7% (\$13.2 million) in Australian dollar terms while in constant currency terms the decline was 5.6% (\$26.9 million) reflecting a decline in overall market volumes and a reduction in average returns from recurring revenue units driven by economic and smoking ban impacts on operator revenues and a lack of new product offerings.

In Japan, revenue increased \$123.1 million (135.0%) to \$214.3 million on the strength of solid game releases. This enabled the Japanese operation to capture a record 6.0% - 7.0% market share in an overall smaller and increasingly competitive market.

In other regions, revenue in New Zealand deteriorated as operators continued to delay replacing grandfathered machines while in South America revenue increased significantly as a result of the expansion of the Chilean market. Asia-Pacific revenues were weak in comparison to the prior corresponding period due to the timing of new venue openings and the overhang effect of the rapid increase in slot machine supply during 2007. Elsewhere, European operating revenues declined as economic conditions deteriorated and smoking bans impacted operator revenues while ACE Interactive ("ACE") revenue increased with the initial delivery of 791 *Indago™* terminals under the Norsk Tipping contract.

The Group's 50% share of revenue of its multi-terminal business (Elektronček) experienced a significant decline, down 28.3% (\$10.9 million) to \$27.6 million primarily driven by reduced sales into the Asia-Pacific region in the absence of any large venue openings and approval delays for its G4 product range.

#### **- Earnings**

Management EBIT declined 36.2% (\$120.8 million) compared with 2007. In line with revenue, Australia, North America, Asia-Pacific and Elektronček were the key contributors to the decline. The Japanese business reported a profit of \$52.3 million, a \$46.4 million increase over 2007.

Overall business segment margin declined by 3.6 percentage points to 32.2%, driven primarily by the declines in Australia and North America as well as the significantly lower contribution from the Asia-Pacific region and a greater weighting from the lower margin Japanese business.

Total unallocated expenses increased \$61.8 million (75.0%) reflecting lower net corporate/other income and increased research and development costs, up \$13.0 million (12.5%).

The reduction in net corporate/other income (\$35.3 million) was primarily driven by the year on year decline in volumes and inefficiencies, including \$14.7 million of additional inventory provisioning as a result of running dual product lines while ViridianGen7 is progressively rolled out.

Higher research and development costs in the period represent the cost of further development of the Norsk Tipping system in Norway ahead of its "go live" as well as ongoing investment in new lines including server based technologies and systems products.

The increase in Interest expense from \$6.0 million in 2007 to \$19.8 million reflects higher average net debt primarily resulting from the execution of the Group's capital management program.

#### **- Tax**

The effective tax rate on the normalised result is 27.0% (25.5% on the reported result), higher than the 24.4% recorded in the 2007 full year.

The increase in the effective tax rate in the current period was driven by a number of factors, including higher profits in Japan which are taxed at 46% coupled with a reduction in profits from businesses based in more favourable overseas tax jurisdictions.

The 2008 final dividend payable on 30 March 2009 will be fully franked. 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 2008 abnormal items, dividends over the medium term are not expected to be fully franked.

#### **- Earnings and Cash Flow Per Share**

The decline in Profit after Tax has resulted in basic and fully diluted earnings per share falling by 22.3 cents (down 42.2%) to 30.5 cents. Fully diluted operating cash flow per share fell from 47.4 cents to 37.8 cents.

## Balance Sheet

The Balance Sheet can be summarised as follows:

|  | <b>2008</b>      | <b>2007</b>      |
|--|------------------|------------------|
|  | <b>\$Million</b> | <b>\$Million</b> |
| Net Working Capital                            | 156.0            | 135.5            |
| Other Current/Non-Current Assets               | 65.8             | 45.5             |
| Property, Plant and Equipment                  | 150.8            | 130.5            |
| Investments in Associate and Other Companies   | 89.8             | 87.6             |
| Intangibles                                    | 154.4            | 128.2            |
| Other Current/Non-Current Liabilities          | (97.8)           | (80.2)           |
| Provision for Supplementary Unfranked Dividend | (9.1)            | (40.5)           |
| Net Tax Balances                               | 58.9             | 26.0             |
| <br>   |                  |                  |
| Funds Employed                                 | 568.8            | 432.6            |
| <br>   |                  |                  |
| Net Debt                                       | (376.4)          | (111.8)          |
| <br>   |                  |                  |
| Shareholders' Funds                            | 192.4            | 320.8            |

Net Working Capital increased from \$135.5 million at 31 December 2007 to \$156.0 million. The main driver of this increase was translational foreign exchange due to the appreciation of the US dollar and Yen which increased the balance by \$26.7 million. In constant currency terms, inventory increased \$25.6 million due to the build up of ViridianGen7 product as it is progressively rolled out globally while superseded MkVI product lines are also maintained as they will continue to be sold in a number of jurisdictions into 2009. The increase in inventory was offset by a \$27.5 million increase in account payables and a moderate decline in receivables. Net Working Capital as a percentage of the last 12 months revenue was 14.4% at 31 December 2008, up from 12.1% at 31 December 2007, although a small improvement from the 14.6% recorded at 30 June 2008.

