

# Aristocrat Leisure Limited

## Acquisition of VGT



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# Agenda

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# Transaction overview

## Transaction summary

- Aristocrat has agreed to acquire VGT for a total consideration of US\$1,283 million<sup>(1)</sup> (A\$1,365 million<sup>(2)</sup>) in cash
  - VGT is a leading US gaming operations business, providing Class II gaming content, platforms, systems and technology
  - Implied EV / adj. EBITDA multiple of 8.2x (CY13)
  - Implied EV / adj. EBITDA multiple of approximately 7x (CY13) post adjusting for the estimated net present value of expected tax deductions resulting from the transaction<sup>(3)</sup>

## Strategic rationale

- Transformational transaction provides strong strategic and financial benefits:
  - Increased scale in the North American gaming operations segment, Aristocrat's largest single value opportunity and a key strategic priority, with step change from approximately 8,200 units installed to 28,400
  - Highly complementary product suite across Class III, Casino Management Systems and Class II
  - Strong cash flows
  - Operational opportunities from product synergies and some potential cost synergies
  - Cultural alignment with strong customer service and high performance focus across both organisations

## Funding

- Acquisition and refinancing funded by:
  - US\$1,300 million fully underwritten long term US Term Loan B debt facility
  - A\$375 million fully underwritten Placement, a non underwritten placement to Ainsworth family shareholders ("Ainsworth Offer") and a Share Purchase Plan ("SPP")
- Long-term financing secured at current favourable rates

## Accretion

- Expect low-mid teens EPS accretion (pre acquisition related amortisation) on a pro-forma FY14 basis (pre-synergies, transaction and integration costs)

## Timing

- Subject to necessary regulatory approvals, expected to complete by the end of the first half of FY15

### Notes:

(1) The purchase price is subject to customary completion adjustments, an adjustment for machine placement fees incurred prior to completion and certain tax indemnification and deferred payments associated with a tax election

(2) Converted to AUD at a 0.94 AUD/USD exchange rate

(3) The acquisition is expected to qualify for election under Sec. 338(h)(10) of the US Tax Code which enables Aristocrat to treat the transaction as an asset purchase for income tax purposes which will result in higher deductions

## Section 2 **Overview of VGT**



# VGT overview

- VGT is a leading provider of Class II gaming content, platforms, systems and technology
  - Founded in 1991 by CEO, Jon Yarbrough
  - Headquartered in Tennessee, US with primary operations in Oklahoma
- VGT is the number one provider in Class II mechanical reels in North America
  - Long-lived, well-recognized brands
  - High player loyalty to VGT's content
  - Less than 1% of Class II video segment, providing opportunities for growth
- 100% recurring revenue model
- VGT has strong contractual relationships with core tribal customers
  - Post-acquisition, VGT will remain dedicated to providing key tribal customers with best-in-class content



# Significant player affinity from leading titles

Long-lived well recognised brands...



...deployed across multiple platforms

Low denomination

High denomination

Single line

Multi line

3-reel Stepper

5-reel Stepper

Video

Progressives

Strong WPU growth of ~6% CAGR from FY11–FY13 <sup>(1)</sup>

Operational footprint that spans over 120 venues

Stable gaming operations installed base, currently at ~20,200 units

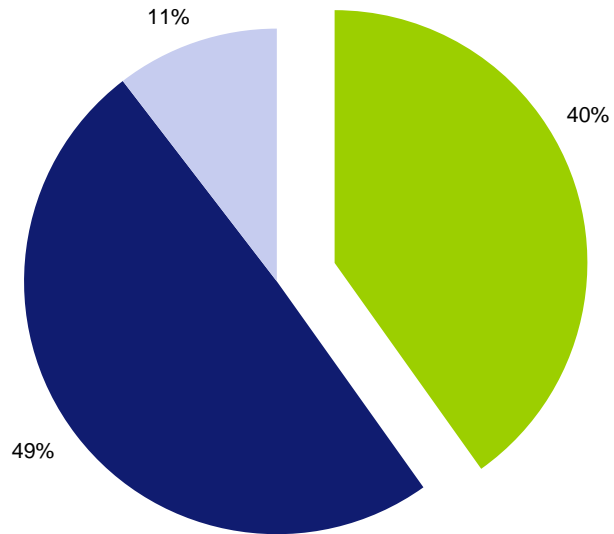
100% recurring revenue business model

Note:

(1) Based on total VGT Midwest revenue, represents machine weighted average Win Per Unit

# US Tribal gaming sector overview

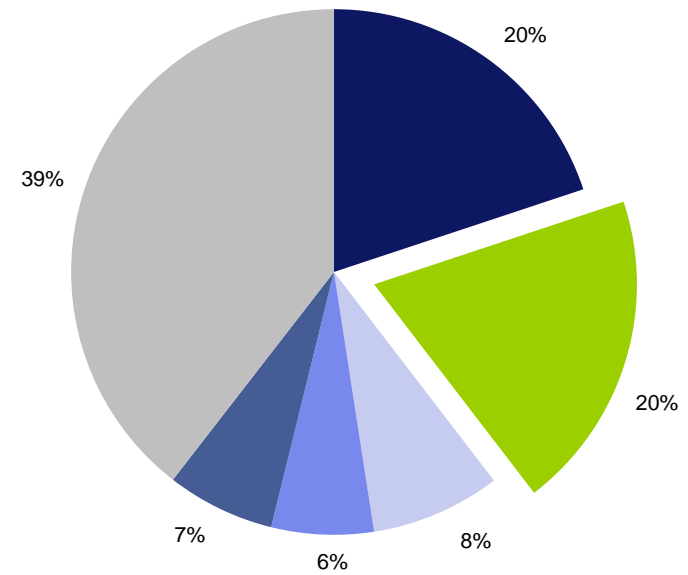
**Total gaming machines (US)<sup>(1)</sup>**  
By category



■ US Tribal   ■ US Commercial   ■ US Route Ops <sup>(2)</sup>

**Total # of units ~880,000**

**Tribal gaming machines<sup>(1)</sup>**  
By state



■ California   ■ Oklahoma   ■ Washington  
■ Minnesota   ■ Michigan   ■ Other

**Total # of units ~350,000**

Source:

(1) Industry reports

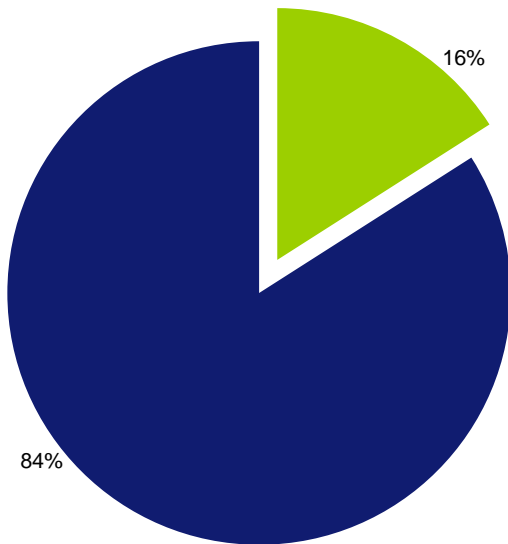
(2) Venues that include a small number of gaming machines such as bars, taverns and truck stops



