

## **INTRODUCTION**

There is no denying 2010 was a very challenging year for Aristocrat.

In the last few years, the company has had to deal with a number of critical external factors including the global financial crisis.

With weak economic conditions, especially in the United States, customers have become very cautious with their capital spends and their purchases of new equipment. In Australia the strength of the Australian dollar has put considerable pressure on manufacturing industries, including Aristocrat which has created additional challenges for us as a business.

Looking back over several years we also see that the company had lost focus on innovative product and became complacent, which gave our competitors an opportunity to steal market share. We now find that we are facing the most intense competitive conditions ever.

All these factors have contributed in the reshaping of the business's strategic vision, since 2009.

As you know;

- We hired a new CEO and Managing Director, Jamie Odell who made significant changes to the ranks of senior management.
- We embarked on an important business transformation program.
- Management devised its 'Play to Win' strategy which revolves around R&D renewal and creating the world's greatest games.
- We have been very transparent with the market and shareholders but the turnaround will take 3–5 years.
- The Board itself participated in its own renewal and today you see two more new faces for the first time, bringing to five the number of new directors appointed in the past three years.

This morning, I will expand on some of these subjects which I hope will provide you with context to the Board's thinking.

I will then invite Jamie Odell to update you on the transformation journey, and provide also an overview of our latest business performance and outlook.

## **FINANCIAL PERFORMANCE**

Normalised profit after tax and interest was \$54.6 million for the full year to 31 December 2010.

Total dividends paid for the 2010 financial year were 5.0 cents per share, a half a cent increase on 2009. Let me assure shareholders that the Board continues to take a careful and appropriately balanced approach to dividends, in your best interests over both the short and longer term.

We also continue to take a prudent approach to managing debt levels and cash flows. We intend to maintain an annual earnings payout ratio between 50 - 70% in the medium term, and note that total 2010 dividends represented a payout ratio of 49% of normalised earnings.

While the result was in line with our \$50 - \$60 million guidance range to the market, it was nevertheless disappointing and reflects the fact that we are 18 months into a five year program to transform our business. The result does not reflect our full potential.

The numbers certainly do not do justice to the enormous efforts our staff across Aristocrat have applied over the course of the year. It is regrettable that the company hasn't been able to justify bonus payments for the past two years. I want to take this opportunity to thank all of our staff for their commitment and hard work to meet our challenges. Your dedication is greatly appreciated.

I would also like to say a particular thank you to our staff in New Zealand and Japan. What you have experienced over the last few months as you rebuild your lives is unfathomable. Your resilience and positive outlook is an inspiration to us all. Thank you for your commitment during these extraordinary circumstances.

## **RENEWAL**

Change and renewal has been a feature at Board level again during 2010. We were fortunate to welcome David Banks and Kelly Flock to the Board this year, subject to shareholder and regulatory approval. The appointment of Stephen Morro to the Board in late 2009 was also approved by relevant regulators in October and he was confirmed as a Director.

David, Kelly and Stephen have broad and senior gaming industry experience as operators, suppliers and regulators in major markets such as Macau, Japan and North America. We are delighted to have the benefit of their insights, and their experience should make a significant contribution going forward.

Last September, I received regulatory approval for my appointment to the Board of Aristocrat Leisure Ltd, and was subsequently honoured to be asked by my colleagues to assume the role of Chairman.

It is a privilege to serve as Chairman of Aristocrat and I am absolutely committed to working effectively with management to capture our potential and return Aristocrat to a leading position in the global gaming industry.

In the past year our colleagues David Simpson, Penny Morris and Bill Baker retired from the Board as planned. My predecessor David Simpson led the Board through the challenging period that I described earlier, with the best interests of shareholders always at the forefront of his thinking.

I warmly acknowledge the contribution made by David, Penny and Bill to the business over many years and wish them the very best for the future.

Sally Pitkin announced her retirement some weeks ago as a Non Executive Director to take effect at the conclusion of today's AGM.

I want to thank Sally for her substantial contribution to the Board over the past seven years and we wish her all the best as she embarks on new business opportunities.

The Board has commenced a search for Sally's replacement and interviews for a suitable candidate will begin shortly.

With all these changes you have a fresh Board with fresh ideas, energized to rebuild Aristocrat. All directors have spent a great deal of time getting to understand the business, meeting as many employees as possible and reviewing our plans with Jamie Odell and his senior management team.

Our commitment to you, is that Aristocrat, as one of the world's leading gaming businesses with a history spanning more than five decades, will be totally focused on generating benefits for our shareholders, staff and customers over the long term.

