



**Management discussion and analysis
for the 12 months ended 31 December 2006
Aristocrat Leisure Limited
ABN 44 002 818 368**

Summary

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

	2006	2005	Variance	
	\$Million	\$Million	\$Million	%
Total Revenue from Ordinary Activities	1,094.7	1,317.0	(222.3)	(16.9)%
Earnings Before Interest and Tax (EBIT)	335.3	358.4	(23.1)	(6.4)%
Profit After Tax	240.1	244.3	(4.2)	(1.7)%
Profit After Tax and Minority Interest	239.0	244.3	(5.3)	(2.2)%
Net Working Capital/Revenue	7.7%	3.4%	n/a	(4.3) pts
Operating Cash Flow	204.8	393.2	(188.4)	(47.9)%
Closing Net (Debt)/Cash	(40.8)	183.7	(224.5)	(122.2)%
Earnings Per Share (Fully Diluted)	50.9 c	51.1 c	(0.2) c	(0.4)%
Total Dividends Per Share	36.0 c	30.0 c	6.0 c	20.0%

Overall market and regulatory conditions across global gaming markets remained difficult throughout the year. Of particular note, Japanese revenue declined \$323.3 million and Segment Contribution Profit fell \$93.6 million as the transition to new industry regulations (“Regulation 5”) caused short-term uncertainties in the entire market.

Despite these adverse conditions, the Company’s North and South American, Asia Pacific, European and South African businesses experienced strong growth and improved profit contributions, offsetting much of the unfavourable impact of Japan.

Total Revenue decreased 16.9% to \$1,094.7 million while EBIT fell 6.4% to \$335.3 million. However, excluding Japan, Management Revenue and Segment Contribution Profit increased 14.3% and 26.7% respectively (refer Segment Results).

Operating cash flow decreased 47.9% to \$204.8 million, representing 18.7% of revenue. As flagged at the beginning of the year, operating cash flow was significantly impacted by the unwinding of the phasing of receipts and payments associated with the release of *Kyojin-no-hoshi 3™* in Japan which had favourably benefited cash flows in the prior year. In addition, higher tax payments primarily from supplementary payments in 2006 as a result of a favourable instalment rate in the prior year and the higher 2005 profit also impacted cash flow. After adjusting for the estimated \$100 - \$110 million impact of these timing differences, operating cash flow approximated \$310 million, or 28.3% of revenue.

At period end, debt exceeded cash on hand by \$40.8 million, a \$224.5 million turnaround from the net cash position at 31 December 2005. This reduction reflects the unwinding of prior year cash flow timing differences together with the \$153.5 million spent on acquisitions and \$239.9 million returned to shareholders through dividends and other capital management initiatives during the year. The Company continued to acquire shares under both its on-market share buy-back program and in satisfaction of outstanding contingent obligations under employee share based remuneration plans during the year. A total of 7.4 million shares, representing 1.6% of outstanding shares, were acquired at a cost of \$90.6 million under these programs during 2006.

A combination of lower earnings and a lower weighted average number of shares saw fully diluted earnings decrease by 0.4% to 50.9 cents per share.

In summary, while the market situation in Japan for the majority of the year was disappointing, the strong performance of the Company's other businesses, particularly North and South America, Asia Pacific, South Africa and Europe have enabled the Company to report a full year result only 2.2% lower than the prior year despite the \$93.6 million EBIT turnaround in Japan.

Income Statement

(Analysis throughout this section refers to the results reported on a management reported basis*).

The Company reported a full year Profit After Tax and Minorities of \$239.0 million. This result represents a small decline on the \$244.3 million profit reported in the prior year.

The operating results for the year are summarised below.

- Segment Results

Full year	Segment revenue			Profit / (loss)			% Margin		
	2006	2005	Var	2006	2005	Var	2006	2005	Var
	\$m	\$m	%	\$m	\$m	%	%	%	Pts
Segment results									
Australia	276.2	271.1	1.9%	109.7	106.8	2.7%	39.7%	39.4%	0.3
North America	565.2	498.9	13.3%	252.4	182.3	38.5%	44.7%	36.5%	8.2
South America	27.5	13.5	103.7%	12.2	4.9	149.0%	44.4%	36.3%	8.1
New Zealand	26.6	37.3	-28.7%	11.5	15.0	-23.3%	43.2%	40.2%	3.0
Japan	50.4	373.7	-86.5%	(5.6)	88.0	-106.4%	-11.1%	23.5%	(34.6)
Other international ^h	127.5	105.8	20.5%	42.5	31.7	34.1%	33.3%	30.0%	3.3
ACE Interactive	2.4	-	n/a	(7.4)	-	n/a	-308.3%	-	n/a
Electroncek ^g	34.0	-	n/a	10.6	-	n/a	31.2%	-	n/a
Total segment results	1,109.8	1,300.3	-14.7%	425.9	428.7	-0.7%	38.4%	33.0%	5.4
Total segment results (excl. Japan)	1,059.4	926.6	14.3%	431.5	340.7	26.7%	40.7%	36.8%	3.9
Unallocated expenses							% Revenue		
Research and development				(95.2)	(65.8)	44.7%	-8.6%	-5.1%	(3.5)
Foreign exchange				(0.1)	2.0	-105.0%	0.0%	0.2%	(0.2)
Corporate / other				7.9	(6.5)	-221.5%	0.7%	-0.5%	1.2
Net non-recurring items				0.2	-	n/a	0.0%	-	n/a
Total unallocated expenses				(87.2)	(70.3)	24.0%	-7.9%	-5.4%	(2.5)
Earnings before interest and tax				338.7	358.4	-5.5%	30.5%	27.6%	2.9
Interest				(2.4)	5.6	-142.9%	-0.2%	0.4%	(0.6)
Profit before tax				336.3	364.0	-7.6%	30.3%	28.0%	2.3
Income tax				(96.2)	(119.7)	-19.6%	-8.7%	-9.2%	0.5
Profit after tax				240.1	244.3	-1.7%	21.6%	18.8%	2.8
Minority interest				(1.1)	-	n/a	-0.1%	-	n/a
Profit after tax after minority interest				239.0	244.3	-2.2%	21.5%	18.8%	2.7