The increase in Property, Plant and Equipment was primarily driven by capital expenditure of \$68.8 million and the accounting for lease incentives, partially offset by depreciation and disposals, including the two Australian manufacturing plants. Total capital spend on participation units was \$22.7 million driving a global net increase in the installed base. A further \$41.3 million was spent on "stay-in-business" capital expenditure primarily in relation to fitouts of the Group's new Australian integration centre and North Ryde head office premises (officially opened in January 2009) together with the refurbishment of the North American integration centre in Las Vegas. Stay-in-business spend in future years is expected to decline substantially from these levels.

Intangible assets have increased by \$26.2 million since 31 December 2007, primarily due to the re-translation of the North American component at closing foreign exchange rates offset by \$3.5 million of amortisation.

At 31 December 2008, \$9.1 million (2007 - \$40.5 million) was provided in respect of the supplementary unfranked dividend of 2 cents per share (2007 - 10 cents per share), paid on 5 January 2009.

Net tax balances have increased by \$32.9 million to \$58.9 million, mainly as a result of the reduction in current year normalised pre tax profits relative to 2007.

In overall terms, Shareholders' Funds fell from \$320.8 million at 31 December 2007 to \$192.4 million. This change reflects the \$101.2 million reported profit for the period offset by funds returned to shareholders comprising \$266.0 million in dividends and \$68.6 million in shares bought back. In addition, reserves increased by a \$60.2 million movement in the foreign currency translation reserve as a result of the depreciating Australian dollar offset by a \$7.3 million movement resulting from the impairment realised on the Group's investment in PokerTek, Inc (NASDAQ: PTEK), which has been taken to the profit and loss.

## 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:

|   | <b>2008</b><br><b>\$Million</b> | <b>2007</b><br><b>\$Million</b> |
|---|---------------------------------|---------------------------------|
| <b>Net debt - opening balance</b>                           | <b>(111.8)</b>                  | <b>(40.8)</b>                   |
| <b>Normalised EBIT</b>                                      | <b>212.9</b>                    | <b>332.3</b>                    |
| Depreciation and amortisation                               | 40.2                            | 36.4                            |
| <b>Normalised EBITDA</b>                                    | <b>253.2</b>                    | <b>368.7</b>                    |
| Non-cash adjustments:                                       |                                 |                                 |
| - Net profit on sale of non-current assets                  | 0.2                             | (2.7)                           |
| - Share of Elektronček profit after tax                     | (0.5)                           | (8.6)                           |
| - Net foreign exchange differences                          | 30.1                            | 2.5                             |
| - Expensing of costs of share-based payments                | 4.2                             | 9.4                             |
| - Non cash interest income                                  | (0.8)                           | (0.9)                           |
| Net interest paid   | (19.8)                          | (6.0)                           |
| Net tax paid  | (51.1)                          | (96.8)                          |
| Change in operating assets and liabilities                  | (41.6)                          | (43.4)                          |
| <b>Normalised net cash inflow from operating activities</b> | <b>173.8</b>                    | <b>222.2</b>                    |
| Payments for acquisitions                                   | -                               | (3.1)                           |
| Net cash outflow from other investing activities            | (18.4)                          | (52.2)                          |
| Loan repayments from non-related parties                    | 1.2                             | 1.0                             |
| Proceeds from exercise of options                           | 0.6                             | 3.0                             |
| Payments for shares bought back                             | (68.6)                          | (52.4)                          |
| Payments to employee share trust                            | 0.0                             | (18.0)                          |
| Dividends paid  | (266.0)                         | (182.6)                         |
| <b>Normalised movement in net cash</b>                      | <b>(177.3)</b>                  | <b>(82.1)</b>                   |
| Effect of exchange rate changes on net debt                 | (29.9)                          | 11.1                            |
| One-off Cash Item - Class Action Settlement                 | (57.4)                          | -                               |
| <b>Net debt - closing balance</b>                           | <b>(376.4)</b>                  | <b>(111.8)</b>                  |

Operating cash flow of \$173.8 million was \$48.4 million lower than 2007, mainly driven by the reduction in EBITDA (down \$115.5 million) partially offset by a \$45.7 million reduction in tax payments and a relatively smaller increase in net working capital. The Class Action Settlement has been excluded from the analysis of normalised operating cashflows although it contributed to the increase in the Group's net debt position.

The net cash outflow from investing and financing activities was \$46.8 million higher than the prior corresponding period mainly driven by higher dividend payments (\$83.4 million) and share buyback activities (\$16.2 million) as well as increased capital spend (\$11.1 million). This increased outflow was partially offset by proceeds from the disposal of properties and no share purchases through the employee share trust (\$18.0 million).

Foreign exchange movement had an unfavourable impact of \$29.9m on the net debt position.

Cash flow in the statutory format is set out in the Financial Statements.