# Class II gaming sector overview

## Tribal gaming machines<sup>(1)</sup>

By classification

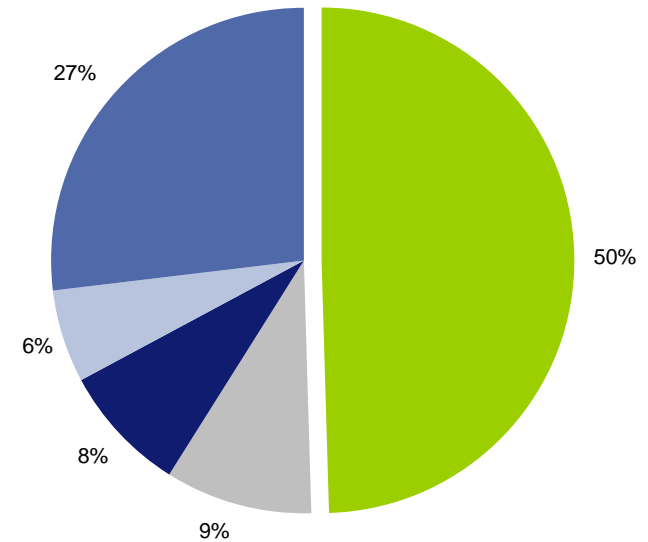


■ Class II ■ Class III

**Total # of units ~350,000**

## Class II machines (US tribal casinos)<sup>(2)</sup>

By state



■ Oklahoma ■ Alabama  
■ Louisiana ■ Montana  
■ Other

**Total # of units ~50,000**

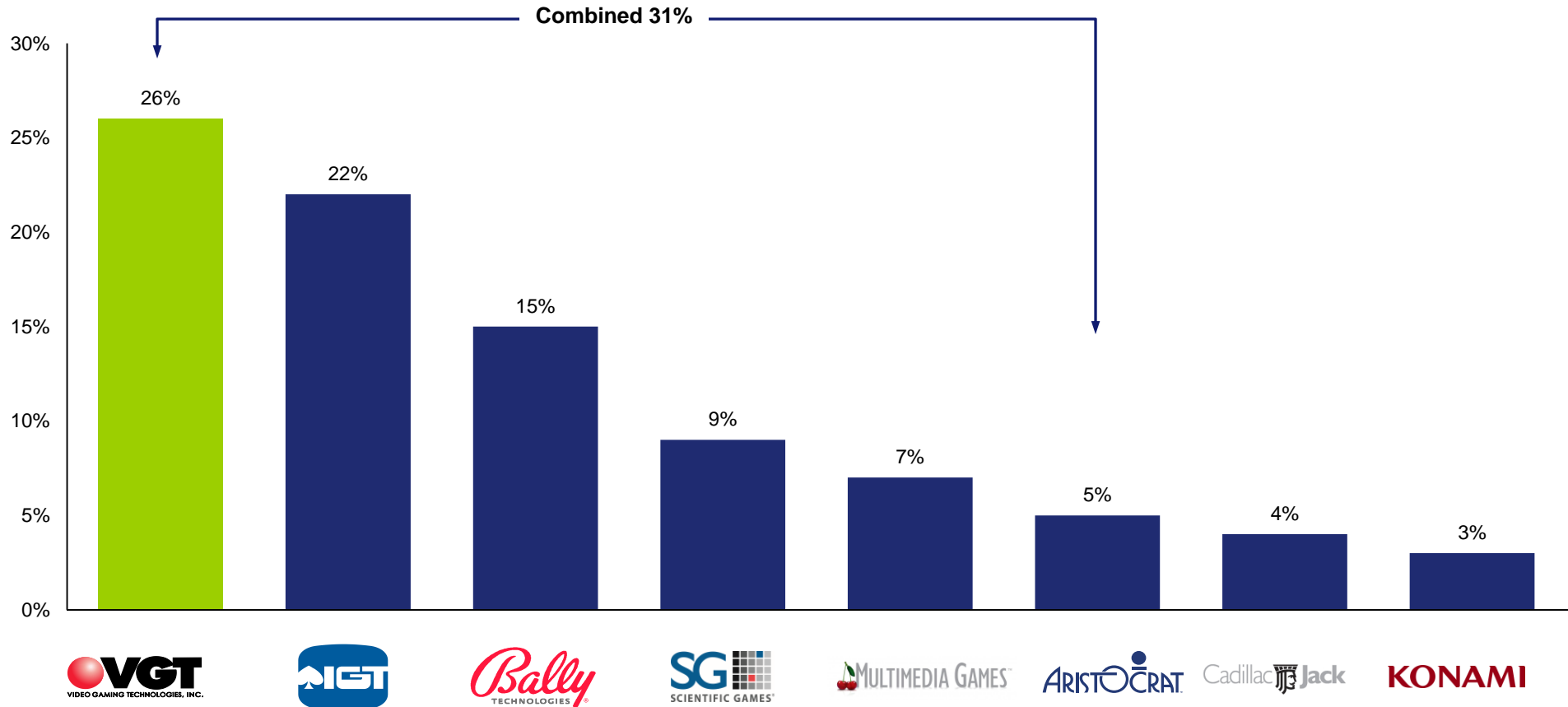
Source:

(1) Industry reports

(2) Company information

# A leader in tribal gaming

North America Tribal Leased Game share (1)



Source:

(1) Eilers-Fantini Quarterly Slot Survey (1Q CY14), information presented as of 31 March 2014

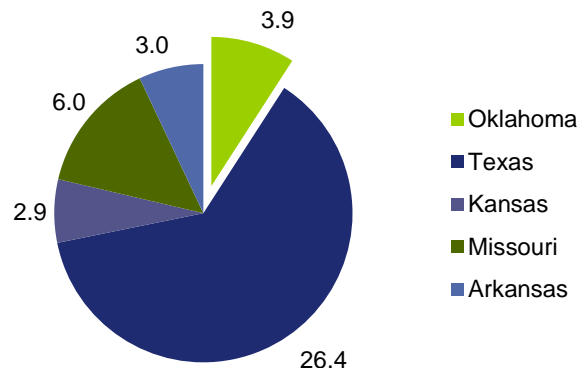
# Diversified Native American Tribal customer base

## Geographic footprint

- Key customers are in California, Kansas, Louisiana, Montana, Oklahoma, Texas and Washington
- Oklahoma is VGT's primary segment with over 90% of earnings generated in this state
  - Centrally located market serving populations across surrounding US metropolitan areas
  - Revenue share model means operations are positively impacted by an improving US or regional economy
- VGT has an estimated ~90% share of the Class II mechanical reel segment in Oklahoma with room for expansion into the larger video segment

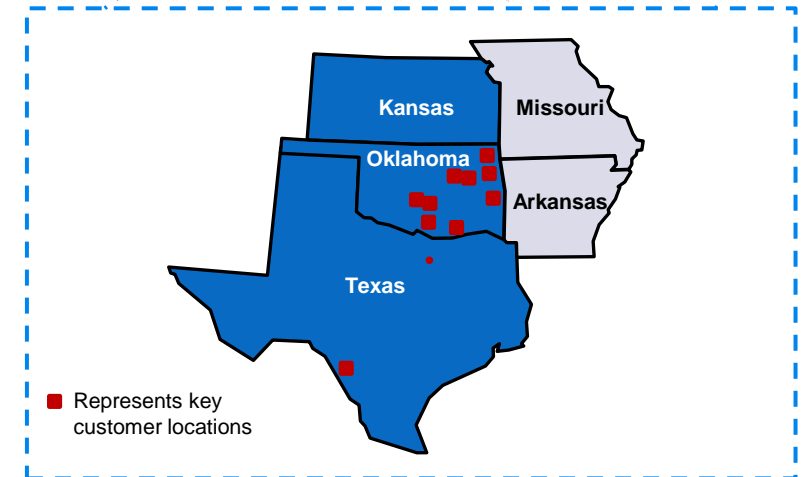
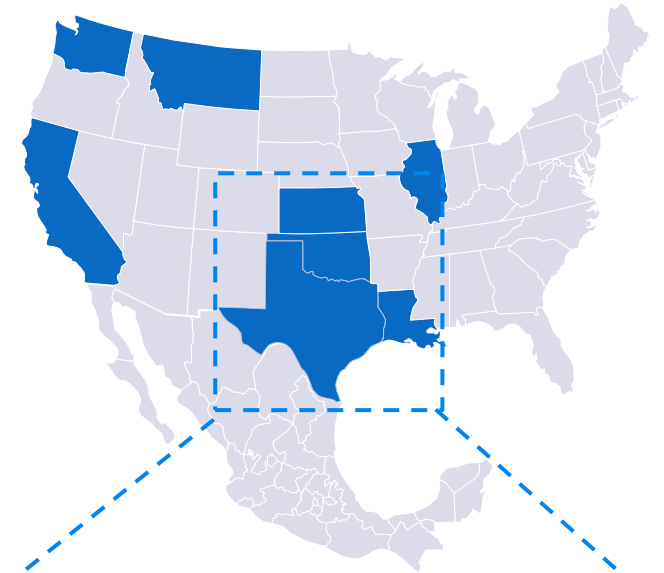
## Population of Oklahoma's serviceable markets

*Bordering States' population greater than 38 million*



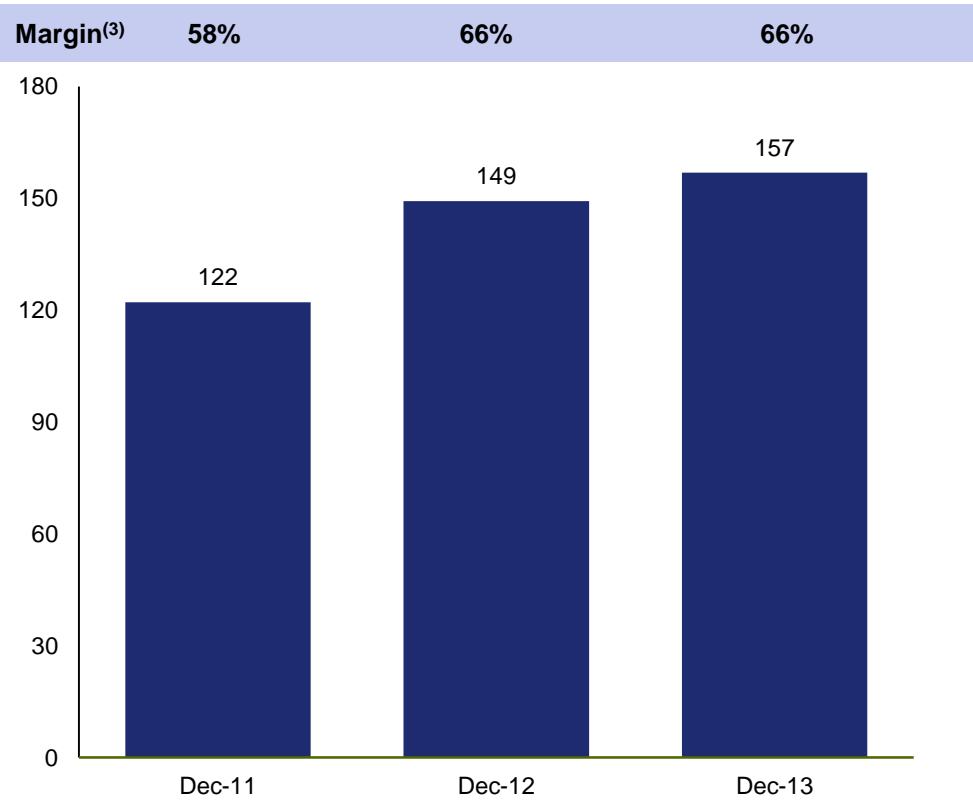
## Operational footprint spans over 120 venues and includes