## **RESPONSIBLE GAMING**

Many shareholders, particularly those based in Australia, will be aware of the federal government's effort to introduce a pre-commitment system to apply to gaming machines in this country. The process still has some months to run, and the ultimate outcome is difficult to predict at this stage.

Shareholders should however be assured that Aristocrat, both independently and in partnership with our industry associations and customers, has contributed actively and constructively in this debate since its inception. We will continue to provide fact-based advice, to assist in the development of gaming policy that is effective in reducing problem gaming, affordable for customer and players and practical in terms of its implementation. Our vision for the gaming industry – not only in Australia but globally – is that it continues to be vibrant, sustainable and an important part of local communities. Our advocacy on this issue and others is very much in line with this goal.

## **CONCLUSION**

I will conclude on this note. At Aristocrat our purpose is to create the world's greatest gaming experience every day. This will ensure we continue to innovate for years to come, distinguishing between a follower and a leader.

To achieve our vision we must rebuild our creative strength, achieve strong organic growth, encourage leadership, embrace opportunities in emerging markets and more effectively manage business risk. These are the features we will strive for to ensure Aristocrat is positioned for growth and is well placed to chart a successful path through the opportunities ahead.

I would now like to introduce Jamie Odell to comment on the 2010 financial year in more detail.

## INTRODUCTION

Thank you Chairman. The past 12 months have indeed been extremely challenging for Aristocrat. However, despite an unacceptable overall financial result for the year, which I will run through in more depth shortly, there are many reasons for confidence in Aristocrat's growth prospects over the balance of our five-year change window and beyond.

In 2010, Aristocrat embarked on the challenging middle period in our turnaround program, while dealing with the overhang of legacy issues such as the convertible bonds litigation and an entrenched decline in Australian game performance. Weak economic conditions and currency headwinds prevailed, and fast-shifting demand in Australia and Japan exacerbated our lack of competitiveness in those key markets. Importantly, we believe that 2010 represented the most difficult year in our turnaround. This is now behind us, and a number of encouraging signs are beginning to emerge.

In particular, the progress we achieved in those markets and segments where new products were launched over the course of the year validated our strategy and execution capability.

Our sustained dominance in the dynamic markets of Macau and Singapore is one example, built fundamentally on the market-leading performance of our games.

Likewise, our impressive US 2010 share result was largely due to the release of our innovative widescreen products *Viridian WS<sup>TM</sup>* and *Viridian Slant VII<sup>TM</sup>*, which achieved an average price premium well ahead of our existing product. This was a particularly strong result in a contracting and intensively competitive market.

In 2010, we focused all efforts on developing better and more competitive products for each of our core markets and segments, while further reducing costs. Value-adding capability was bolstered, particularly in the areas of technology and innovation, which was fast-tracked during 2010 to leverage across our emerging portfolio.

While the extent and impact of these changes were not visible in the Group's top line results for 2010, they will underpin the improvements we expect to see over the course of this year, and the step-change in performance momentum we plan to deliver in the final phase of our turnaround through to full year 2013.

I would now like to recap some of the key financial performance information we set out at the full year.

The Group delivered normalised profit after tax and non-controlling interest of \$54.6 million for the full year ending 31 December 2010. This result was within the \$50 - \$60 million range previously flagged to the market in November 2010. Net abnormal gains after tax for the period were \$22.6 million, which consisted of the lower than expected final convertible bonds damages settlement, the profit on the sale of Elektronček, a one-off non-cash impairment against gaming operations assets and restructuring costs in the Australian and Japan businesses.

Reported profit (post abnormal items) after tax and non-controlling interest was \$77.2 million for the year ended 31 December 2010, compared to a loss of \$157.8 million in the prior year.

Revenue for the full year was \$684.6 million, 24.7% below the prior corresponding period in reported terms and 16.4% lower on a constant currency basis. Operating cash flow of \$73.6 million was 53.4% below the 2009 result, and 45.1% less in constant currency.

I'd now like to provide further detail on operational performance focusing on our key markets of North America, Australia, Japan and Rest of World as set out in our full year results.

## **NORTH AMERICA**

In 2010, performance in North America was again impacted by challenging economic conditions, which drove weak operator capital spend and a further fall in new venue openings.

Revenue decreased 7.9% to US\$296.8 million, mainly driven by lower sales volumes in a contracting market and a smaller contribution from gaming operations. Profit in North America declined by US\$8.8 million (7.0%) compared to the prior corresponding period.

In outright sales, Aristocrat increased shipshare and achieved an increase in average selling price for the year, despite intense competitive pressure. Outright unit sales fell 7.3% compared to the prior period, however the total market is estimated to have declined by 12%.

Throughout 2010 we continued to invest in developing our systems product to add functionality and optimise our existing customer base, thereby decreasing our reliance on new casino openings and expansions to drive revenues in future.