## **Dividends**

The Board has determined to pay a final dividend in respect of the year ended 31 December 2008 of 10 cents per share. The final dividend, payable on 30 March 2009, will be fully franked. The Dividend Reinvestment Plan will operate at a 2.5% discount and will be underwritten.

An interim dividend of 14 cents per share (\$63.8 million) was paid on 30 September 2008.

As part of its capital management initiatives, the Group has also paid a total of 12 cents per share in supplementary unfranked dividends in respect of the 2008 year, 10 cents per share on 1 July 2008 and a further 2 cents per share on 5 January 2009. A supplementary unfranked dividend of 10 cents per share in respect of the 2007 year was paid on 7 January 2008.

Total dividends in respect of the 2008 year amount to 36 cents per share, with average franking of 66.7%. This represents a 26.5% reduction on the total dividend payout of 49 cents per share (\$115.0 million) with average franking of 79.6% in respect of 2007. Excluding supplementary dividends, the payout ratio for the 2008 year is 77.5%, fully franked.

## **Capital Management**

The Group capital management strategy announced August 2007 outlined the following initiatives:

- an ongoing flow of fully franked dividends which, subject to the Group's franking ability, are expected to approximate 60% – 70% of annual earnings;
- the payment of supplementary unfranked dividends totalling 20 cents per annum, payable as two supplementary dividends of 10 cents each; and
- an on-market share buyback program of up to \$100 million per annum over a 3 – 5 year timeframe.

This strategy remains subject to the Group's overall on-going earnings performance, prevailing market and economic conditions, alternative strategic demands on funds or alternative, more effective capital management opportunities becoming available.

In the current period, the Group has executed the following:

- fully franked dividends above 70% of annual earnings influenced in the short term by the volatility in earnings in the current year;
- the payment of supplementary unfranked dividends totalling 12 cents per share; and
- the purchase of shares to the value of \$68.6 million under the on-market share buyback program.

The Group intends to take all actions necessary to preserve its investment grade BBB- credit rating and in light of current market and economic conditions driven by the liquidity crisis, impacting the market availability and cost of funding, the Group considers it prudent to scale back its capital management activities in the short term. The Group is also conscious of the requirement to maintain sufficient levels of undrawn facilities in order to ensure that it is in a position to appeal the outcome of the convertible bond matter (refer note 25 of Financial Statements), when handed down. Taking these factors into account, the Group has elected to underwrite its final 2008 Dividend Reinvestment Plan and will pause its share buyback program. The Group also intends to realign its future earnings payout ratio to 50% - 70% of normalised profit after tax.

The outlook for cash flow remains positive, with the business requiring limited capital investment to grow organically combined with an anticipated progressive reduction in working capital and continued focus on cash flow management. This will complement the above initiatives aimed at maintaining conservative gearing levels. The Group will continue to proactively review capital management initiatives on an on-going basis.

### Bank Facilities

The Group had committed bank facilities of \$835 million and a USD 200 million Letter of Credit facility at 31 December 2008, of which \$482.9 million was drawn compared to \$192.5 million at 31 December 2007. The increase in drawn facilities primarily relates to the return of funds to shareholders in accordance with the Group's capital management program and settlement of the Class Action.

Subsequent to balance date, the Group rolled over its short term facility arrangements. In light of the significant headroom in the Group's committed bank facilities and increased funding costs, the overall size of these facilities has been revised down to \$805 million with a USD 100 million Letter of Credit facility. The Group's facilities at the date of this report are summarised as follows:

| Facility         | Drawn as at<br>31 December<br>2008 | Limit   | Maturity Date |
|------------------|------------------------------------|---------|---------------|
| 364 Day Debt     | A\$150.0m                          | A\$220m | February 2010 |
| Letter of Credit | -                                  | USD100m | February 2010 |
| 3 Year Debt      | A\$332.9m                          | A\$585m | February 2011 |

The Group is confident that these facilities remain adequate to meet the on-going requirements of the business and provide sufficient flexibility to enable the Group to execute strategic opportunities as they arise.

### Debt Ratios

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

| Ratio                     | 31 December<br>2008 | 31 December<br>2007 |
|---------------------------|---------------------|---------------------|
| EBITDA*/Interest Expense* | 13.9X               | 29.0X               |
| Debt/EBITDA*              | 1.7X                | 0.5X                |
| Net Debt/EBITDA*          | 1.4X                | 0.3X                |

\* 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, disposal of land and buildings and the impairment charge against the investment in 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. 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.

### Credit 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. These impacts can be classified into two categories:

- Translational – the effect of changes in exchange rates on the translated value of foreign denominated earnings and net assets; and
- Transactional – the impact of changes in exchange rates on underlying local currency results where the local business undertakes foreign currency denominated transactions.

### - Translational foreign exchange

Monthly profits earned offshore are translated into Australian dollars at the prevailing month end rate. Assets and liabilities are translated at exchange rates prevailing at the reporting date. Translational exposures are accounting in nature and are not hedged, other than naturally where possible.