- California
- Kansas
- Louisiana
- Montana
- Oklahoma
- Texas
- Washington

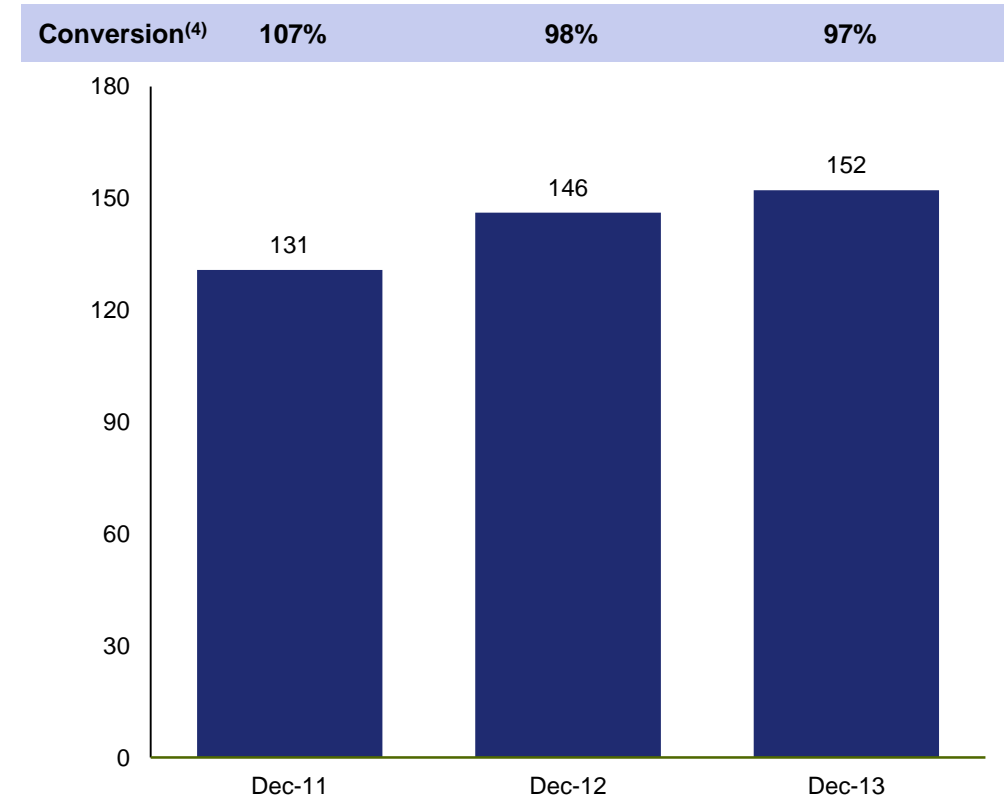


# Strong EBITDA and cash flow conversion

## VGT adj. EBITDA<sup>(1)</sup> (US\$ million)



## VGT adj. operating cash flow<sup>(2)</sup> (US\$ million)



Capex on installed base	(13)	(18)	(19)
Other capex	(10)	(15)	(17)
Machine placement fees/loans <sup>(5)</sup>	6	(9)	(7)
<b>Free cash flow</b>	<b>114</b>	<b>105</b>	<b>110</b>

Notes: Numbers may not add due to rounding

(1) Normalised for quality of earnings adjustments and machine placement fee amortisation

(2) Normalised for quality of earnings adjustments

(3) Represents adj. EBITDA / revenue

(4) Conversion is adj. operating cash flow / adj. EBITDA

(5) Figure is a net figure and includes inflows from repayments of development loans

# Section 3

## **Strategic rationale and combined group**



# Strong strategic rationale

## Increased scale in the North American gaming operations segment

- Step change in Aristocrat's gaming operations installed base from approximately 8,200 units to 28,400 units
  - 100% of VGT's revenue is recurring with the majority under contract
  - VGT product has strong player loyalty
- VGT is the number one provider of Class II mechanical reels in North America
- VGT has long-standing relationships with key customers that span greater than 10 years

## Highly complementary product suite across Class III, Casino Management Systems and Class II

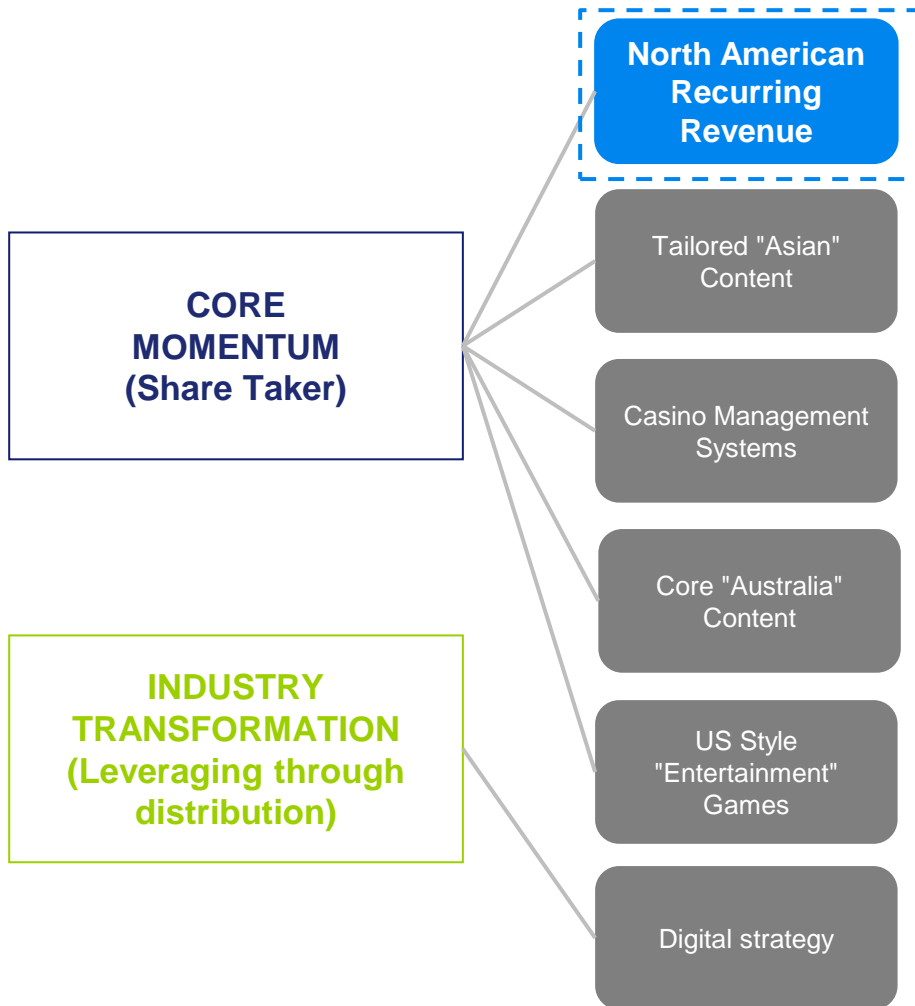
- Acquisition in line with the Company's strategy to participate across distribution channels and materially expand proportion of recurring revenues
- Ability to deliver best-in-class products and services to tribal customers

## Strong cash flows

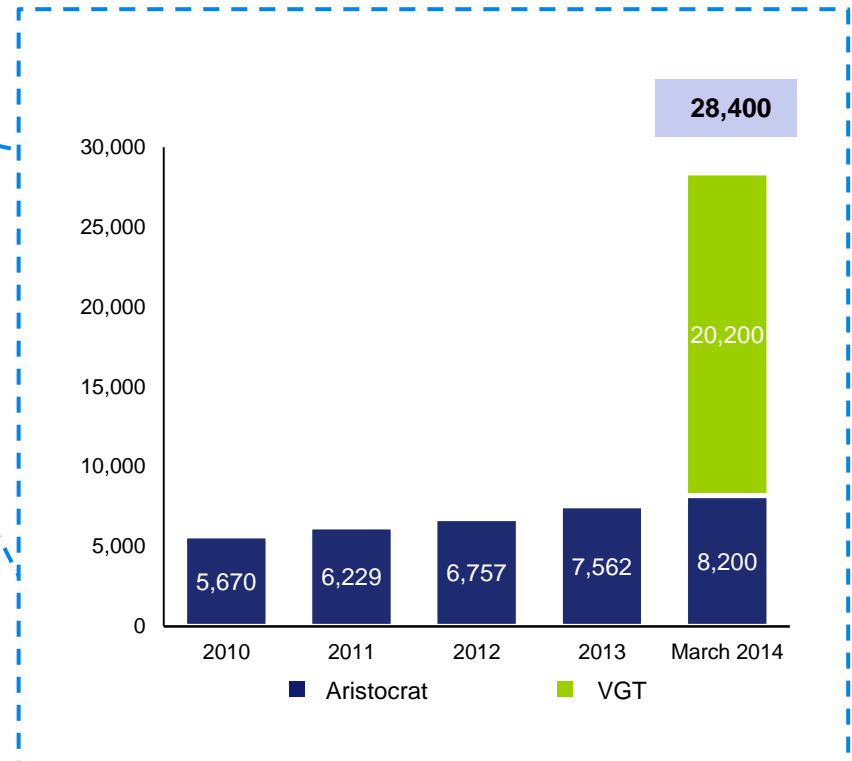
- Transaction expected to generate sizeable post-financing free cash flow
- The acquired free cash flow allows for the possibility of future investment in digital and other accretive organic and inorganic growth opportunities

