*building for the future*

Aristocrat Leisure Limited ABN 44 002 818 368

# Annual Report 2008

Twelve months ended 31 December 2008

# Contents

# Company Profile

Aristocrat Leisure Limited (ASX: ALL) (Company) is a leading global provider of gaming solutions. The Company is licensed by over 200 regulators and its products and services are available in over 90 countries around the world. The Company offers a diverse range of products and services including electronic gaming machines, interactive video terminal systems, electronic tables and casino management systems. For further information visit the Company's website at **www.aristocratgaming.com**.

# Key Dates*

| | |
|---|---|
| **2009** | |
| 2009 Annual General Meeting | 21 April 2009 |
| Interim Results Announcement (6 months ending 30 June 2009) | 25 August 2009 |
| Shares Trade Ex-Interim Dividend | 2 September 2009 |
| Record Date for Interim Dividend | 8 September 2009 |
| Payment Date for Interim Dividend | 29 September 2009 |
| **2010** | |
| Final Results Announcement for 2009 | 23 February 2010 |
| Shares Trade Ex-Final Dividend | 1 March 2010 |
| Record Date for Final Dividend | 5 March 2010 |
| Payment Date for Final Dividend | 29 March 2010 |
| 2010 Annual General Meeting | 27 April 2010 |

* Dates subject to change

# Directors' Report

## For the 12 months ended 31 December 2008

The Directors present their Report together with the financial statements of Aristocrat Leisure Limited (Company) and its controlled entities (Group) for the twelve months ended 31 December 2008. The information in this Report is current as at 24 February 2009 unless otherwise specified.

## Directors' particulars, experience and special responsibilities

### Current Directors

The Directors of the Company throughout the twelve months ended 31 December 2008 and up to the date of this Report are:

| Director | Experience and other directorships | Special responsibilities |
|---|---|---|
| DJ Simpson<br>FCPA<br><br>Age 68 | Nominated July 2003. Appointed February 2004.<br>• Director, CSL Limited<br>• Former Finance Director, Tabcorp Holdings Limited | Non Executive Chairman (until 29 September 2008)<br><br>Executive Chairman (from 29 September 2008)<br><br>Member, Nomination and Governance Committee<br><br>Member, Audit Committee<br><br>Member, Remuneration Committee |
| WM Baker<br>BA<br><br>Age 69 | Nominated August 1998. Appointed May 1999.<br>• Director, J. Edgar Hoover Foundation and Fortress Global Investigations, Inc<br>• Former Assistant Director of the FBI<br>• Former President, The Motion Picture Association | Chair, Regulatory and Compliance Committee |
| RA Davis<br>BEc (Hons),<br>M Philosophy<br><br>Age 57 | Nominated November 2004. Appointed June 2005.<br>• Consulting Director – Investment Banking, Rothschild Australia Limited<br>• Chairman, Centric Wealth<br>• Director, Territory Insurance Office, Trust Company Limited, Macquarie Office Management Limited, Macquarie Leisure Operations Limited and Bank of Queensland<br>• Former Chairman, Pengana Managers Limited<br>• Former Director, Magellan Financial Group Pty Limited<br>• Former Group Managing Director, ANZ Banking Group Limited<br>• Former Senior Executive, Citicorp and CitiGroup Inc in the United States and Japan | Chair, Nomination and Governance Committee<br><br>Member, Audit Committee |

# Directors' Report

| Director | Experience and other directorships | Special responsibilities |
|---|---|---|
| SCM Kelly<br>BA (Hons), FCA, CA, MAICD<br><br>Age 45 | Nominated and appointed February 2007.<br>• Former executive, Goodman Fielder Limited – Chief Financial Officer – Consumer Foods, Chief Information Officer, General Manager – International, Finance Director – International, Group Accounting Manager<br>• Former Senior Manager, PricewaterhouseCoopers (Sydney and London)<br>• Member National Executive, Group of 100 | Chief Financial Officer and Finance Director<br><br>Company Secretary (from 25 July 2008) |
| P Morris AM<br>BArch (Hons), MEnvSc, DipCD, FRAIA, FAICD<br><br>Age 60 | Nominated August 2003. Appointed February 2004.<br>• Director, Mirvac Limited, Clarius Group Limited, NSW Institute of Teachers, and Bowel Cancer and Digestive Research Institute Australia<br>• Former Director, Australia Post, Ausmac Limited, Colonial State Bank, Country Road Limited, Energy Australia, Howard Smith Limited, Indigenous Land Corporation, Jupiters Limited, Landcom, NSW Property Services Group, Principal Real Estate Investors (Australia) Limited, Strathfield Group Limited and Sydney Harbour Foreshore Authority<br>• Former Director of Commonwealth Property, Department of Administrative Services<br>• Former Group Executive, Lend Lease Property Services | Chair, Audit Committee<br><br>Member, Remuneration Committee<br><br>Member, Nomination and Governance Committee |
| SAM Pitkin<br>LLB, LLM, MAICD<br><br>Age 49 | Nominated November 2004. Appointed June 2005.<br>• Director, Chandler Macleod Limited, Export Finance and Insurance Corporation, City of Brisbane Investment Corporation Pty Limited and UniQuest Pty Limited<br>• Member, Queensland Competition Authority<br>• Former Director, Australian Leisure & Hospitality Limited and National Leisure and Gaming Limited<br>• Former Partner and Special Counsel, Clayton Utz, Lawyers | Chair, Remuneration Committee<br><br>Member, Regulatory and Compliance Committee |