In the current period, Revenue and Profit after Tax were favourably impacted by \$52.8 million and \$9.2 million respectively as a result of the translational impact of the generally weaker Australian dollar compared with the prior corresponding period. 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 \$60.2 million (compared to an unfavourable \$14.6 million as at 31 December 2007).

Based on the Group's 2008 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 \$2.0 million translational impact on the Group's reported Profit after Tax. This impact will vary as the magnitude of overseas profits change.

### - Transactional foreign exchange

The transactional foreign exchange impact is dependent on the actual realisation of timing differences of the various currency cash flows and their recognition through the profit and loss account. As a result, the impact of transactional foreign exchange on the profit and loss account can only be estimated. Cash flow exposures are subject to active monitoring and risk management, including the hedging of specific transactions and natural hedges.

In overall terms, taking into account specific and natural hedges and timing differences, the transactional foreign exchange impact on the Group's profit for the year is estimated to be insignificant. Future impacts will depend on the mix of the Group's business and the timing of the recognition of foreign exchange denominated transactions through the profit and loss account.

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

| <b>AUD:</b> | <b>31 Dec<br/>2008</b> | <b>30 Jun<br/>2008</b> | <b>31 Dec<br/>2007</b> | <b>2008<br/>Average*</b> | <b>2007<br/>Average*</b> |
|-------------|------------------------|------------------------|------------------------|--------------------------|--------------------------|
| USD         | 0.6928                 | 0.9626                 | 0.8816                 | 0.8358                   | 0.8410                   |
| NZD         | 1.1955                 | 1.2609                 | 1.1354                 | 1.1964                   | 1.1379                   |
| JPY         | 62.57                  | 101.93                 | 98.77                  | 84.91                    | 98.78                    |
| EUR         | 0.4919                 | 0.6096                 | 0.5980                 | 0.5715                   | 0.6110                   |
| SEK         | 5.3743                 | 5.7545                 | 5.7010                 | 5.5324                   | 5.6119                   |
| ZAR         | 6.4818                 | 7.5949                 | 6.0301                 | 6.9117                   | 5.8991                   |

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

## BUSINESS SEGMENT REVIEW

In this review, segment profit/(loss) is before charges for license fees, research and development expenditure, corporate expenses, international service recharges, advance pricing agreements and any impairment of intangibles and other non-trading assets. The total amount of these items is included in the unallocated category. Constant currency amounts refer to results re-stated using exchange rates applying in 2007.

### Australia

|         | <b>2008<br/>\$Million</b> | <b>2007<br/>\$Million</b> | <b>Variance<br/>\$Million</b> | <b>Variance<br/>%</b> |
|---------|---------------------------|---------------------------|-------------------------------|-----------------------|
| Revenue | 185.3                     | 280.1                     | (94.8)                        | (33.8)%               |
| Profit  | 52.0                      | 109.5                     | (57.4)                        | (52.5)%               |
| Margin  | 28.1%                     | 39.1%                     | -                             | (11.0)pts             |

Market conditions have progressively deteriorated during 2008. Operator investment levels have been significantly affected as a result of the combined impact of smoking bans, increased operator taxes and the prevailing economic conditions. Higher interest rates and petrol prices earlier in the year also had a negative impact on operator revenues. Many operators in New South Wales (NSW) and Queensland have diverted capital expenditure towards reducing debt levels with remaining available capital directed towards the creation of alfresco gaming areas in an effort to mitigate the effects of smoking bans. The Victorian Government's announcement regarding the change in operator structure post 2012 has also had a significant impact on the amount of Victorian operator gaming expenditure during the year.

Revenue declined 33.8% and profit fell 52.5% with platform unit sales down 43.8% and conversions falling 20.8%. Sales of multi terminal gaming machines declined over 90% following regulatory changes limiting them to 15% of the number of gaming machines in each venue. Margin declined 11.0 percentage points driven by the overall reduction in sales combined with the relatively flat fixed cost base of the business. While the Group's share of the installed base remained at 67%, the level of sales continues to fall, with sales in the period representing a 35 year replacement cycle. In part this level of replacement demand reflects the slower than expected availability of new content for the Group's new ViridianGen7 in NSW.

The introduction of ViridianGen7 has seen average selling price per unit improve during the year by 15% with the rate of sales into NSW increasing as the year progressed, accounting for approximately 32% of total sales into the Australian region over the year.

During the period, the Group also launched the sale of content under a new licensing model. This initiative, directed at enhancing the protection of the Group's intellectual property, also provides for an ongoing income stream for content usage and sale in the second hand market. The introduction of licensing coupled with a product mix weighted towards standard game titles has seen a 12% decline in average selling price per game unit, however this will be recouped through the benefit of incremental fees over the longer term life of each licence as well as the sale of licences into the second hand market.

Market conditions are expected to remain challenging in 2009. The Group expects to benefit from the roll out of ViridianGen7 into the Queensland and Victorian markets, together with improved in-field performance in NSW as the game library is expanded.