# Step change in Aristocrat's recurring revenue strategy

## Strategy overview



## Gaming operations installed base (# of units)<sup>(1)</sup>

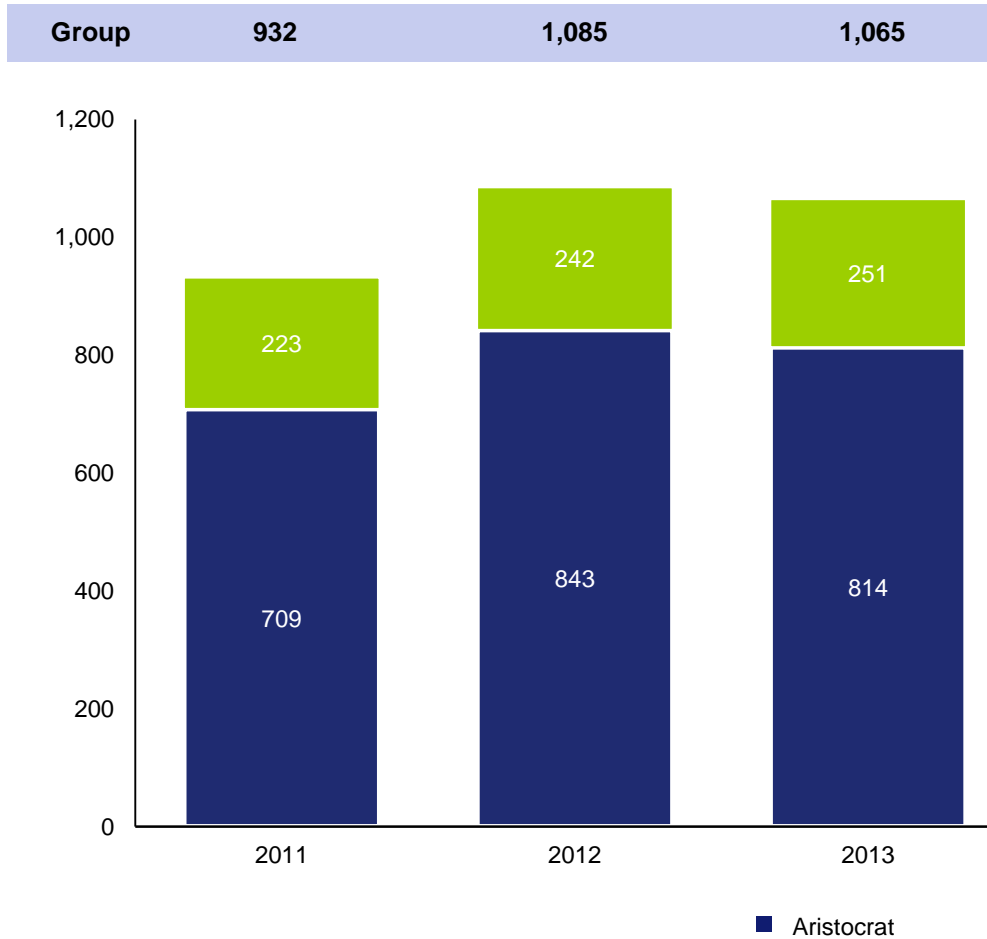


Note:

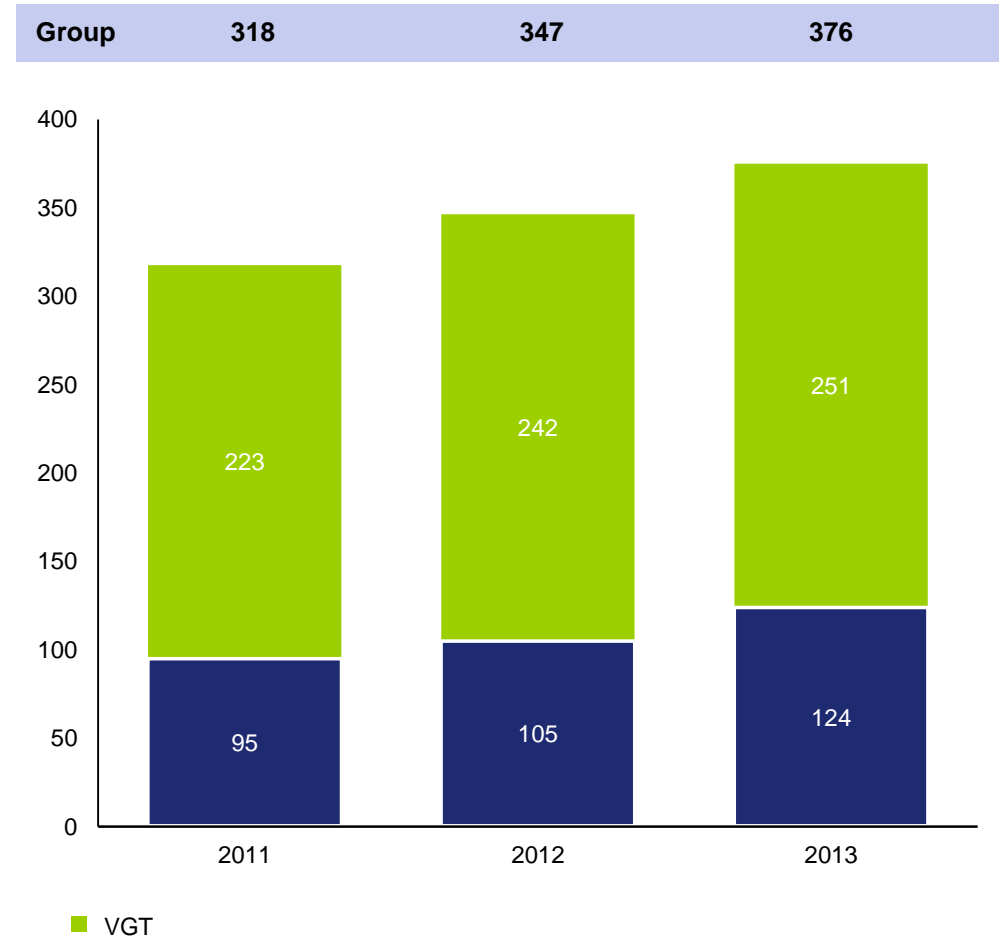
(1) Aristocrat 30 September year end for 2012 and 2013, 31 December year end for 2010 and 2011; VGT 31 December year end

# Combined group – Pro forma financial summary

Pro forma revenue (A\$ million)<sup>(1)</sup>



Pro forma recurring revenue (A\$ million)<sup>(1)</sup>



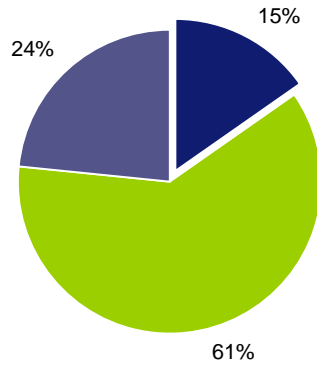
Note: Numbers may not add due to rounding

(1) Aristocrat 30 September year end for 2012 and 2013, 31 December year end for 2011; VGT 31 December year end; VGT values converted to AUD at a 0.94 AUD/USD exchange rate