## **AUSTRALIA**

In Australia, 2010 results were unacceptable. Sales performance fell due to the lack of a widescreen offering, weak game performance in New South Wales and Queensland, and a portfolio that was too heavily focused on one cent games. Revenue for the year declined 33.8% and profit fell 68.3% compared to the prior corresponding period.

Positively, a number of new products and games showcased at the Australasian Gaming Expo 2010 achieved solid sales and performed well in the market through the second half.

Products such as *FA FA FA link™*, *Players Choice Class Act™* and *Rose Tattoo™* continue to perform well.

A comprehensive rebuild of our Australian portfolio began in 2010, with a raft of new games and products tailored to suit the needs of the Australian market scheduled for release through 2011 and 2012.

## **JAPAN**

Turning to the Japan market, firstly I just want to briefly touch on the current situation following the devastating earthquake and tsunami. The safety of our staff and their families is our first priority and we would like to reassure our shareholders that we will continue to provide them with all the necessary support as they deal with this tragedy.

As we confirmed in March, our operations in Japan were not directly affected and our Tokyo office remains operational. In terms of our business plan, as we have previously said, our key launches for the year are scheduled for the second half. We are continuing to monitor the situation and we will keep the market informed as required.

Returning now to the 2010 result, while economic conditions in Japan remained soft, over the course of the year pachislot demand grew. However, Aristocrat did not benefit from this lift, as market demand shifted and our legacy product was uncompetitive.

Revenue of ¥3.8 billion was achieved in 2010, representing a decline of 54.7% compared to the prior corresponding period, and unit volumes fell 52.0%.

Profits slipped 69.4%, reflecting the significant revenue decline and the impact of a relatively fixed cost base.

The acquisition of the Spiky brand was bedded down during the second half of the year, improving our regulatory approval performance and reducing this potential constraint on the business.

The concentration of operator spend on the top four or five titles released during the year validates our strategy to generate sustainable returns in Japan by delivering bigger and better key licensed game titles to the market on a consistent basis. The business continued to implement this strategy throughout 2010, with a raft of improvements made to support game development capability and efficiency.

## **REST OF WORLD**

With regards to our other markets, firstly I would like to comment on our performance in the dynamic Asia Pacific region.

Aristocrat again outperformed, with revenues up 63.4% and profits up 58.2% in constant currency compared to corresponding 2009 results. Strongly performing games such as the Hyperlink games *Fa Fa Fa* and *Yellow Dragon* helped to consolidate our leading position in the Macau market. Aristocrat also secured a dominant share of high profile new openings in Singapore over the course of 2010.

Our leading presence in these markets is a great strategic strength for us. We have achieved this by executing our strategy, that is, by tailoring our games to the needs of local operators and players, leveraging exciting new technologies and ensuring they are as competitive as possible. Our success in this region reinforces our confidence in our broader turnaround plan and our ability to execute effectively.

Our Aristocrat Lotteries business, formally known as ACE, extended its presence in Europe, entering the Italian market and rolling out our product for the Cogetech contract late in the fourth quarter of 2010.

Aristocrat is the first major class 3 gaming manufacturer to achieve approval from Italian regulators. Last month we were also the first to receive approval for a second tranche of games that will further enhance the competitiveness of our product offering in this important market.

In 2010, Aristocrat also established an Emerging Business Unit to pursue potential growth segments and strategic opportunities in a disciplined and focused way. This division includes the Aristocrat Lotteries business as well as game content to licensed operators in European street markets, and online game offerings.

## **OUTLOOK AND FUTURE**

Turning now to outlook and the future.

In 2011 we expect most markets to remain subdued. Based on current insights our guidance is that Aristocrat's net profit after tax ("NPAT") is expected to be 10%-20% ahead of the corresponding 2010 performance. This guidance assumes stronger operational performance partially offset by foreign exchange translation, higher interest costs and a higher effective tax rate. We anticipate that performance will be heavily skewed towards the second half, as new product releases gain momentum.

For the first half of 2011, Group operational performance ("earnings before interest and tax") is expected to be marginally lower compared to the prior corresponding period on a constant currency basis. Unfavourable foreign exchange rates are expected to drive a larger variance to reported EBIT. Increased interest costs, due to higher levels of debt following the settlement of convertible bonds damages in 2010, are expected to materially reduce NPAT compared to the prior corresponding 2010 half year period.

The Group anticipates that operational performance should build in the second half of 2011 through further major new participation game releases and new systems modules in North America, more new product launched in Australia and two key licensed games currently scheduled for release in Japan in the second half. By full year 2011, we will be two full years into our 3-5 year change program. Product portfolios across our key markets will be steadily improving, and the business will be well placed to grow over the balance of our turnaround window.