^h Management reported basis includes the Company's share of associate company Revenue, Segmental Profit (EBIT), Interest and Tax on their respective lines. On a statutory reported basis, the Company's share of associate company Profit after Tax is included as a one line income item only. In the prior corresponding period, statutory and management results were the same, as the Company did not have any investment in associate companies at that time.

^g Other international revenue and profit excludes the sale of a 28% minority interest in the South African business

- Segment Revenue

Total Segment Revenue decreased by \$190.5 million (down 14.7%) to \$1,109.8 million primarily as a result of the decline in Japan. Excluding Japan, Segment Revenue increased by 14.3%. After adjusting for the impact of foreign exchange rates compared to the prior year, underlying local currency revenue growth (excluding Japan) was \$134.4 million or 14.5%.

Apart from Japan and New Zealand, all businesses increased revenue. After three years of declines, Australian revenue increased, albeit marginally (1.9%, \$5.1 million), despite the maturity of the market and the continuation of the difficult operating environment as sentiment showed early signs of improvement. North American revenue increased (13.3%, \$66.3 million), primarily driven by improved pricing, in a relatively subdued market. South American revenue increased (103.7%, \$14.0 million) off a relatively low base due to increased sales to key accounts under the Company's low risk distribution policy. In New Zealand, revenue declined (28.7%, \$10.7 million) principally due to the continuing fall in the installed base of gaming machines and the impact of new restrictions which limited new product demand. In Japan, revenue fell (86.5%, \$323.3 million) to \$50.4 million as a result of market issues associated with the transition to Regulation 5. Although one new Regulation 5 game (*Kaido-oh*TM also known as *Bakuretsu-oh 2*TM) was released towards the end of the year, generating sales of 10,100 units, demand for Regulation 5

games was generally limited. The balance of Japanese revenue represents residual sales of *Kyojin-no-hoshi 3™*, which was launched in 2005.

In other international regions, revenue performance was positive with Asia Pacific reporting strong growth as the Company continued to capture a significant share of this rapidly expanding market. South African revenues increased by 12.3% compared to the prior period while European revenues increased by 3.9% despite the Russian market being stalled.

Revenue contributions were also made by the Company's newly acquired businesses during the year. ACE Interactive, a start-up business which was acquired on 5 May 2006, made a small revenue contribution (\$2.4 million), while the Company's 50% share of Elektronček's revenue, since acquisition on 27 January 2006, amounted to \$34.0 million.

These results are discussed in more detail in the Business Segment Review.

- Earnings

Management EBIT declined by 5.5% or \$19.7 million compared with the prior year. Excluding the Japanese segment, Segment Contribution Profit increased by 26.7% to \$431.5 million.

The overall improvement in contributions from non-Japanese business segments was predominantly driven by the North American business where profitability increased by \$70.1 million. Increased Segment Contribution Profit was also reported for all other non-Japanese business segments except New Zealand where margin increases were not sufficient to offset sharply lower revenue. The Company's 50% owned multi-terminal business (Elektronček) contributed \$10.6 million to EBIT, representing a 31.2% margin on revenue. The aforementioned market regulatory transition issues resulted in the Japanese business reporting a segment loss of \$5.6 million, a \$93.6 million turnaround on the prior year. This result includes a \$7.4 million provision for inventories of unique parts of *Kyojin-no-hoshi 3™*.

Overall non-Japan business segment margin improved by 3.9 points to 40.7%, with all business segments improving profitability relative to sales. This seventh consecutive reporting period of overall Segment Margin improvement continues to reflect improved product mix, higher average selling prices and the on-going focus on cost control and leverage of business infrastructure.