# Combined group – Recurring Revenue profile

## 2013 operational revenue breakdown<sup>(1)</sup>

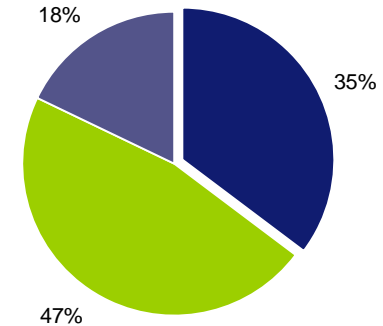
### Aristocrat standalone



■ Recurring Revenue

■ Product Sales

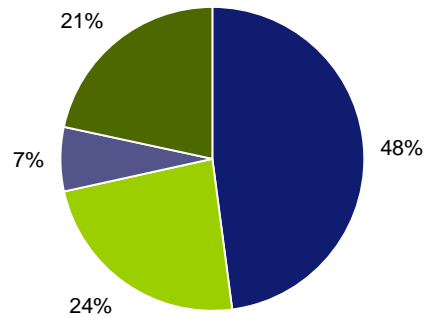
### Aristocrat pro forma



■ Other

## 2013 geographic revenue breakdown<sup>(1)</sup>

### Aristocrat standalone

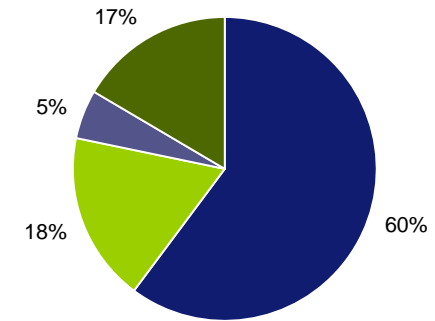


■ North America

■ Australia and New Zealand

■ Japan

### Aristocrat pro forma



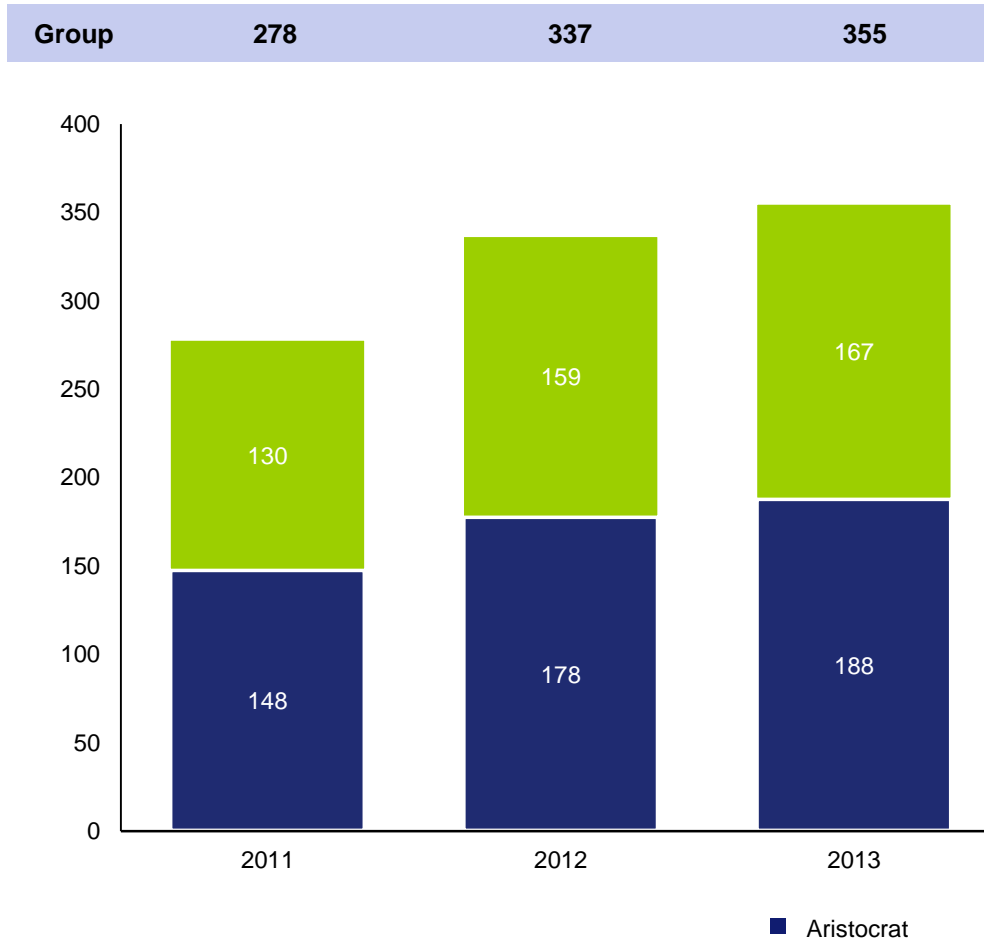
■ Rest of World

Note:

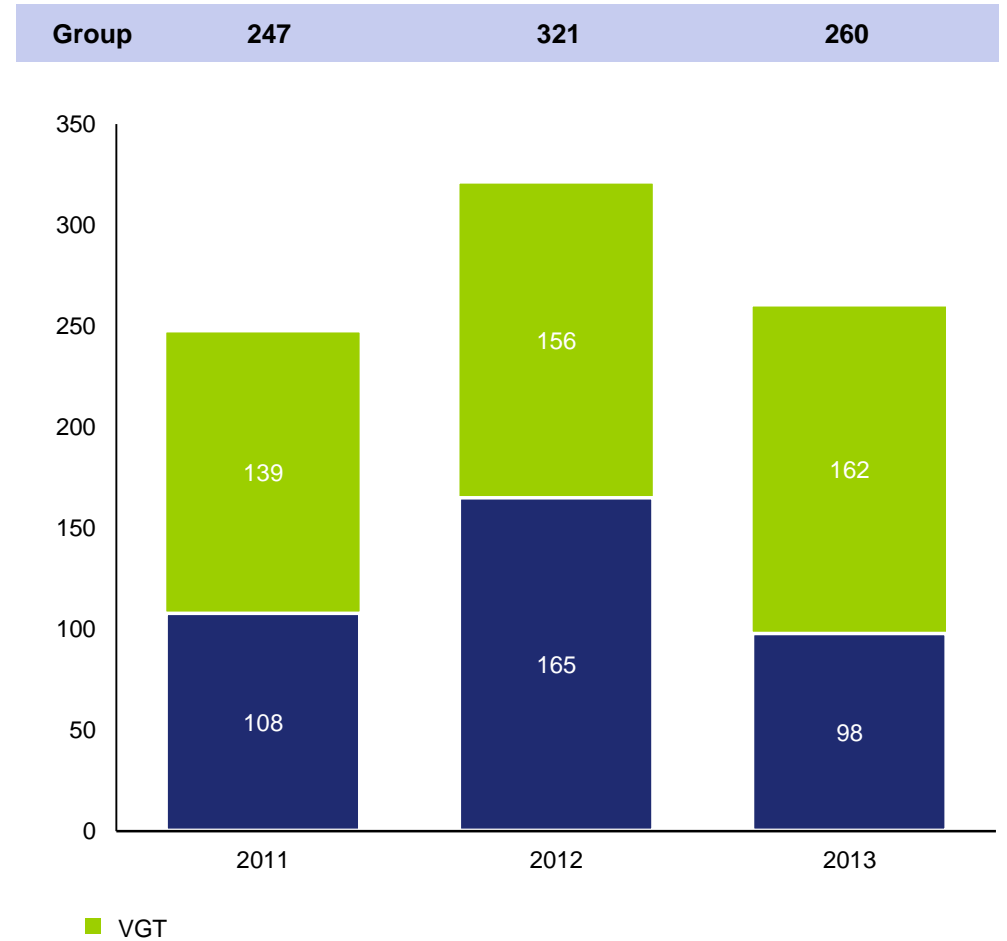
(1) Aristocrat 30 September year end; VGT 31 December year end; VGT values converted to AUD at a 0.94 AUD/USD exchange rate

# Combined group – Pro forma financial summary (cont.)

Pro forma adj. EBITDA (A\$ million)<sup>(1),(2)</sup>



Pro forma adj. operating cash flow (A\$ million)<sup>(1),(3)</sup>



Note: Numbers may not add due to rounding

(1) Aristocrat 30 September year end for 2012 and 2013, 31 December year end for 2011; VGT 31 December year end; VGT values converted to AUD at a 0.94 AUD/USD exchange rate

(2) VGT EBITDA is normalised for quality of earnings adjustments and machine placement fee amortisation

(3) VGT operating cash flow normalised for quality of earnings adjustments



# Strong EPS and cash flow accretion

## Operational opportunities from product synergies and some potential cost synergies

- Combining Aristocrat's video strength with VGT's leading Class II mechanical reel position in United States tribal gaming creates additional product and customer opportunities
  - Ability to offer broad suite of products to tribal customers – both video and mechanical gaming machines, casino management systems and digital products
- Opportunity to leverage VGT's strong Class II mechanical reel expertise across Aristocrat's footprint
  - Utilise VGT's leading Class II technology in selected international markets
- Modest cost synergies likely available given increased scale of combined business
  - No synergies required to achieve accretion targets

## Cultural alignment with strong customer service and high performance focus across both organisations

- Team of around 600 employees with high quality product and customer skills

## EPS accretive

- Expect low-mid teens EPS accretion (pre acquisition related amortisation) on a pro-forma FY14 basis (pre-synergies, transaction and integration costs)
- Expected to contribute strongly to Aristocrat cash flow from completion

# Section 4 Funding

# Acquisition funding details

## Acquisition funding details

### Purchase price<sup>(1)</sup>

- US\$1,283 million transaction value subject to certain adjustments<sup>(2)</sup>

### Debt

- Fully committed, 7 year US\$ Term Loan B ("TLB") facility of US\$1,300 million
  - Flexible, long term debt
- 5 year A\$100 million Revolving Facility

### Equity

- Underwritten Placement
  - A\$375 million to sophisticated and institutional investors
- Additional non-underwritten Ainsworth Offer and SPP totalling up to A\$60 million
  - Ainsworth Offer of up to A\$30 million

## Sources and uses (\$ million)

Sources	US\$ <sup>(3)</sup>	A\$
New TLB facility	1,300	1,383
Placement	353	375
<b>Total sources</b>	<b>1,653</b>	<b>1,758</b>

Uses	US\$ <sup>(3)</sup>	A\$
Upfront cash consideration	1,283	1,365
Transaction expenses / other costs <sup>(4)</sup>	121	129
Aristocrat gross debt refinanced (as at 31 March 2014)	239	254
Cash on balance sheet	10	10
<b>Total uses</b>	<b>1,653</b>	<b>1,758</b>

Notes: Numbers may not add due to rounding

(1) The purchase price excludes deferred payments to the Vendor in relation to the tax election of US\$17.5 million on each of the first and second anniversary of the transaction closing date and a further conditional payment of up to US\$15 million

(2) The purchase price is subject to customary completion adjustments, an adjustment for machine placement fees incurred prior to completion and certain tax indemnification and deferred payments associated with a tax election

(3) USD converted to AUD at a 0.94 AUD/USD exchange rate

(4) Includes debt facility ticking fees and estimates of certain completion adjustment amounts