## The Americas

### North America

| Reported | 2008<br>\$Million | 2007<br>\$Million | Variance<br>\$Million | Variance<br>% |
|----------|-------------------|-------------------|-----------------------|---------------|
| Revenue  | 470.4             | 483.6             | (13.2)                | (2.7%)        |
| Profit   | 187.6             | 203.9             | (16.3)                | (8.0%)        |
| Margin   | 39.9%             | 42.2%             | -                     | (2.3)pts      |

| At Constant Currency <sup>^</sup> | 2008<br>\$Million | 2007<br>\$Million | Variance<br>\$Million | Variance<br>% |
|-----------------------------------|-------------------|-------------------|-----------------------|---------------|
| Revenue                           | 456.7             | 483.6             | (26.9)                | (5.6%)        |
| Profit                            | 181.4             | 203.9             | (22.5)                | (11.0%)       |
| Margin                            | 39.7%             | 42.2%             | -                     | (2.5)pts      |

<sup>^</sup> Adjusted for translational exchange rates using rates applying in 2007

Constant currency revenue declined 5.6% and profit fell 11.0% primarily driven by lower sales volumes and a reduction in average revenue per day on recurring revenue units.

Ship share in the first half of the period was significantly impacted by the delay in approval of ViridianGen7. As the new platform was progressively released the Group's overall video ship share in the second half recovered close to 2007 levels.

Units sold in the period declined 21.5% to 10,841 largely driven by worsening economic conditions which had a significant negative impact on the replacement cycle. The replacement cycle remains at an historic market low with approximately 5.5% of the installed base being replaced in the year implying an estimated replacement cycle of 18.5 years. The deteriorating economic conditions have also resulted in the postponement and reduction in size of a number of planned operator expansions. Smoking bans in a number of jurisdictions combined with key product approval delays at the beginning of the year also impacted Group sales.

ViridianGen7 was first released to the GLI markets during the second quarter of the year and was available for sale in all other key markets by the end of the year. The *Gen7™* game library has also significantly increased with over 70 game titles now available in GLI jurisdictions with increasing numbers in other key markets. By year end the installed base of ViridianGen7 machines was approaching 6,000 units. Performance of this key new product release has been encouraging with a recent survey of 20% of the installed base showing that overall performance was above both MkVI and floor average.

Software unit sales increased 35.9% to 8,684. This increase was primarily driven by game kits sold via a content distribution agreement into Washington State.

Average selling prices increased 8.4% driven by the higher price point of the ViridianGen7.

The installed base of recurring revenue units increased from 7,473 at December 2007 to 7,785 at year end, with the average installed base increasing by 10.4% albeit at a lower average revenue per day. The installed base and average revenue per day were adversely impacted by the lack of new product released into this category as the Group's key games designers transitioned to ViridianGen7. Average revenue per day on gaming units (hardware and software) declined from US\$44 to US\$37 also reflecting the impact of lower operator revenues as well as the ongoing trend of a lower proportion of jackpot versus non-jackpot machines.

The systems business had another record year with revenue increasing 35.9% to US\$51.9m. In 2008 the Group successfully undertook 20 new installations including 2 in Nevada. Sales of *Sentinel III™* player-tracking interface hardware also remained strong. The Group's *OASIS™* Casino Management System customer base has increased to 250.

The combination of reduced platform sales, lower average recurring revenue per day and the relatively flat fixed cost structure of the business has resulted in a 2.5 percentage point reduction in margin.

Poor economic conditions and the replacement cycle are not expected to show strong recovery in 2009. The Group however, will be in a more competitive position with a strong library of themed participation games scheduled for release over the year (including licenced games *Jaws™* and *Sopranos™* as well as in house developed *Beat the Bandits™*, *Hit the Heights™* and the second edition of *Million\$er™*) and a full year's availability of the ViridianGen7 platform and games library. The *Viridian™ RFX™* stepper is also expected to contribute to earnings following its planned release in the first quarter of 2009. This enables the Group to enter a significant part of the gaming market in which it has not competed to date. The *Viridian™ RFX™* stepper received positive feedback from operators at the G2E trade show in November 2008.

#### South America

| <b>Reported</b> | <b>2008<br/>\$Million</b> | <b>2007<br/>\$Million</b> | <b>Variance<br/>\$Million</b> | <b>Variance<br/>%</b> |
|-----------------|---------------------------|---------------------------|-------------------------------|-----------------------|
| Revenue         | 43.5                      | 23.2                      | 20.3                          | +87.5%                |
| Profit          | 13.4                      | 8.7                       | 4.7                           | +54.0%                |
| Margin          | 30.8%                     | 37.5%                     | -                             | (6.7)pts              |

| <b>At Constant Currency<sup>^</sup></b> | <b>2008<br/>\$Million</b> | <b>2007<br/>\$Million</b> | <b>Variance<br/>\$Million</b> | <b>Variance<br/>%</b> |
|---|---------------------------|---------------------------|-------------------------------|-----------------------|
| Revenue                                 | 40.7                      | 23.2                      | 17.5                          | +75.4%                |
| Profit                                  | 13.8                      | 8.7                       | 5.1                           | +58.6%                |
| Margin                                  | 33.9%                     | 37.5%                     | -                             | (3.6)pts              |

<sup>^</sup> Adjusted for translational exchange rates using rates applying in 2007

Revenue and profit increased significantly, primarily driven by the expansion of the Chilean gaming market with sales to 8 new casinos. As a result, unit sales into the region increased almost 45%. Results from period-to-period are impacted by the timing of revenue and cost recognition given the conservative treatment in the profit and loss. On a full accrual basis, constant currency profit increased 49% year-on-year.