Net unallocated expenses increased \$16.9 million (up 24.0%). This primarily results from an increase of \$29.4 million (44.7%) in research and development costs offset by an improvement in net Corporate/other costs (reflecting lower legal costs and improved supply chain efficiency). Higher research and development costs result from an increase in new product delivery output, investments in new technologies and the acquisition of ACE Interactive. As a percentage of management revenue, research and development expenditure rose to 8.6% for the year compared to 5.1% for 2005.

Two one-off items are also included within net unallocated expenses, although these net to only a \$0.2 million gain on a pre-tax basis (net gain of \$1.7 million on a post-tax basis). The first item results from the recognition of a pre-tax \$6.0 million (post-tax \$4.5 million) expense associated with inter-group loans related to the Company's convertible bonds. This non-cash accounting adjustment is required under International Accounting Standards on the realisation of amounts held in the foreign currency translation reserve. The second item relates to the recognition of a \$6.2 million (pre and post-tax) profit on the sale of 28% of the Company's South African business.

Interest expense exceeded interest income by \$2.4 million, compared to net interest income of \$5.6 million in the prior year, reflecting the reduction in the Company's average cash balances and the move into a net debt position at year end.

- Tax

The effective tax rate for the year of 28.6% is lower than the 2005 effective tax rate of 32.9% as a result of the impact of tax losses incurred in Japan where marginal tax rates are 42.0%, the benefit of research and development tax concessions on higher spend and the non-taxable gain on the disposal of a minority interest in the South African business.

The franking outlook continues to remain positive and as a result, the 2006 interim dividend paid in September 2006 was fully franked. The 2006 final dividend payable on 23 March 2007 will also be fully franked. However, while the franking outlook continues to be generally positive, given the international structure of the Company and the increasing proportion of offshore earnings, it is not possible to reliably determine the extent to which future dividends will be franked.

Earnings Per Share

The Company's Profit after Tax, combined with a reduction in the weighted average number of shares (as a result of the impact of the Company's capital management initiatives), has resulted in fully diluted earnings per share declining by 0.2 cents (down 0.4%) to 50.9 cents. Basic earnings per share decreased by 0.2 cents to 51.2 cents (down 0.4%).

Balance Sheet

The Balance Sheet can be summarised as follows:

	2006	2005
	\$Million	\$Million
Net Working Capital	83.9	44.9
Other Current/Non-Current Assets	80.5	83.2
Property, Plant and Equipment	117.9	116.5
Investments in Associate and Other Companies	93.2	-
Intangibles	146.4	76.2
Other Current/Non-Current Liabilities	(111.9)	(128.6)
Net Tax Balances	(4.2)	(24.3)
Funds Employed	405.8	167.9
Net (Debt)/Cash	(40.8)	183.7
Shareholders' Funds	365.0	351.6

Net Working Capital increased from \$44.9 million at 31 December 2005 to \$83.9 million. This increase, which was flagged at the time of the Company's 2005 full year results, was largely driven by unwinding of a particularly favourable opening position arising from the phasing of payments and receipts associated with last year's sale of *Kyojin-no-hoshi 3™* in Japan. The overall result was also favourably impacted by strong collections in Australia following solid sales in the last quarter of 2005 and a fall in inventory levels as a result of efficiencies in the supply chain, offset by higher year-end receivables in the Americas due to a greater proportion of sales in the final quarter. Overall, inventory levels (excluding Japan) declined 3.5%. Net Working Capital as a percentage of the last 12 months' revenue increased from an abnormally low 3.4% at 31 December 2005 to 7.7% at 2006 year end, remaining well within the Company's stated 10% target. Net Working Capital in individual months remain subject to fluctuation as a result of particular trading initiatives such as major product launches.

Property, Plant and Equipment increased marginally reflecting total capital expenditure of \$36.9 million, offset by depreciation. Total capital spend on participation units was a modest \$15.8 million as a result of the small net increase in the installed base with on-going "stay-in-business" capital expenditure amounting to \$21.1 million.

Investments represents the Company's 50% holding in Elektronček and 19.2% in PokerTek, Inc. (NASDAQ: PTEK), both of which were acquired during 2006.

Intangible assets have increased by \$70.2 million since 31 December 2005. This is primarily due to the acquisition of ACE Interactive.

Other Liabilities decreased \$16.7 million to \$111.9 million as a result of lower progressive jackpot liabilities in North America combined with lower revenue billed in advance.

Net Tax Balances decreased as a result of the \$115.4 million of tax payments made in the year in respect of income tax obligations rising from the record 2005 profit result, offset by taxes payable on the current period profit.

In overall terms, Shareholders' Funds increased from \$351.6 million at 31 December 2005 to \$365.0 million. This change reflects the \$239.0 million profit for the period offset by \$149.3 million of dividend payments, a \$34.6 million reduction in equity arising from shares bought back and a \$43.2 million movement in reserves primarily related to share based payments.

Statement of Cash Flows

Effective cash flow management continues to be one of the Company's key strategies. As previously noted, cash flow for the year was negatively impacted by the unwinding of prior year timing benefits, which impacted operating cash flow by approximately \$100 million.