## Directors-elect

The following individuals were nominated by the Board during the year to be appointed Directors of the Company on receipt of regulatory approval:

| Director | Experience and other directorships | Special responsibilities |
|---|---|---|
| RV Dubs<br>BSc (Hons),<br>Dr ès Sc,<br>FAICD<br><br>Age 56 | Nominated 22 December 2008. Appointment pending regulatory approval.<br>• Deputy Vice-Chancellor (External Relations), University of Technology, Sydney<br>• Former Director, Structural Monitoring System Plc<br>• Former Director, Thales ATM Pty Limited, Thales ATM Inc (USA) and Thales ATM Navigation GmbH (Germany)<br>• Former Chairman, Thales ATM spA (Milan) | Proposed Chair, Innovation and Development Committee |
| JR Odell<br>MBA, Dip Wines<br>& Spirits<br><br>Age 50 | Nominated 29 December 2008. Appointment pending regulatory approval.<br>• Former Managing Director, Australia, Asia and Pacific, Foster's Group Limited<br>• Former executive, Allied Domecq in the UK and Asia Pacific | Chief Executive Officer and Managing Director Elect |

## Former Directors

The following individuals held office as Directors of the Company for part of the twelve months ended 31 December 2008:

| Director | Experience and other directorships | Special responsibilities |
|---|---|---|
| PN Oneile<br>BEc<br><br>Age 60 | Nominated December 2003. Appointed June 2004. Resigned 29 September 2008. | Former Chief Executive Officer and Managing Director |
| AW Steelman<br>BA, MLA<br><br>Age 66 | Nominated August 1998. Appointed May 1999. Resigned 29 April 2008. | Former Member, Audit Committee |

# Company Secretary

The Company Secretary was Mr BJ Yahl until he left the Company on 25 July 2008, when Mr SCM Kelly was appointed.

# Directors' Report

## Principal activities

The principal activities of the Group during the twelve months under review were the design, development, manufacture and marketing of gaming machines, software, systems and other related equipment and services. The Company's objective is to be the leading global provider of gaming solutions. There were no significant changes in the nature of those activities during the twelve months ended 31 December 2008.

## Dividends

A final dividend in respect of the twelve months ended 31 December 2008 of 10 cents per share ($45.5 million) has been determined and will be paid on 30 March 2009 to shareholders on the register at 5:00pm on 6 March 2009. The final dividend will be fully franked.

A supplementary unfranked dividend of 2 cents per share ($9.1 million) was paid on 5 January 2009 and a supplementary unfranked dividend of 10 cents per share ($45.9 million) was paid on 1 July 2008 in respect of the twelve months ended 31 December 2008.

A fully franked interim dividend of 14 cents per share ($63.8 million) was paid on 30 September 2008 in respect of the six months ended 30 June 2008.

The total dividend paid or payable in respect of 2008 was 36 cents per share.

The Dividend Reinvestment Plan (DRP) was in operation for the interim and 1 July 2008 supplementary dividends for shareholders resident in Australia and New Zealand. Shares were acquired on-market to satisfy those shares provided under the DRP. The DRP was suspended for the 5 January 2009 supplementary unfranked dividend. The DRP will operate for the 2008 final dividend at a 2.5% discount.

## Review and results of operations

A review of the operations of the Group for the twelve months ended 31 December 2008 is set out in the Management Discussion and Analysis which forms part of this Directors' Report. The operating result of the Group attributable to shareholders for the twelve months ended 31 December 2008 was a profit of $140.3 million after tax and minority interests.