The Group continues to focus its sales efforts on a small but growing number of key accounts, comprising many of the region's principal gaming operators and to selectively add product, including its stepper range to the product library.

Results will remain on a growing trend, but subject to fluctuations depending on the timing of jurisdictional expansions and venue openings.

## Japan

| Reported | 2008<br>\$Million | 2007<br>\$Million | Variance<br>\$Million | Variance<br>% |
|----------|-------------------|-------------------|-----------------------|---------------|
| Revenue  | 214.3             | 91.2              | 123.1                 | +135.0%       |
| Profit   | 52.3              | 5.9               | 46.4                  | +786.4%       |
| Margin   | 24.4%             | 6.5%              | -                     | +17.9pts      |

| At Constant Currency <sup>^</sup> | 2008<br>\$Million | 2007<br>\$Million | Variance<br>\$Million | Variance<br>% |
|-----------------------------------|-------------------|-------------------|-----------------------|---------------|
| Revenue                           | 174.8             | 91.2              | 83.6                  | +91.7%        |
| Profit                            | 43.4              | 5.9               | 37.5                  | +635.6%       |
| Margin                            | 24.8%             | 6.5%              | -                     | +18.3pts      |

<sup>^</sup> Adjusted for translational exchange rates using rates applying in 2007

The pachislot market contracted significantly during 2008 with the pace of decline increasing towards the end of the year. It is currently estimated that there are between 11,000 to 12,000 operators in the market, implying a significant reduction from approximately 17,000 just two years ago. Shipped games for 2008 were also substantially down, estimated at 800,000 to 900,000 units (official figures not available). Due to the declining demand, operators focused their demand on major titles with only small allocations for more minor titles. Despite the prevailing difficult market conditions, the Group's performance significantly improved in the current period, recording its highest share of annual sales, estimated at between 6.0% and 7.0%, since operations were commenced.

Constant currency revenue and profits significantly increased by 91.7% and 635.6% respectively. Unit volumes were the key driver with 57,473 units sold, almost double 2007 volumes. Despite strong operator focus on competitive pricing, the Yen gross margin per unit improved. The overall margin of 24.8% reflects improved absorption of fixed selling costs driven by higher unit sales and the absence of significant inventory write-offs.

Five Regulation 5 games (*Pandora™*, *Tetsuya™*, *Maha GoGoGo2™*, *Kangoku Jack™*, and *Kyojin No Hoshi 4™*) were marketed during 2008. Central brand titles *Kyojin No Hoshi 4™* and *Maha GoGoGo2™* sold a combined total of 52,980 units. These sales of the Group's most successful Regulation 5 game releases to date have firmly established the strength of the Aristocrat brand in the Regulation 5 market.

The rigorous testing process of new game submissions by SECTA continues to determine the dynamics of the market with only some 43% of market game submissions approved, continuing at the low 2007 approval ratio. The Group currently has 2 games approved and a further 6 are in the development/regulatory approval process.

The outlook for the pachislot industry for 2009 is expected to be difficult as final sales of higher volatility pachinko games due to be phased out by 31 March 2009, will absorb operator budgets. The market is likely to remain at similar volumes to 2008. Despite the market's smaller overall size, the Group is optimistic about the prospects for its games scheduled for release with the strong performance of *Kyojin No Hoshi 4™* for operators at the close of 2008 providing a platform for ongoing success.

## New Zealand

| <b>Reported</b> | <b>2008<br/>\$Million</b> | <b>2007<br/>\$Million</b> | <b>Variance<br/>\$Million</b> | <b>Variance<br/>%</b> |
|-----------------|---------------------------|---------------------------|-------------------------------|-----------------------|
| Revenue         | 21.7                      | 25.2                      | (3.5)                         | (13.9%)               |
| Profit          | 8.4                       | 9.5                       | (1.1)                         | (11.6%)               |
| Margin          | 38.7%                     | 37.7%                     | -                             | +1.0pts               |

| <b>At Constant Currency<sup>^</sup></b> | <b>2008<br/>\$Million</b> | <b>2007<br/>\$Million</b> | <b>Variance<br/>\$Million</b> | <b>Variance<br/>%</b> |
|---|---------------------------|---------------------------|-------------------------------|-----------------------|
| Revenue                                 | 22.9                      | 25.2                      | (2.3)                         | (9.1%)                |
| Profit                                  | 8.9                       | 9.5                       | (0.6)                         | (6.3%)                |
| Margin                                  | 38.9%                     | 37.7%                     | -                             | +1.2pts               |

<sup>^</sup> Adjusted for translational exchange rates using rates applying in 2007

The mandated requirement to comply with the introduction of responsible gaming legislation requiring random interruptive Player Information Displays (PID) is approaching the 1 July 2009 deadline. While a number of operators are beginning to upgrade their floors, the vast majority are opting for game conversions rather than cabinet replacement due to capital budget constraints and the desire to retain more "player friendly" grandfathered games as long as possible. The delays in upgrading and the preference for game conversions coupled with the increased competitiveness of the market have driven a decline in revenue (down 9.1%) and profit (down 6.3%) this period.