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

	\$Million	\$Million
Net cash - opening balance	183.7	119.6
EBIT	335.3	358.4
Depreciation and amortisation	31.4	39.7
EBITDA	366.7	398.1
Non-cash adjustments:		
- Net (profit)/loss on sale of non-current assets	0.8	(0.1)
- Share of Elektronček profit after tax	(7.2)	-
- Net profit on sale of interest in subsidiary	(6.2)	-
- Transfer from foreign currency translation reserve	6.0	-
- Net foreign exchange differences	(1.3)	2.5
- Expensing of costs of share-based payments	9.6	7.7
Net interest (paid)/received	(0.4)	6.6
Net tax paid	(115.4)	(65.9)
Change in operating assets and liabilities	(47.8)	44.3
Net cash inflow from operating activities	204.8	393.2
Payments for acquisitions	(153.5)	-
Net cash outflow from other investing activities	(36.1)	(36.9)
Proceeds from sale of interest in subsidiary	8.2	-
Loans to non-related parties	(9.0)	-
Proceeds from exercise of options	7.1	15.2
Payment for capital return	-	(100.4)
Payments for shares bought back	(34.6)	(102.4)
Payments to employee share trust	(56.0)	(26.0)
Dividends paid	(149.3)	(66.7)
Net repayment of borrowings	(5.8)	(0.1)
Movement in net cash	(224.2)	75.9
Effect of exchange rate changes on net cash	(0.3)	(11.8)
Net (debt)/cash - closing balance	(40.8)	183.7

The lower EBITDA result, coupled with a \$49.5 million increase in tax payments, lower net interest receipts, and an estimated \$60 - \$70 million unwinding of prior year favourable working capital timing differences drove operating cash flow down \$188.4 million (47.9%) to \$204.8 million.

Payments for acquisitions represents investments in Elektronček, PokerTek, Inc. and ACE Interactive, while total spend on other investing activities remained in line with the prior year.

A total of \$34.6 million was spent acquiring approximately 2.9 million shares under the Company's share buy-back program during the year. The Company also spent \$56.0 million acquiring approximately 4.4 million shares to satisfy obligations under employee share-based remuneration plans.

The overall impact of changes in foreign exchange rates since 31 December 2005 amounted to only \$0.3 million.

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

Dividends

A final dividend in respect of the year ended 31 December 2006 of 24.0 cents per share (\$112.3 million) has been declared and will be paid on 23 March 2007 to shareholders on the register at 5.00pm on 9 March 2007. This dividend will be fully franked. The Directors have determined that the Dividend Reinvestment Plan (“DRP”) will operate in respect of this dividend for shareholders resident in Australia and New Zealand, with shares acquired on-market to satisfy those shares to be provided under the Plan. No discount will apply in determining the DRP issue price.

An interim dividend of 12.0 cents per share (\$56.1 million), fully franked, was paid on 19 September 2006.

The total dividend paid in respect of the 2006 year amounted to 36.0 cents per share, fully franked, representing a 71% payout ratio and a 20% increase on the total dividend payout of 30 cents per share in 2005.

Capital Management

Given the Company’s strong underlying cash flows and financial position, it has continued to proactively evaluate and initiate capital management opportunities. The Company’s overall strategic capital management objectives remain unchanged, namely to maintain a conservative funding structure, which provides sufficient flexibility to fund the operational demands of the business and to underwrite any strategic opportunities.

Taking this into account, the Company has continued to progress a number of capital management initiatives during the year:

- in August 2005, the Company announced its intention to acquire shares on-market through the Aristocrat Employee Equity Plan Trust (“AEEPT”) in anticipation of satisfying outstanding contingent obligations in respect of share-based remuneration plans. In doing so, the Company mitigates the dilutionary impact of share issues which would otherwise be necessary to satisfy such obligations as they crystallise. In the year ended 31 December 2006, a total of approximately 4.4 million shares at an average price of \$12.70 per share (total cost \$56.0 million) were purchased. This brings the total number of shares acquired under this program to 6.6 million shares of which 2.0 million shares had been allocated at the end of the year. Vested and unvested commitments at 31 December 2006 amounted to 5.2 million shares, of which the AEEPT held 4.6 million shares. The Company will continue to consider further purchases as necessary to mitigate the dilutionary impact of any further share-based remuneration grants.

- in November 2005, subsequent to the conclusion of the Company's first \$100 million share buy-back program, the Company announced a further \$100 million share buy-back program. As at 31 December 2006, approximately 4.0 million shares at an average price of \$11.93 per share (total cost \$47.6 million) had been acquired under this second buy-back, leaving the program 47.6% complete. In December 2006, the Company announced a 12 month extension to the timeframe (to December 2007) over which the second buy-back will run.
- in April 2006, the Company established an additional USD200 million (A\$253 million) Letter of Credit Facility to provide additional strategic and capital management flexibility. Including this new facility, total available facilities amount to \$575 million.
- During the year, the Company entered into "Receipt and Release Agreements" with all but three of the holders of the Company's convertible bonds ("Bonds"). Under these agreements, the Company paid those holders a sum representing an amount equal to their respective pro-rata shares of the principal amount of the Bonds. The Company also entered into an agreement with one bondholder under which the Company resolved that bondholder's claim by paying a total of approximately USD1.1 million being principal and interest to maturity (30 May 2006). An amount of USD0.5 million, equal to the remaining principal, was subsequently deposited in Court. The Company funded these payments, totalling approximately USD130 million, from cash and bank facilities. Details of the Bond litigation are set out in Note 25 of the Financial Statements.