# Pro forma Balance Sheet

A\$ million	Aristocrat 31-Mar-2014	VGT <sup>(1)</sup> 31-Dec-2013	Adjustments for Acquisition, Debt and Placement <sup>(2)</sup>	Aristocrat pro forma
Cash and cash equivalents	20	-	10	31
Inventory, trade and other receivables	505	39	-	544
Property, plant and equipment	112	33	-	145
Goodwill & intangibles	156	22	1,322	1,500
Other	95	10	61	166
<b>Total assets</b>	<b>889</b>	<b>103</b>	<b>1,393</b>	<b>2,385</b>
Loans and borrowings	254	-	1,129	1,383
Trade and other payables	139	2	-	142
Other	109	17	-	125
<b>Total liabilities</b>	<b>502</b>	<b>19</b>	<b>1,129</b>	<b>1,650</b>
<b>Net assets</b>	<b>387</b>	<b>84</b>	<b>264</b>	<b>735</b>
Equity	387	84	264	735
<b>Total equity</b>	<b>387</b>	<b>84</b>	<b>264</b>	<b>735</b>

- Balance sheet shown prior to any proceeds from Ainsworth Offer and SPP

Notes: Numbers may not add due to rounding

(1) VGT values converted to AUD at a 0.94 AUD/USD exchange rate

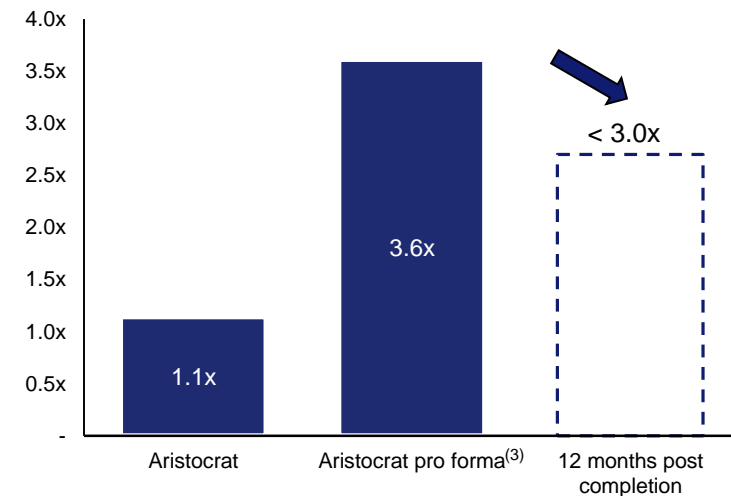
(2) Financials do not assume purchase price accounting adjustments. The Company will undertake a formal assessment of the fair value of the net assets acquired subsequent to acquisition

# Strong pay down and appropriate approach to dividends

- Pro-forma net debt/Bank EBITDA at March 2014 ~3.6x, pre Ainsworth Offer and SPP
- Pro-forma net debt/Bank EBITDA expected to be closer to 3x at completion and targeting below 3x within 12 months post completion

A\$ million	Aristocrat 31-Mar-2014	VGT <sup>(1)</sup> 31-Dec-2013	Adjustments	Aristocrat pro forma
Cash and cash equivalents	20	-	10	31
Borrowings	254	-	1,129	1,383
<b>Net debt</b>	<b>234</b>	<b>-</b>	<b>1,118</b>	<b>1,352</b>
EBITDA <sup>(2)</sup>	204	169	-	374
Net interest income / (expense)				(72)
<b>Net debt / EBITDA<sup>(2)</sup> (x)</b>	<b>1.1x</b>	<b>-</b>	<b>-</b>	<b>3.6x</b>
EBITDA / net interest (x)				> 5.0x

Pro forma debt profile (31 March 2014)



- DPS to be maintained around current levels while gearing is reduced, growing over time, consistent with the Board's established approach

Notes: Numbers may not add due to rounding

(1) VGT values converted to AUD at a 0.94 AUD/USD exchange rate

(2) EBITDA adjusted for quality of earnings adjustments and machine placement fee amortisation for VGT and share based compensation expenses for Aristocrat

(3) Pre Ainsworth Offer and SPP



# Section 5 Trading update

# Full year trading outlook

## Aristocrat full year outlook<sup>(1)</sup>

- We expect solid NPAT growth over the 2014 full year excluding one-off transaction related expenses
- Although new technical standards for Macau have been issued, these have been received relatively late in the half with timing of the resulting benefits and upside to the 2014 fiscal year remaining unclear. Should churn improve during the last quarter we expect there will be upside to the 2014 full year result
- We have risk-weighted our Japan contribution, as our major release, Black Lagoon 2™, has not yet received regulatory approval. Should regulatory approval be achieved soon, a potential release in the last quarter of 2014 would also represent upside to our full year NPAT result
- Our Australian dollar to US exchange rate assumption for the full year remains at 91 cents
- In line with our strategy, we will incur an increased level of D&D investment in the second half
- We expect improving operational performance across key markets and segments, reflecting the carry-forward of a higher gaming operations installed base, strengthening fee per day and the impact of a full pipeline of compelling new game content
- We expect continued ship share momentum and bottom line benefits, particularly in the US and Australia, from the step up in D&D investment to be more evident through the second half of the year

## VGT performance year to date

- VGT has demonstrated strong operating performance so far in CY2014, with year to date performance ahead of the prior corresponding year

Notes:

(1) Guidance assumes an AUD/USD exchange rate of 0.91

# Summary

## The acquisition of VGT is an exciting and transformational opportunity

- Strategically compelling transaction
- Increased scale in the North American gaming operations segment with a step change from approximately 8,200 units installed to 28,400
- Highly complementary product suite across Class III, Casino Management Systems and Class II
- Strong cash flows
- Operational opportunities from product synergies and some potential cost synergies
- Cultural alignment with strong customer service and high performance focus across both organisations
- Expect low–mid teen EPS accretion (pre acquisition related amortisation) on a pro-forma FY14 basis (pre synergies, transaction and integration costs)
- Subject to necessary regulatory approvals, expected to complete by the end of the first half of FY15

## Opportunity to create value for all of Aristocrat's stakeholders

# Appendix 1

# **Aristocrat capital raising**

# Underwritten Placement, Ainsworth Offer and SPP

## Underwritten Placement

- Underwritten Placement to raise A\$375 million
- Placement price (Placement Price) determined by book build with underwritten floor price of A\$5.12 per share ("New share")
  - underwritten floor price represents a discount of 5% to the last closing price on Friday, 4 July 2014
- New Shares will rank equally with existing shares

## Ainsworth Offer and SPP

- Combination of Ainsworth Offer and SPP will be capped at A\$60 million
- A non-underwritten placement to Ainsworth family shareholders of up to A\$30 million ("Ainsworth Offer")
  - priced at the Placement Price determined through the bookbuild
- An offer to eligible shareholders of up to A\$15,000 of Aristocrat shares through a SPP
  - pricing: lower of 2.5% discount to VWAP over the pricing period and the Placement Price determined through the bookbuild



# Key dates – Placement, Ainsworth Offer and SPP

Key event <sup>(1)</sup>	Date
Trading halt	Monday, 7 July 2014
Placement bookbuild	Monday, 7 July 2014
Shares recommence trading	Tuesday, 8 July 2014
Placement settlement date	Friday, 11 July 2014
Placement shares allotted and commence trading	Monday, 14 July 2014
<b>SPP and Ainsworth Offer Dates</b>	
SPP Record Date	Friday, 4 July 2014
SPP and Ainsworth Offer opens	Monday, 4 August 2014
SPP and Ainsworth Offer closes	Friday, 15 August 2014

Notes:

(1) Timetable subject to change

# Q&A

The Aristocrat logo features the word "ARISTOCRAT" in a white, serif font. The letter "O" is replaced by a stylized circle with a horizontal line through its center. Above the top-right portion of this circle is a small white dot. A trademark symbol (TM) is located at the bottom right of the word.

ARISTOCRAT™

# Appendix 2

## **Additional financial information**

# VGT financial summary

US\$ million	Dec-11	Dec-12	Dec-13
<b>Revenue</b>	<b>209</b>	<b>227</b>	<b>236</b>
<i>Growth (%)</i>		8%	4%
<b>Adj. EBITDA<sup>(1)</sup></b>	<b>122</b>	<b>149</b>	<b>157</b>
<i>Margin (%)</i>	58%	66%	66%
<i>Growth (%)</i>		22%	5%
<b>Adj. EBIT<sup>(2)</sup></b>	<b>83</b>	<b>111</b>	<b>119</b>
<i>Margin (%)</i>	40%	49%	50%
<i>Growth (%)</i>		33%	7%
<b>Capex</b>	<b>10</b>	<b>15</b>	<b>17</b>
<b>Capex on installed base</b>	<b>13</b>	<b>18</b>	<b>19</b>
<b>Adj. Free cash flow</b>	<b>114</b>	<b>105</b>	<b>110</b>

## Notes:

- (1) Normalised for quality of earnings adjustments and machine placement fee amortisation  
(2) Normalised for quality of earnings adjustments

# Appendix 3

## **Key risks**

# Key risks

## Introduction

This section summarises some of the key risks that may affect the future performance of an investment in Aristocrat. This is not an exhaustive list of the relevant risks. If any of the following risks materialise, Aristocrat's business, financial condition and operating results are likely to be adversely impacted. Additional risks not presently known to Aristocrat or, if known, that are not presently considered material, may also have an adverse impact.

In deciding whether to participate in the Placement, the Ainsworth Offer or the SPP, you should read this presentation in its entirety and carefully consider the risks outlined in this section. You should also consider consulting your financial or legal adviser so as to ensure you understand fully the terms of the Placement, the Ainsworth Offer and the SPP and the inherent risks.