In North America we are excited by new gaming operations products particularly Tarzan and Godard's Rockin' Olives both on our sleek new VERVE *hd* cabinet which includes our advanced Gen7X platform.

This platform delivers a host of game-play enhancements, including true high definition graphics, 3D digital sound, interactive edge lighting and our industry-leading full LCD button deck. Orders have been healthy, and while it is early days performance is well above historical levels.

This is a great example of the step-change in product quality we are beginning to deliver in North America.

Over the full year, we are targeting an uplift in our gaming operations installed base and an increase in our average fee per day result. We also expect to maintain shipshare in outright sales with higher margins, and achieve revenue growth in our systems business through delivery of new modules.

In Australia, we are implementing a fundamental revitalization of our product portfolio. The first major launch in our plan was a tailored widescreen product released in NSW and Queensland in late February. Our order book is healthy and sales momentum is growing.

Whilst it's early days, signature titles such as Jaws in Queensland and Phantom in NSW are delivering above average floor performance. We have a strong library of new products supporting NSW our biggest market, these include Dragon Emperor, Jackpot Catcher, Stuck On You and in the mid denomination category Gold Bullion.

The widescreen launch is being supported by an expanding games library which will grow through the second half of 2011 and into 2012. As of last week we now have a library of 18 widescreen titles approved for sale.

As published by NSW Club data online, I am pleased to say Aristocrat had five out of the 17 top performing new games for the month of March. Phantom was the number one game followed by Jackpot Catcher and Dragon Emperor; plus two 19 inch viridian products, Paws of Fortune and Wild Tooth.

While early days, on the strength of these advances, we expect to see a significant improvement in Australian performance compared to the 2010 result, with shipshare for the full year recovering to a mid-thirties figure.

In Japan, our scheduled key licensed releases will occur in the second half, and we continue to target sales of 25,000 units for the full year. Our work to revamp our portfolio of games and products is continuing, with a new cabinet set for release in the second half that incorporates a raft of improvements along with new technology.

We continue to flag that translation of foreign earnings to Australian dollars has the potential to materially impact reported results for both the half and full year in 2011. As you would have observed, we are in unprecedented territory with the Australian dollar reaching record highs against the US currency. However we as a business continue to look at the exchange rate for the full year. A 1 cent movement in the Australian dollar impacts our annual NPAT by approximately \$1 million. In the first half of 2010, the Australian dollar averaged at 88.8 cents against the US dollar. Our NPAT guidance assumes an average Australian to US dollar exchange rate of 1.00 for the full year.

## **CONCLUSION**

In conclusion the improvements we expect to demonstrate by the end of 2011 will be founded on a fundamental and sustainable lift in our game quality and competitiveness. As I said at the outset of our turnaround, we are focused on sustainable growth – not one-off benefits.

Further, we continue to expect a step-change in performance in 2012, as we enter the final phase of our turnaround program, with momentum consolidating through to the end of our change window at full year 2013.

Overall, we are encouraged by the progress we experienced during 2010 and indeed early in 2011 in those markets and segments where we launched new products in line with our strategy.



I am pleased to announce this morning the appointment of Rich Schneider as our Chief Product Officer. Rich will play a critical leadership role in the next stage of our turnaround strategy and will lead all aspects of product design, product management and marketing activities as well as overseeing the critical output from our studios.

Rich comes to us with a wealth of gaming experience which spans over two decades. Throughout his career he has held various roles which included responsibility for product strategy and management, software and hardware engineering, as well as design studios. I look forward to welcoming Rich to Aristocrat where he will officially join us on the 28<sup>th</sup> of July.

It is clear that momentum is improving, and by the end of this year, we continue to expect our product portfolios in all key markets to contain a critical mass of exciting new products, developed to suit local tastes and leveraging significantly better technology.

Over the course of the year, I'm confident we will see more evidence of better games and stronger product portfolios delivering value for the business. I look forward to updating shareholders in August on our progress against the success metrics we have set ourselves.

Our business transformation relies heavily on effective leadership throughout the organisation, and for this reason we continue to invest in developing our high potential people and embedding a high performance culture across the business.

Over the last few months a number of our key employees completed an intensive leadership course. It was designed to challenge and stretch our people as leaders. I believe that such investment in our people is critical to our business transformation.

On a personal note, I am genuinely excited by the future of this company. I am delighted to be working with the new Chairman and Board of Directors. I am proud to have been given the opportunity to lead a high calibre executive team with a mandate for change and I appreciate the commitment and loyalty of all our employees in driving this business transformation program. And finally, I am committed to creating value for you, our shareholders, in the months and years ahead.