The Company is confident that it retains ample financial flexibility and its actions are consistent with its overall capital management objectives. The outlook for cash flow remains positive, with the business requiring limited capital investment to grow organically combined with tight controls over working capital and continued focus on cash flow management. The Company will continue to proactively review capital management initiatives on an on-going basis.

Bank Facilities

The Company had committed bank facilities of \$300 million and a USD200 million Letter of Credit facility at 31 December 2006, of which \$164.3 million was drawn. The Company remains confident that, given the strong cash generation of the business and the current cash on hand balance, these facilities remain adequate to meet the on-going requirements of the business and provide sufficient flexibility to enable the Company to execute strategic opportunities as they arise.

Debt Ratios

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

Ratio	31 December 2006	31 December 2005
Debt/EBITDA*	0.4 X	0.4 X
Net Debt (Cash)/EBITDA*	0.1 X	(0.5) X
EBITDA*/Interest Expense*	24.3 X	35.4 X
Debt/Equity	45.0%	50.0%
Net Debt (Cash)/Equity	11.2%	(52.3)%

* EBITDA and Interest Expense are based on the preceding 12 months results

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

Credit Rating

Standard & Poor's upgraded the Company's credit rating in May 2006 from BB+ to BBB- which is investment grade, reflecting the Company's strong strategic, operational and financial position and outlook.

Foreign Exchange

Individual assets and liabilities denominated in foreign currency have been impacted by movements in foreign exchange rates since 31 December 2005. In net terms, however, the impact of the re-translation of foreign denominated assets and liabilities taken to the foreign currency translation reserve amounted to only \$2.5 million.

The Company applies exchange rates prevailing at the reporting date in translating the overseas balance sheets of controlled entities. The Company translated profits earned offshore at the month end rate for each month.

In the current period, Total Revenue from ordinary activities and Profit after Tax were favourably impacted by \$3.9 million and \$1.8 million respectively as a result of the translational impact of changes in foreign exchange rates compared with the twelve months ended 31 December 2005. The transactional foreign exchange impact is complex and has not been quantified for this report, as this is subject to on-going change given the difficulty in assessing the actual realisation of timing differences of the various currency cash flows and their recognition through the Income Statement. These exposures do however remain subject to active monitoring and risk management.

Despite the existence of partial natural hedges reducing the transactional impact of foreign exchange movements on profitability, the Company's reported results will still be subject to fluctuation in total and at individual reported income and expense levels as the Australian dollar translated equivalent of foreign denominated amounts varies as exchange rates change. Translational exposures are accounting in nature and are not hedged, other than naturally where possible.

Based on the Company's 2006 mix of profitability, the major exposure to translational foreign exchange results from the Company's USD profits. A USD 1 cent change in the USD/AUD exchange rate results in an estimated \$1.9 million translational impact on the Company's reported Profit after Tax. This impact will vary as the magnitude of overseas profits change.

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

AUD:	31 December 2006	31 December 2005	Average* 2006	Average* 2005
USD	0.7913	0.7370	0.7574	0.7645
NZD	1.1216	1.0871	1.1609	1.0946
JPY	94.13	87.48	87.99	85.31
EUR	0.6012	0.6283	0.5991	0.6234

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

BUSINESS SEGMENT REVIEW

In this review, Segment Contribution Profit/(Loss) represents segment results before charges for licence fees, R&D expenditure, corporate expenses, international service recharges, advance pricing agreements, and any impairment of intangibles and other non-trading assets.

Australia

	2006 \$Million	2005 \$Million	Variance \$Million	Variance %
Segment Revenue* †	276.2	271.1	+5.1	+1.9%
Segment Contribution Profit	109.7	106.8	+2.9	+2.7%
Segment Margin	39.7%	39.4%	-	+0.3 pts

* Refer to Note 4 in Financial Statements

† Australian Segment Revenue excludes inter-segment sales

Segment Revenue increased by 1.9% to \$276.2 million, following three years of period-on-period declines. Segment Contribution Profit increased by 2.7% to \$109.7 million and Segment Margin increased by \$2.9 million (0.3 pts). These improvements reflect the first signs of a positive change in market sentiment, the continuing success of the Company's premium product portfolio, particularly its range of *Hyperlink*TM products and new double stand alone progressive offerings.