## Significant changes in state of affairs

Except as outlined below and elsewhere in this Report, there were no significant changes in the state of affairs of the Group during the twelve months ended 31 December 2008.

## Events after balance date

No material matters requiring disclosure in this Report have arisen subsequent to 31 December 2008. To the best of their knowledge the Directors are not aware of any other matter or circumstance that has arisen since 31 December 2008 that has significantly affected or may significantly affect:

(a) the Group's operations in future financial years; or

(b) the results of those operations in future financial years; or

(c) the Group's state of affairs in future financial years.

## Likely developments and expected results

Likely developments in the operations of the Group in future financial years and the expected results of operations are referred to in the Management Discussion and Analysis which forms part of this Report.

The Directors believe that disclosure of further information as to likely developments in the operations of the Group and the likely results of those operations would, in their opinion, be speculative and/or prejudice the interests of the Group.

## Directors' attendance at Board and Committee meetings during 2008

The attendance of members of the Board at Board meetings and attendance of members of Committees at Committee meetings of which they are members is set out below.

(Meetings attended/held)

| Director | Board | Committees | | | |
|---|---|---|---|---|---|
| | | Audit | Remuneration | Regulatory & Compliance | Nomination & Governance |
| DJ Simpson | 11/11 | 4/4 | 4/4 | | 3/3 |
| PN Oneile[1] | 8/8 | | | | |
| WM Baker | 11/11 | | | 9/9 | |
| RA Davis | 11/11 | 3/4 | | | 3/3 |
| SCM Kelly | 10/11 | | | | |
| P Morris | 10/11 | 4/4 | 4/4 | | 2/3 |
| SAM Pitkin | 11/11 | | 4/4 | 9/9 | |
| AW Steelman[2] | 3/4 | 2/2 | | | |

1. PN Oneile resigned from the Company on 29 September 2008.
2. AW Steelman retired from the Board and the Audit Committee on 29 April 2008.

## Indemnities and insurance premiums

The Company's Constitution provides that the Company will indemnify each officer of the Company against any liability incurred by that officer in or arising out of the conduct of the business of the Company or in or arising out of the discharge of that officer's duties to the extent permitted by law.

An officer for the purpose of this provision includes any Director or Secretary of the Company or the Company's subsidiaries, executive officers or employees of the Company or its subsidiaries and any person appointed as a trustee by, or acting as a trustee at the request of, the Company and includes former Directors.

In accordance with the Company's Constitution, the Company has entered into deeds of access, indemnity and insurance with each Director and nominated officers of the Company. No amount has been paid pursuant to those indemnities in the year ended 31 December 2008 or since that date to the date of this Report.

The Company has paid a premium in respect of a contract insuring officers of the Company and its related bodies corporate, against any liability incurred by them arising out of the conduct of the business of the Company or in or arising out of the discharge of their duties. In accordance with normal commercial practices, under the terms of the insurance contracts, the details of the nature and extent of the liabilities insured against and the amount of premiums paid are confidential.

## Environmental regulation

The Group's operations have a limited impact on the environment. The Group is subject to a number of environmental regulations in respect of its integration activities. The Company integrates (assembles) machines and systems in Australia, the USA, Macau, Japan, UK, South Africa and New Zealand. Machines are also assembled under contract in Japan. The Company uses limited amounts of chemicals in its assembly process. The Directors are not aware of any breaches of any environmental legislation or of any significant environmental incidents during the twelve months ended 31 December 2008.

The Company has also conducted a review of its energy consumption and greenhouse gas emissions in relation to the *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER), and determined that based on current emission levels, the Company is not required to register and report under the NGER. However, the Company continues to receive reports and monitors its position to ensure compliance with the NGER.

# Directors' Report

The Company is committed to not only complying with the various environmental laws to which its operations are subject, but also to achieving a high standard of environmental performance across all its operations. The Company is aware of, and continues to plan for, any new Australian regulatory requirements on climate change. It is the Company's view that climate change does not pose any significant risks to its operations in the short to medium term. Throughout the Group, new programs and initiatives have been introduced to ensure the Company is well prepared for new regulatory regimes and to reduce its carbon footprint.

## Proceedings on behalf of the Company

No proceedings have been brought on behalf of the Company under section 236 of the *Corporations Act 2001* (Cth) (Act) nor has any application been made in respect of the Company under section 237 of the Act.