## General Risks

The financial performance of the Aristocrat may be affected by a number of factors common to public companies generally or common to companies operating in the industries in which Aristocrat operates. These factors include:

- Movements in the Australian and international equity markets
- Movements in foreign currency exchange rates
- The liquidity of the market for Aristocrat shares
- The level of interest and inflation rates
- The level of borrowing, if any, which Aristocrat undertakes
- General economic conditions; and
- Government, fiscal, monetary and regulatory policies

You should be aware that the price at which Aristocrat shares are traded on the ASX may rise or fall.

# Specific risks



## Changing economic conditions and other factors affecting the gaming industry

Demand for our products and services can be dependent upon favourable conditions in the gaming industry, which is highly sensitive to players' disposable incomes and gaming activities. Discretionary spending on entertainment activities could decline for reasons beyond the Group's control; for example, due to negative economic conditions or natural disasters.

A decline in the relative health of the gaming industry and the difficulty or inability of our customers to obtain adequate levels of capital to finance their ongoing operations might reduce the resources available to purchase products and services, which could affect Group revenues.

To address this we are working to develop and deliver new and innovative technologies and products to meet customer needs and working to partner with our customers to provide value adding solutions.



## Increasing competition

Competition in the gaming industry (both land-based and online) has intensified from the consolidation of existing competitors as well as the entry of new competitors. Increasingly, price, reliability and product innovation are among the factors affecting a provider's success in selling its products.

As traditional land-based markets continue to mature, the Group's success and profitability is dependent in part on our ability to successfully enter new segments in existing markets, new markets as well as new distribution channels, such as mobile and online gaming.

To address this we continue to invest in key skills and talent and have also strengthened our insights function to enhance our ability to produce innovative new product portfolios to drive entry into new markets and support share growth.



## Increased gearing levels

The increase in gearing to fund the transaction leaves the Group with a level of leverage which is higher than historical periods. Higher gearing levels leaves the Group more exposed to movements in interest rates. This will be addressed by moving back towards more historic levels of leverage over time.



# Specific risks

## Government gaming regulation

The global gaming industry is subject to extensive governmental regulation. While the regulatory requirements vary by jurisdiction, most require:

- Licences and/or permits;
- Findings of suitability;
- Documentation of qualifications, including evidence of financial stability; and
- Individual suitability of officers, directors, major shareholders and key employees.

Changes in laws or regulations or the manner of their interpretation or enforcement could impact the Group's financial performance and restrict our ability to operate our business or execute our strategies. Difficulties or delays in obtaining or maintaining required licences or approvals could also have a negative impact on the business.

A material breach of internal processes may result in violation of existing regulations which could also impact our ability to maintain required licenses or approvals. Gaming laws and regulations serve to protect the public and ensure that gaming related activity is conducted honestly, competitively, and free of corruption. A change in government (or governmental policy towards gaming) may also impact our operations. This political risk increases in jurisdictions where there is significant anti-gaming opposition or vocal minority interests.

The Group has established a comprehensive regulatory assurance function and governance framework to ensure that we continue to monitor the political environment and regulations in the jurisdictions in which we operate and to monitor our adherence to internal processes to ensure we comply with existing regulations.

## Intellectual property

The gaming industry is constantly employing new technologies in both new and existing markets. The Group relies on a combination of patents and other technical security measures to protect our products, and continues to apply for patents protecting such technologies.

Competitors and others may infringe on our intellectual property rights, or may allege that we have infringed on theirs. Monitoring infringement and misappropriation of intellectual property can be difficult and expensive. We may also incur significant litigation expenses protecting or defending our intellectual property.

The Group has an established framework to identify and protect its global intellectual property assets as well as monitor infringement by competitor products. The Group has established a comprehensive regulatory assurance function and governance framework to ensure that we continue to monitor the political environment and regulations in the jurisdictions in which we operate and to monitor our adherence to internal processes to ensure we comply with existing regulations.

# Specific risks

## Foreign exchange

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Japanese yen.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. The Group's foreign exchange hedging policy is to reduce the foreign exchange risk associated with transactional exposures, primarily over a 12 month horizon. External foreign exchange contracts are designated at the Group level as hedges of foreign exchange risk on specific foreign currency denominated transactions.

## Ability to manage and frequently introduce innovative products on a timely basis

The Group's success is dependent on its ability to develop and sell new products that are attractive to casino operators and other gaming enterprises and their customers, for both land-based and online gaming operations.

If the Group's land-based or online gaming content does not meet or sustain revenue and profitability expectations, it may be replaced or we may experience a reduction in revenue generated and an increased exposure to obsolete inventory. Therefore, success depends upon the Group's ability to continue to produce technologically sophisticated land-based and online products that meet its customers' needs and achieve high levels of player appeal and sustainability.

Further, newer products are generally more sophisticated than those produced in the past and the Group must continually refine design, production and approval capabilities to meet the needs of its product innovation.

The Group has invested, and intends to continue to invest, significant resources into its insights function, research and development efforts and the acquisition of key talent to mitigate this risk.

## Systems and technology

Aristocrat relies on the continuing operation of its information technology platforms. Interruption, compromise or failure of these platforms could affect Aristocrat's ability to service its customers effectively.

# Specific risks

## Major incidents

Aristocrat has a diverse and expansive supply chain footprint. However financial losses stemming from a natural disaster, civil or labour unrest, terror incident, major fire or other incident are possible.

## Brand names

Brand names are crucial assets to Aristocrat and the success of Aristocrat is heavily reliant on its reputation and branding. Unforeseen issues or events which place Aristocrat's reputation at risk may impact on its future growth and profitability. The reputation and value associated with these brand names could be adversely impacted by a number of factors, including quality control issues, disputes or litigation with third parties such as employees, suppliers or customers, or adverse media coverage.

## Litigation

If Aristocrat becomes involved in litigation or disputes, these could adversely affect Aristocrat's financial performance.

## Tax

A change in tax law (including goods and services taxes and stamp duties), or changes in the way tax laws are interpreted in the various jurisdictions in which Aristocrat operates, may impact the tax liabilities of Aristocrat and the assets in which it holds an interest.

## Section 338(h)(10)

In summary, a Section 338(h)(10) tax election is an election to treat a stock acquisition of the target corporation generally as an asset acquisition. The acquisition is expected to qualify for the election under Section 338(h)(10) of the US Tax Code to be treated for United States federal income tax purposes as a purchase by us of the assets, rather than the stock, of VGT, with the attendant step-up in the basis of such assets for United States federal income tax purposes. There can be no assurance, however, that the acquisition will qualify for such treatment. If the acquisition does not so qualify, or if we do not generate sufficient taxable income in the U.S., the benefits to us will not be realised.

# Acquisition risks

## Completion risk

Completion of the acquisition is subject to US anti-trust approval under the Hart–Scott–Rodino Antitrust Improvements Act (“HSR Act”). It is possible that this clearance may be substantially delayed, not be forthcoming or subject to material conditions. The Placement, Ainsworth family offer and SPP will occur prior to, and are not subject to, completion. If, for whatever reason, the acquisition does not proceed, Aristocrat may seek to buyback shares, use the funds to retire debt or a combination of both.

## Funding risk

The placement agreement includes certain rights of the sole lead manager to terminate those arrangements, and the availability of the acquisition debt facility is also subject to various conditions precedent which mean that the funds may not be available in connection with the placement or under the acquisition debt facility, in circumstances which may not also entitle Aristocrat to terminate the acquisition agreement. While the termination rights of the sole lead manager and the conditions precedent of the banks are considered to be consistent with market practice, some of those rights could arise in circumstances outside Aristocrat’s control. As such, there is a risk that Aristocrat has an obligation to pay the purchase price for VGT under the Acquisition Agreement but, due to the termination of the placement agreement or the unavailability of the acquisition debt facility, does not have the necessary amount of funding available. In this instance Aristocrat would need to seek to put in place new financing arrangements, the terms of which may be less attractive than the proposed acquisition funding mix.

## Historical liability

If the acquisition of VGT completes, Aristocrat may become directly or indirectly liable for any liabilities previously incurred by VGT, which may not have been identified during due diligence, or which were of a greater magnitude than expected. Market standard protection (in the form of representations and warranties and indemnities) negotiated by Aristocrat prior to its agreement to acquire VGT may not be adequate in these circumstances. Such liability may therefore adversely affect the financial performance or position of Aristocrat post-acquisition.

## Synergies and integration risk

There are risks that any integration between the businesses of Aristocrat and VGT may take longer than expected and that anticipated efficiencies and benefits of that integration may be less than estimated. These risks include possible differences in the management culture of the two companies, inability to achieve synergy benefits and cost savings, and the potential loss of key personnel.

# Acquisition risks

## Acquisition accounting

In accounting for the acquisition, Aristocrat will need to perform a fair value assessment of all of the assets, liabilities and contingent liabilities of VGT, which will include the identification and valuation of identifiable intangible assets. The fair value estimates contained in the pro-forma balance sheet are management's preliminary best estimates and are subject to change when the detailed fair value assessment is performed. As a result, the combined group's depreciation and amortisation charges may differ from the depreciation and amortisation charges of Aristocrat and VGT as separate businesses, which may have an adverse impact on the financial position and performance of the combined group.

## Loss of key staff

It is possible that there will be some unintended loss of key staff leading up to and following the VGT acquisition by Aristocrat.

## Loss of key customers

There is a risk of disruptions in the supply of products or in customer service levels during the integration, including as a result of key VGT personnel who have long standing relationships with VGT's customers, which could result in the loss of some or all of VGT's key customers.