The market continues to remain a particularly difficult one, characterised by operator uncertainty arising from regulatory measures including the impact of progressive smoking restrictions. The resolution of the Club tax debate with the New South Wales (NSW) Government has improved the confidence of the NSW club market which saw an increase in investment in gaming products during the second half with the average replacement cycle across Australia improving slightly from historic lows.

In overall terms, platform volumes increased 6.7% to 7,754 units, while games revenue increased 6.4%. Sales were driven by key new products including *Multi Link*TM *Hyperlink*TM *Cash Express*TM, double stand alone progressives *Outback Jack*TM and *Mr. Woo*TM, *Power Pay*TM games and a number of standalone titles such as *100 Lions*TM (a 100 line game), *Dragon Magic*TM and *Macaw Magic*TM, all of which have performed strongly.

The Company's *Xtreme*TM *MysteryLink*TM and *Player's Choice*TM multi-game products continue to perform well. During the year, *Xtreme*TM *MysteryLink*TM was licensed to *UNITAB Limited* to use on its NSW state-wide linked jackpot system under the *Inca Fortune*TM theme.

The Company's strategy in this challenging, mature and highly regulated operating environment is to continue to focus on innovative premium product offerings and the development of a recurring revenue business model. While the market is expected to remain difficult in the short term, sentiment is expected to improve over the next few

years and the Company is well positioned to benefit from upside developments as they arise.

The Americas

North America

	2006 \$Million	2005 \$Million	Variance \$Million	Variance %
Segment Revenue*	565.2	498.9	+66.3	+13.3%
Segment Contribution Profit	252.4	182.3	+70.1	+38.5%
Segment Margin	44.7%	36.5%	-	+8.2 pts

* Refer to Note 4 in Financial Statements

Segment Revenue increased by 13.3% and Segment Contribution Profit increased by 38.5% in a market where overall volumes were relatively subdued. Segment Margin improved 8.2 pts to 44.7% primarily reflecting the benefits of improved pricing on flat cost structures.

Overall platform unit sales increased by 1.2% to 17,829 units, despite running 6.7% behind the prior corresponding period at the half year and technical issues which prevented the full commercial launch of the business's stepper (mechanical reel) product. The Company continues to increase its share of Class III unit sales in the North American market, notably in the key gaming jurisdictions of Nevada, New Jersey and Mississippi.

The Company's games continue to grow in popularity, particularly in repeat player markets due to their unique bonusing systems and distinctive style of play. The *Hyperlink™ Loco Loot™* multi-site progressive system and new double stand alone progressives, *Mr Woo™*, and *Aristocrat Xtreme™ MysteryLink™* proved strong performers.

Operator resistance to participation units impacted the overall installed base which increased only 371 units over the year to 6,530 despite the commercial deployment of the Company's wide-area progressive during the second half. The average fee per day declined marginally to USD50 per day as a result of a lower average mix of installed jackpot units compared to the prior year.

Systems revenue increased by 17.8% as a result of improved *OASIS™* system sales and *Quickets™* (Aristocrat's Ticket In Ticket Out technology) income. Following the momentum of 2005, the Company's installed base of *OASIS™* Systems customers continues to grow with over 184,000 gaming machines connected to the *OASIS™* system at 31 December 2006. Applications developed during the year will further augment the systems offering. In particular, new *Sentinel III™* player-tracking interface hardware was released and installed in six venues (covering over 7,500 units) during the year with very positive customer feedback.

Looking ahead, the market outlook is positive with an on-going shift from stepper (mechanical reel) product to video, new jurisdictions opening up and an anticipated uplift in the replacement cycle. The Company remains confident that the North American business will continue to grow revenue and profitability driven by demand for the superior performance of its video products in an expanding market. Profitability will continue to benefit from improved price/mix and leverage of cost structures.

South America

	2006	2005	Variance	Variance
	\$Million	\$Million	\$Million	%
Segment Revenue*	27.5	13.5	+14.0	+103.7%
Segment Contribution Profit	12.2	4.9	+7.3	+149.0%
Segment Margin	44.4%	36.3%	-	+8.1 pts

* Refer to Note 4 in Financial Statements

Segment Revenue and Segment Contribution Profit increased by 103.7% and 149.0% respectively, primarily due to increased sales to key accounts under the Company's low risk distribution policy.

The South American business is expected to continue to make a modest, but increasing, contribution to results with the business growing through the expansion of supply to a select number of established customers, whilst remaining within strict risk parameters. Margins will be impacted from period-to-period as a result of the Company's revenue recognition policy.

Japan

	2006	2005	Variance	Variance
	\$Million	\$Million	\$Million	%
Segment Revenue*	50.4	373.7	(323.3)	(86.5)%
Segment Contribution Profit	(5.6)	88.0	(93.6)	(106.4)%
Segment Margin	(11.1)%	23.5%	-	n/a

* Refer to Note 4 in Financial Statements

As indicated at the Company's Annual General Meeting in May, the transitioning to new industry regulations (Regulation 5) caused short term uncertainty in the marketplace throughout much of 2006. As a result, the Company only released one new product during the year, with total sales falling from 98,007 units to 12,043 units, an 87.7% decrease.