## External Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Act.

## Non-audit services provided by the external auditor

The Company, with the prior approval of the Chair of the Audit Committee, may decide to employ PricewaterhouseCoopers, the Company's external auditor, on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important. The Company has a charter of audit independence which specifies those non-audit services which cannot be performed by the Company's external auditor. The charter also sets out the procedures which are required to be followed prior to the engagement of the Company's external auditor for any non-audit related service.

Details of the amounts paid or payable to the Company's external auditor, for audit and non-audit services provided during the year are set out in Note 32 to the financial statements.

The Board has considered the position and, in accordance with the advice received from the Audit Committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Act. The Directors are satisfied that the provision of non-audit services by the auditor, as set out in Note 32 to the financial statements did not compromise the auditor independence requirements of the Act for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration is attached to this Report.

## Loans to Directors and executives

No Director or executive held any loans with the Company during the financial year.

## Rounding of amounts to nearest thousand dollars

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission (ASIC) relating to the 'rounding off' of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order.

This Report is made in accordance with a resolution of the Directors and is signed for and on behalf of the Directors.

DJ Simpson.

**DJ Simpson**
Chairman

24 February 2009

# Management Discussion and Analysis

## Financial Report

### Summary

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

| Normalised Results* | Constant Currency** 2008 $Million | 2008 $Million | 2007 $Million | Variance: Constant Currency** % | Variance: Actual % |
|---|---|---|---|---|---|
| Total revenue from ordinary activities | **1,027.2** | **1,079.9** | 1,122.0 | (8.4%) | (3.8%) |
| Operating earnings before interest, tax and R&D costs | **315.8** | **330.1** | 436.5 | (27.7%) | (24.4%) |
| Operating earnings before interest and tax (EBIT) | **200.0** | **212.9** | 332.3 | (39.8%) | (35.9%) |
| Operating profit after tax | **131.8** | **141.0** | 247.9 | (46.8%) | (43.1%) |
| Operating profit after tax and minority interest | **131.1** | **140.3** | 247.2 | (47.0%) | (43.2%) |
| Net working capital/revenue | **12.6%** | **14.4%** | 12.1% | 0.5pts | 2.3pts |
| Operating cash flow | **164.1** | **173.8** | 222.2 | (26.1%) | (21.8%) |
| Closing net debt | **(346.5)** | **(376.4)** | (111.8) | 209.9% | 236.7% |
| Earnings per share (fully diluted) | **28.5c** | **30.5c** | 52.8c | (46.0%) | (42.2%) |
| Cash flow per share (fully diluted) | **35.7c** | **37.8c** | 47.4c | (24.7%) | (20.3%) |
| Total dividends per share | **36.0c** | **36.0c** | 49.0c | (26.5%) | (26.5%) |
| **Reported results** | | | | | |
| EBIT | **143.8** | **156.7** | 332.3 | (56.7%) | (52.8%) |
| Profit after tax | **92.7** | **101.9** | 247.9 | (62.6%) | (58.9%) |

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

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

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

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

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

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

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

# Management Discussion and Analysis

The New Zealand region was impacted by increasing competition as operators delayed upgrading their floors to meet new responsible gaming legislation ahead of a 1 July 2009 deadline.

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

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

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

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

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

At period end, debt exceeded cash on hand by $376.4 million, a $264.6 million increase from the net debt position at 31 December 2007. This increase primarily reflects the net impact of $334.6 million returned to shareholders through dividends and other capital management initiatives together with capital expenditure for the period offset by operating cash flow. Debt ratios remain at conservative levels, with debt coverage (net debt/EBITDA) at 1.4 times and interest cover at 13.9 times.

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

## Profit and loss

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

This normalised result is stated prior to recognising a number of transactions/adjustments taken during the 2008 period which are considered abnormal on the basis that they are not representative of the ongoing operations of the Group and are non-recurring in nature.

* Management basis includes the Group's share of associate company revenue, segmental profit (EBIT), interest and tax on their respective lines. On a statutory reported basis, the Group's share of associate company profit after tax is included as a one line income item only.

These abnormal items are summarised below.

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

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

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

The Group reported a normalised profit after tax and minorities of $140.3 million, representing a 43.2% decline compared with the prior corresponding period. In constant currency terms, normalised profit after tax and minorities was $131.1 million.

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

Normalised operating results are summarised on the following page.