Compliance with PID requirements is expected to be the key driver of sales during the first half of 2009 with only 45% of the market being PID compliant at 31 December 2008. Post June 2009, the launch of the ViridianGen7 into the Class 4 market is expected to drive steady performance for the Group. Over the longer term, the New Zealand market is expected to remain challenging.

## Other International

| Reported | 2008<br>\$Million | 2007<br>\$Million | Variance<br>\$Million | Variance<br>% |
|----------|-------------------|-------------------|-----------------------|---------------|
| Revenue  | 124.9             | 217.2             | (92.3)                | (42.5%)       |
| Profit   | 44.2              | 80.1              | (35.9)                | (44.8%)       |
| Margin   | 35.4%             | 36.9%             | -                     | (1.5)pts      |

| At Constant Currency <sup>^</sup> | 2008<br>\$Million | 2007<br>\$Million | Variance<br>\$Million | Variance<br>% |
|-----------------------------------|-------------------|-------------------|-----------------------|---------------|
| Revenue                           | 128.8             | 217.2             | (88.4)                | (40.7%)       |
| Profit                            | 44.4              | 80.1              | (35.7)                | (44.6%)       |
| Margin                            | 34.5%             | 36.9%             | -                     | (2.4)pts      |

<sup>^</sup> Adjusted for translational exchange rates using rates applying in 2007

Reported revenue declined 42.5% and profit fell 44.8%. In constant currency terms, revenue decreased 40.7% and profit fell 44.6% driven principally by a significant reduction in results from the Asia-Pacific region.

### (i) Asia-Pacific

Constant currency revenue declined by approximately 55.8%, primarily due to the timing of new venue openings which had been particularly strong in 2007 and an operator overhang of machines in the Macau market following the doubling of slot machine supply over 2007. These machines are expected to reappear on gaming floors over 2009, softening demand for new machine sales in the short term.

Over the first three quarters of the year, revenue growth and visitation in Macau increased in excess of 30% however the fourth quarter saw more modest numbers. This decline is being driven by the economic downturn and the introduction of stricter mainland China visa restrictions. Furthermore, a number of operators have deferred plans to open new facilities with only Melco Crown Entertainment and SJM going ahead with their new property openings in 2009.

The Group continues to maintain its 60% slot ship share in Macau and given game performance the Aristocrat brand is set to retain its share of this key strategic Asian market as new venues open up in coming years.

Sales to the Philippines, Cambodia, Vietnam and Singapore declined moderately compared to 2007 reflecting the economic downturn. With the exception of Cambodia, sales across the region are expected to strengthen into 2009/2010 when a number of new casinos and other venues are scheduled to open. Sales into Cambodia are expected to be impacted by new requirements on gaming venues requiring they be in accommodation hotel premises, furthermore there has also been stronger monitoring of players ensuring they are foreign passport holders.

The ViridianGen7 platform was launched into the region at the G2E Asia Trade Show in Macau in June with strong initial operator interest.

### (ii) Europe

Constant currency revenue and profit for the period were down 33.6% and 58.0% respectively, mainly due to worsening economic conditions driving reductions in discretionary expenditure, smoking bans continuing to adversely impact operator revenues and game approval delays. Despite the unfavourable market conditions, the Group's market share across the region is estimated to have increased modestly.

Initial shipments of the ViridianGen7 platform were made to Bulgaria, Slovenia, Portugal, Germany, Italy and Monaco, with encouraging initial performance figures. The ViridianGen7 platform has driven a 28% increase in average selling price.

During the period, the Group launched a trial of its first arcade style gaming machines in two provinces of Spain. While results were satisfactory, they did not meet the Group's expectations, necessitating a level of redesign. A new game, *Big Red™*, considered to be more suited to local player tastes was placed on trial in early 2009. The success of this product range in Spain will be a key influence on European results for the year.

While conditions across the European market are expected to remain difficult in 2009, increased game approvals and the continued rollout and strong performance of the ViridianGen7 platform across the region are expected to drive market share.

(iii) South Africa

Constant currency revenue and profitability increased by 8.5% and 21.8% respectively driven by increased volumes into both the Casino and Limited Payout market (LPM). 1,800 units, were placed in both the Casino and LPM markets during the period, representing a 13.8% increase over the 2007 year. Although the mix of these sales drove a lower average selling price, overall margins increased 4.2 percentage points.