Segment Revenue declined 86.5% and the Segment Result fell to a loss of \$5.6 million compared to the profit of \$88.0 million in 2005. This loss includes an inventory charge of \$7.4 million relating to unique components of unsold *Kyojin-no-hoshi* 3™ games, which, together with the combination of sharply lower revenues and fixed cost structures, negatively impacted margin.

The Company's first Regulation 5 game, *Kaido-oh*TM (also known as *Bakuretsu-oh 2*TM), which was launched late in the year sold 10,100 units, a very credible result, placing it amongst the best selling Regulation 5 games launched to date.

The number of individual Regulation 5 games sold to date by any company has been significantly lower than corresponding Regulation 4 games and as a result the Company expects it will be some time before average sales of each Regulation 5 game build to historic levels. In the meantime, the Company's strategy remains to launch a larger number of games each selling more modest numbers than in the past. This strategy means the Company is highly dependent on the flow of game approvals from the regulator, which remain unpredictable, although on an improving trend. The Company now has seven Regulation 5 games approved (including *Kaido-oh*TM), with a further eight in various stages of submission or development. While the Company has carefully evaluated the new regulatory requirements and has had on-going dialogue with the regulatory authorities, tailoring its games appropriately, there remain a number of subjective areas in the regulatory requirements which mean it is not possible to determine with certainty that any one game will be approved in its first submission.

Although the popularity of Regulation 5 games, compared with Regulation 4 games, has declined, Regulation 4 games must be removed from the market during the second and third quarters of 2007 and therefore a mass replacement of the installed base is expected over that time period.

Given the number of games the Company has approved and others in the pipeline it is well placed to secure a share of the market opportunity over 2007 and the Company continues to be confident about the longer term sustainability and growth potential of its Japanese operations.

New Zealand

	2006	2005	Variance	Variance
	\$Million	\$Million	\$Million	%
Segment Revenue*	26.6	37.3	(10.7)	(28.7)%
Segment Contribution Profit	11.5	15.0	(3.5)	(23.3)%
Segment Margin	43.2%	40.2%	-	+3.0 pts

* Refer to Note 4 in Financial Statements

Segment Revenue fell by 28.7% to \$26.6 million and Segment Contribution Profit fell by 23.3% compared to 2005. Segment Margin improved from 40.2% to 43.2% due to an improved product mix, dominated by premium products, and a focus on cost control and operating efficiencies.

The rollout of the new Electronic Monitoring System ("EMS") commenced in June and is expected to be completed by March 2007. The costs associated with the EMS rollout, required conversion to a new protocol (QCOM), an 18 machine cap per venue and the impact of smoking bans continue to impact negatively on the market.

A Player Information Display (“PID”) requirement involves a “random interruptive” display being included in all new products sold, with existing gaming machines grandfathered until 2009. In the meantime, machines are not being replaced and the market is expected to hold off from upgrading or replacing machines until closer to the deadline.

The adverse prevailing market conditions are not expected to improve in the short-term. Trading results are therefore expected to remain flat in the short to medium term.

Other International

	2006 \$Million	2005 \$Million	Variance \$Million	Variance %
Segment Revenue*	127.5	105.8	+21.7	+20.5%
Segment Contribution Profit	42.5	31.7	+10.8	+34.1%
Segment Margin	33.3%	30.0%	-	+3.3 pts

* Refer to Note 4 in Financial Statements

Segment Revenue from other international markets increased by 20.5% and Segment Contribution Profit increased 34.1% to \$42.5 million. The increase in both Revenue and Segment Contribution Profit is mainly due to the Company’s strong performance across all of its Other International businesses despite a 100% decline in results from Russia.

Asia Pacific

Segment Contribution Profit increased over 30% reflecting the outstanding performance of the Company’s products in this rapidly expanding gaming environment.

In Macau, the Company’s products continue to perform well, enabling the Company to maintain and build on its market leading position. The Macau market comprises some 5,000 gaming machines, nearly doubling from a year ago. The Company’s market share approximates 45%.

The Company has also enjoyed success with its systems business in Macau with the Babylon casino at Fisherman’s Wharf and the Grand Lisboa opening with Aristocrat systems.

Elsewhere in the region, product sales to Malaysia, Vietnam, South Korea and Cambodia showed strong growth and the Company continued to install recurring revenue units in the Philippines. In Singapore, the Company has maintained an 80% share of the club market installed base. The Company remains the leading supplier across the region.

While the Company is optimistic about the growth potential of the Asia Pacific region, future results will be influenced by the timing of openings of major new casinos in the region.

Europe

Revenue from Europe (excluding Russia) increased over 29.0%, more than offsetting the 100% decline in Russian sales. This improvement was led by strong sales in a number of jurisdictions including France, Slovenia, Germany and The Netherlands, with performance driven by the continuing success of premium offerings such as double standalone progressives and *Hyperlink*[™].