## VGT's future earnings

Aristocrat has undertaken financial and business analysis of VGT in order to determine its attractiveness to the Company and whether to pursue the acquisition. To the extent that the actual results achieved by VGT are weaker than those anticipated, there is a risk that the profitability and future earnings of the operations of the combined group may differ (including in a materially adverse way) from the current performance as reflected in this presentation.

For example, the following matters may have a negative impact on VGT's future earnings:

- Any inability to secure and protect its key intellectual property rights
- A deterioration in customer renewal rates
- Failure to secure new business
- Increase in raw material costs
- General economic conditions in North America; and
- Changes to accounting practices

# Acquisition risks

## **Impairment risk**

A significant proportion of VGT's assets are intangible and subject to annual impairment testing. Should any intangible assets become impaired the associated write downs in carrying values could affect Aristocrat's earnings and ability to pay dividends.

## **Reliance on information provided**

Aristocrat undertook a due diligence process in respect of VGT, which relied in part on the review of financial and other information provided by the vendors of VGT. Despite taking reasonable efforts, Aristocrat has not been able to verify the accuracy, reliability or completeness of all the information which was provided to it against independent data. Similarly, Aristocrat has prepared (and made assumptions in the preparation of) the financial information relating to VGT on a stand-alone basis and also to Aristocrat post-acquisition included in this presentation in reliance on limited financial information and other information provided by the vendors of VGT. Aristocrat is unable to verify the accuracy or completeness of all of that information. If any of the data or information provided to and relied upon by Aristocrat in its due diligence process and its preparation of this Presentation proves to be incomplete, incorrect, inaccurate or misleading, there is a risk that the actual financial position and performance of VGT and the combined group may be materially different to the financial position and performance expected by Aristocrat and reflected in this presentation. Investors should also note that there is no assurance that the due diligence conducted was conclusive and that all material issues and risks in respect of the acquisition have been identified. Therefore, there is a risk that unforeseen issues and risks may arise, which may also have a material impact on Aristocrat.

## **Change of control**

The acquisition may trigger change of control clauses in a number of material contracts to which VGT is a party. If triggered, the change of control clauses may require counterparty consent. If the consent of a counterparty cannot be obtained and a material contract containing a change of control clause is terminated or renegotiated on less favourable terms, it may have an adverse impact on Aristocrat's financial performance and prospects.

# Appendix 3 International selling restrictions

# International selling restrictions

## International Offer Restrictions

This document does not constitute an offer of new ordinary shares ("New Shares") of the Company in any jurisdiction in which it would be unlawful. New Shares may not be offered or sold in any country outside Australia except to the extent permitted below.

### Canada (British Columbia, Ontario and Quebec provinces)

This document constitutes an offering of New Shares only in the Provinces of British Columbia, Ontario and Quebec (the "Provinces") and to those persons to whom they may be lawfully distributed in the Provinces, and only by persons permitted to sell such New Shares. This document is not, and under no circumstances is to be construed as, an advertisement or a public offering of securities in the Provinces. This document may only be distributed in the Provinces to persons that are "accredited investors" within the meaning of NI 45-106 – *Prospectus and Registration Exemptions*, of the Canadian Securities Administrators.

No securities commission or similar authority in the Provinces has reviewed or in any way passed upon this document, the merits of the New Shares or the offering of New Shares and any representation to the contrary is an offence.

No prospectus has been, or will be, filed in the Provinces with respect to the offering of New Shares or the resale of such securities. Any person in the Provinces lawfully participating in the offer will not receive the information, legal rights or protections that would be afforded had a prospectus been filed and receipted by the securities regulator in the applicable Province. Furthermore, any resale of the New Shares in the Provinces must be made in accordance with applicable Canadian securities laws which may require resales to be made in accordance with exemptions from dealer registration and prospectus requirements. These resale restrictions may in some circumstances apply to resales of the New Shares outside Canada and, as a result, Canadian purchasers should seek legal advice prior to any resale of the New Shares.

The Company, and the directors and officers of the Company, may be located outside Canada, and as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the Company or its directors or officers. All or a substantial portion of the assets of the Company and such persons may be located outside Canada, and as a result, it may not be possible to satisfy a judgment against the Company or such persons in Canada or to enforce a judgment obtained in Canadian courts against the Company or such persons outside Canada.

Any financial information contained in this document has been prepared in accordance with Australian Accounting Standards and also comply with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board. Unless stated otherwise, all dollar amounts contained in this document are in Australian dollars.

#### *Statutory rights of action for damages or rescission*

Securities legislation in certain of the Provinces may provide purchasers with, in addition to any other rights they may have at law, rights of rescission or to damages, or both, when an offering memorandum that is delivered to purchasers contains a misrepresentation. These rights and remedies must be exercised within prescribed time limits and are subject to the defenses contained in applicable securities legislation. Prospective purchasers should refer to the applicable provisions of the securities legislation of their respective Province for the particulars of these rights or consult with a legal adviser.

The following is a summary of the statutory rights of rescission or to damages, or both, available to purchasers in Ontario. In Ontario, every purchaser of the New Shares purchased pursuant to this document (other than (a) a "Canadian financial institution" or a "Schedule III bank" (each as defined in NI 45-106), (b) the Business Development Bank of Canada or (c) a subsidiary of any person referred to in (a) or (b) above, if the person owns all the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of that subsidiary) shall have a statutory right of action for damages and/or rescission against the Company if this document or any amendment thereto contains a misrepresentation. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against the Company.



# International selling restrictions

This right of action for rescission or damages is in addition to and without derogation from any other right the purchaser may have at law. In particular, Section 130.1 of the Securities Act (Ontario) provides that, if this document contains a misrepresentation, a purchaser who purchases the New Shares during the period of distribution shall be deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase and has a right of action for damages or, alternatively, may elect to exercise a right of rescission against the Company, provided that (a) the Company will not be liable if it proves that the purchaser purchased the New Shares with knowledge of the misrepresentation; (b) in an action for damages, the Company is not liable for all or any portion of the damages that the Company proves does not represent the depreciation in value of the New Shares as a result of the misrepresentation relied upon; and (c) in no case shall the amount recoverable exceed the price at which the New Shares were offered.

Section 138 of the *Securities Act* (Ontario) provides that no action shall be commenced to enforce these rights more than (a) in the case of any action for rescission, 180 days after the date of the transaction that gave rise to the cause of action or (b) in the case of any action, other than an action for rescission, the earlier of (i) 180 days after the purchaser first had knowledge of the fact giving rise to the cause of action or (ii) three years after the date of the transaction that gave rise to the cause of action. These rights are in addition to and not in derogation from any other right the purchaser may have.

*Certain Canadian income tax considerations.* Prospective purchasers of the New Shares should consult their own tax adviser with respect to any taxes payable in connection with the acquisition, holding or disposition of the New Shares as any discussion of taxation related matters in this document is not a comprehensive description and there are a number of substantive Canadian tax compliance requirements for investors in the Provinces.

*Language of documents in Canada.* Upon receipt of this document, each investor in Canada hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the New Shares (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

## China

The information in this document does not constitute a public offer of the New Shares, whether by way of sale or subscription, in the People's Republic of China (excluding, for purposes of this paragraph, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). The New Shares may not be offered or sold directly or indirectly in the PRC to legal or natural persons other than directly to "qualified domestic institutional investors".

## Hong Kong

**WARNING:** This document has not been, and will not be, registered as a prospectus under the Companies Ordinance (Cap. 32) of Hong Kong (the "Companies Ordinance"), nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO). No advertisement, invitation or document relating to the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted New Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

# International selling restrictions

## Ireland

The information in this document does not constitute a prospectus under any Irish laws or regulations and this document has not been filed with or approved by any Irish regulatory authority as the information has not been prepared in the context of a public offering of securities in Ireland within the meaning of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005, as amended (the "Prospectus Regulations"). The New Shares have not been offered or sold, and will not be offered, sold or delivered directly or indirectly in Ireland by way of a public offering, except to "qualified investors" as defined in Regulation 2(l) of the Prospectus Regulations.

## Malaysia

This document may not be distributed or made available in Malaysia. No approval from the Securities Commission of Malaysia has been or will be obtained in relation to any offer of New Shares. The New Shares may not be offered or sold in Malaysia except pursuant to, and to persons prescribed under, Schedule 6 of the Malaysian Capital Markets and Services Act.

## New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Securities Act 1978 (New Zealand). The New Shares are not being offered or sold in New Zealand, or allotted with a view to being offered for sale in New Zealand, and no person in New Zealand may accept a placement of New Shares other than to:

persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money; or persons who are each required to (i) pay a minimum subscription price of at least NZ\$500,000 for the securities before allotment or (ii) have previously paid a minimum subscription price of at least NZ\$500,000 for securities of the Company ("initial securities") in a single transaction before the allotment of such initial securities and such allotment was not more than 18 months prior to the date of this document.

## Norway

This document has not been approved by, or registered with, any Norwegian securities regulator under the Norwegian Securities Trading Act of 29 June 2007. Accordingly, this document shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007. The New Shares may not be offered or sold, directly or indirectly, in Norway except to "professional clients" (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876 and including non-professional clients having met the criteria for being deemed to be professional and for which an investment firm has waived the protection as non-professional in accordance with the procedures in this regulation).

## Singapore

This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of New Shares, may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

# International selling restrictions

## United Kingdom

Neither the information in this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the New Shares. This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of FSMA) in the United Kingdom, and the New Shares may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received in connection with the issue or sale of the New Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("FPO"), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together "relevant persons"). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.