The Group maintained its casino market share at 26% (41% of video) and its LPM market share of 84% which provides a strong foundation for 2009 with up to 1,000 machines expected to roll out into the Gauteng province, subject to potential challenges on the award of operator licenses in the courts.

To date, South Africa has been largely unaffected by the global financial crisis however local operators have been affected by local market conditions, higher interest rates and inflation and as a result, 2009 is expected to be a more challenging year.

**ACE**

| <b>Reported</b> | <b>2008<br/>\$Million</b> | <b>2007<br/>\$Million</b> | <b>Variance<br/>\$Million</b> | <b>Variance<br/>%</b> |
|-----------------|---------------------------|---------------------------|-------------------------------|-----------------------|
| Revenue         | 19.9                      | 1.5                       | 18.4                          | na                    |
| Profit          | (1.2)                     | (11.6)                    | 10.4                          | na                    |
| Margin          | na                        | na                        | -                             | na                    |

| <b>At Constant Currency<sup>^</sup></b> | <b>2008<br/>\$Million</b> | <b>2007<br/>\$Million</b> | <b>Variance<br/>\$Million</b> | <b>Variance<br/>%</b> |
|---|---------------------------|---------------------------|-------------------------------|-----------------------|
| Revenue                                 | 18.0                      | 1.5                       | 16.5                          | na                    |
| Profit                                  | (1.6)                     | (11.6)                    | 10.0                          | na                    |
| Margin                                  | na                        | na                        | -                             | na                    |

<sup>^</sup> Adjusted for translational exchange rates using rates applying in 2007

ACE develops, manufactures and markets next generation interactive video systems and terminal hardware and software utilizing leading edge server-based gaming technology. The ACE product has been designed for both the Casino (Class III) and video lottery terminal (VLT) markets.

Revenue in the period primarily relates to *TruServ™* system development completed under the Norsk Tipping contract. A pilot was taken into live operation in August 2008 with the rollout of a specially designed terminal (*Indago™*) commencing in November. A total of 6,500 terminals are forecast to be deployed over a 2 to 3 year timeframe, of which 791 were delivered in 2008. Net win per day has modestly exceeded expectations. A smaller installation with Casino Slovakia is also performing well.

The business is continuing to actively pursue and identify other global VLT type opportunities. As a result ACE was able to secure a partnership with leading Gaming Operator COGETECH to jointly enter the Italian VLT market contingent on the approval of enabling legislation, which is expected in the second half of 2009.

In addition ACE is actively pursuing the trialling of its Class III server-based gaming platform (*TruServ™*) in casinos globally. Final approval of the Class III offering is expected from GLI early 2009 for Macau and in the first half 2009 for the US. A number of major US operators are actively negotiating trials during 2009.

#### **Elektronček (50% ownership)**

| <b>Reported</b> | <b>2008<br/>\$Million</b> | <b>2007<br/>\$Million</b> | <b>Variance<br/>\$Million</b> | <b>Variance<br/>%</b> |
|-----------------|---------------------------|---------------------------|-------------------------------|-----------------------|
| Revenue         | 27.6                      | 38.5                      | (10.9)                        | (28.3%)               |
| Profit          | 0.4                       | 10.1                      | (9.7)                         | (96.0%)               |
| Margin          | 1.4%                      | 26.2%                     | -                             | (24.8)pts             |

| <b>At Constant Currency<sup>^</sup></b> | <b>2008<br/>\$Million</b> | <b>2007<br/>\$Million</b> | <b>Variance<br/>\$Million</b> | <b>Variance<br/>%</b> |
|---|---------------------------|---------------------------|-------------------------------|-----------------------|
| Revenue                                 | 27.2                      | 38.5                      | (11.3)                        | (29.4%)               |
| Profit                                  | 0.4                       | 10.1                      | (9.7)                         | (96.0%)               |
| Margin                                  | 1.5%                      | 26.2%                     | -                             | (24.7)pts             |

<sup>^</sup> Adjusted for translational exchange rates using rates applying in 2007

Elektronček trades under the *Interblock™* brandname, manufacturing a range of electro-mechanical multi-station gaming machines including Roulette, Dice, Sic Bo and *G4™ Organic™* products which are sold into gaming markets around the world. Elektronček also operates the Kongo casino in Slovenia.

The majority of sales achieved during the period (86%) were into European markets however these were 39% lower than in 2007 with the major decline being in units sold to Spain, 79% below 2007. In addition, delays in gaining product approvals for G4 product slowed sales in general during the latter end of 2008 while customers waited for the new product range. All markets were negatively impacted by a significant decline in gaming revenues. A decline in the number of casino openings together with reduced investment by existing casino operators in Macau led to sales in Asia being 66% down on last year. Sales to emerging markets mainly in Eastern Europe provided a partial offset to this negative trend with units sold up by 175%. New and emerging markets accounted for 22% of units sold in 2008 compared to 4% in 2007.

In December 2008, Elektronček obtained licenses to manufacture and distribute in Nevada with significant benefits expected to follow once final product approvals are obtained in 2009.