The Russian market was effectively closed for the entire year following legislation passed in 2005 which prescribed new licencing requirements for the sale of gaming machines. To date, the relevant licensing body has yet to prescribe the licencing process and as a result no licences have been issued. At this stage, it is not possible to determine when the Russian market will re-open.

Given the uncertainty in Russia, the Company is currently re-focusing its European business. While European results in 2007 are expected to improve, the realisation of the Company's overall European potential remains dependent on the timing of the re-opening of the Russian market and new legislation which is expected in a number of other key European markets.

South Africa

The business recorded record revenue and profitability. This result was largely driven by the Company's continued success in the Limited Payout Machine (LPM) Market where it maintains a 73% market share of the installed base. The Company has maintained its position as the major supplier to route operators in the Mpumalanga, Western Cape, Eastern Cape and Kwazulu Natal provinces. The Company has also signed or extended supply agreements with two of the major operators.

Over the year, the recurring revenue installed base increased significantly from an initial 20 to over 200 units.

Casino management systems remain a key product focus in the region and during 2006 the Company successfully expanded the roll-out of *Mystery Win Download*[™], *Points To Credit*[™] and *SmartPlay* coinless functionality.

The sale of 28% of the Company's African business to a leading Black Empowerment Investment Company was completed in the year, realising a profit on sale of \$6.2 million (recorded outside Segment Profit), and placing the Company in a strong strategic position to further leverage its presence in the region.

The Company is optimistic about the growth potential of the region, with on-going success across all three segments (LPM, casino management systems and traditional casino markets) in which it operates.

New Businesses

Ace Interactive

The Company completed the acquisition of EssNet Interactive AB (now known as ACE Interactive) on 5 May 2006. ACE is based in Stockholm, Sweden and develops, manufactures and markets next generation interactive systems and video terminal hardware and software, utilising a leading-edge system offering, based on PC technology in a client-server architecture. The highly scalable ACE solution has an open system architecture that allows any content provider to port games onto its interactive video terminal platform.

Prior to its acquisition by the Company, ACE was selected to supply Norsk Tipping (“Norsk”), the Norwegian lottery, with an interactive video lottery system and terminals. The roll-out of this opportunity is pending resolution of a legal challenge (against Norsk) in the European Courts and Norsk’s decision to proceed. In the meantime, the business is actively pursuing a number of opportunities with both state-sponsored organisations as well as private operators.

In November 2006, *Casinos Slovakia*, the leading Slovakian casino operator, signed a contract with ACE for the provision of an *iVT* (“interactive video terminal”) solution. This will comprise a thin-client server-based gaming system utilizing ACE’s on-line *iVT* product offering. The *iVT* solution is to be placed in *Casinos Slovakia*’s three casinos in Bratislava, Piesfany and Kosice. *Casinos Slovakia* head office staff will remotely manage and control all individual *iVTs* in terms of game content, software and performance. This installation is due to go live in the first half of 2007.

ACE is focusing on a number of lottery based projects, primarily across Europe and Asia.

Revenue contribution for the period post acquisition represents sales of a small number of *iVT* units to a Czech Republic based customer. Further revenue in the short term is likely to be modest pending resolution of the Norsk Tipping legal challenge and/or successful realisation of one or more of the opportunities currently being pursued.

Elektronček

The Company’s 50% interest in Elektronček (a company based in Slovenia, part of the European Union) was acquired on 27 January 2006. Elektronček trades under the *Interblock*[™] brandname, manufacturing a range of electro-mechanical multi-station gaming products including Roulette, Dice and Sic Bo which are sold in gaming markets around the world.

The Elektronček business has traded ahead of expectations since acquisition with strong sales to Europe and a continuing significant presence in the Macau market where *Interblock*[™] product commands a 55% share of the installed base of multi-

terminal gaming product. During the year, *Interblock*[™] product was launched into the North American market with initial operating performance exceeding expectations.

Approval was obtained to place Elektronček products on trial in NSW during the second half of the year. The trials were successful and final approval is expected shortly.

The Company expects continuing growth in revenue and contribution from Elektronček as its product portfolio is expanded and as regulatory approvals are received across global gaming jurisdictions.

PokerTek

In January 2006, the Company signed a distribution agreement with *PokerTek, Inc.* (NASDAQ: PTEK (PokerTek)) under which it acquired exclusive rights to offer PokerTek's *PokerPro*[™] tables, and other *PokerPro*[™] branded technology solutions, to gaming venues across the globe outside the United States and Canada where *PokerTek* places product directly. At that time, the Company also acquired a 10% interest in the business.

PokerPro[™] is a new and innovative electronic poker table which delivers more hands per hour, eliminates player and dealer mistakes, and removes the need for dealer tipping. Much of 2006 was spent progressing the necessary gaming regulatory approvals required prior to product being placed, with a small number of placements being made in South Africa, the United Kingdom and Victoria, Australia towards the end of the year.

During the year, the Company increased its interest in PokerTek to 19.2%.