# Management Discussion and Analysis

## Segment results

| Normalised results | Segment revenue 2008 $Million | Segment revenue 2007 $Million | Segment revenue Var % | Profit/(loss) 2008 $Million | Profit/(loss) 2007 $Million | Profit/(loss) Var % | % Margin 2008 $Million | % Margin 2007 $Million | % Margin Var Pts |
|---|---|---|---|---|---|---|---|---|---|
| **Segment results** | | | | | | | | | |
| Australia | **185.3** | 280.1 | (33.8%) | **52.0** | 109.5 | (52.5%) | **28.1%** | 39.1% | (11.0) |
| North America | **470.4** | 483.6 | (2.7%) | **187.6** | 203.9 | (8.0%) | **39.9%** | 42.2% | (2.3) |
| South America | **43.5** | 23.2 | 87.5% | **13.4** | 8.7 | 54.0% | **30.8%** | 37.5% | (6.7) |
| New Zealand | **21.7** | 25.2 | (13.9%) | **8.4** | 9.5 | (11.6%) | **38.7%** | 37.7% | 1.0 |
| Japan | **214.3** | 91.2 | 135.0% | **52.3** | 5.9 | 786.4% | **24.4%** | 6.5% | 17.9 |
| Other international | **124.9** | 217.2 | (42.5%) | **44.2** | 80.1 | (44.8%) | **35.4%** | 36.9% | (1.5) |
| ACE Interactive | **19.9** | 1.5 | n/a | **(1.2)** | (11.6) | n/a | **(6.0%)** | (773.3%) | n/a |
| Elektronček | **27.6** | 38.5 | (28.3%) | **0.4** | 10.1 | (96.0%) | **1.4%** | 26.2% | (24.8) |
| **Total segment results** | **1,107.6** | 1,160.5 | (4.6%) | **357.1** | 416.1 | (14.2%) | **32.2%** | 35.8% | (3.6) |

| Unallocated expenses | 2008 $Million | 2007 $Million | Var % | % Revenue 2008 | % Revenue 2007 | % Revenue Var Pts |
|---|---|---|---|---|---|---|
| Research and development | **(117.2)** | (104.2) | (12.5%) | **(10.6%)** | (9.0%) | (1.6) |
| Foreign exchange | **(6.9)** | 6.6 | (204.5%) | **(0.6%)** | 0.6% | (1.2) |
| Corporate/other | **(20.1)** | 15.2 | (232.2%) | **(1.8%)** | 1.3% | (3.1) |
| **Total unallocated expenses** | **(144.2)** | (82.4) | 75.0% | **(13.0%)** | (7.1%) | (5.9) |
| **Operating earnings before interest and tax** | **212.9** | 333.7 | (36.2%) | **19.2%** | 28.8% | (9.6) |
| Interest | **(19.8)** | (6.0) | (230.0%) | **(1.8%)** | (0.5%) | (1.3) |
| **Operating profit before tax** | **193.1** | 327.7 | (41.1%) | **17.4%** | 28.2% | (10.8) |
| Income tax | **(52.1)** | (79.8) | 34.7% | **(4.7%)** | (6.9%) | 2.2 |
| **Operating profit after tax** | **141.0** | 247.9 | (43.1%) | **12.7%** | 21.4% | (8.7) |
| Minority interest | **(0.7)** | (0.7) | – | **(0.1%)** | (0.1%) | – |
| **Operating profit after tax and minority interest** | **140.3** | 247.2 | (43.2%) | **12.7%** | 21.3% | (8.6) |
| **Abnormals** | **(39.1)** | – | n/a | **(3.5%)** | – | n/a |
| **Reported profit after tax** | **101.9** | – | n/a | **9.2%** | – | n/a |

## Segment revenue

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

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

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

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

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

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

## Earnings

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

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

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

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

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

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

## Tax

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

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

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The 2008 final dividend payable on 30 March 2009 will be fully franked. The Group's ability to pay franked dividends is primarily influenced by its mix of earnings and agreed positions with various taxation authorities around the world. Based on the current mix of earnings and the impact of 2008 abnormal items, dividends over the medium term are not expected to be fully franked.

## Earnings and cash flow per share

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

## Balance Sheet

The Balance Sheet can be summarised as follows:

| | **2008 $Million** | 2007 $Million |
|---|---|---|
| Net working capital | **156.0** | 135.5 |
| Other current/non-current assets | **65.8** | 45.5 |
| Property, plant and equipment | **150.8** | 130.5 |
| Investments in associate and other companies | **89.8** | 87.6 |
| Intangibles | **154.4** | 128.2 |
| Other current/non-current liabilities | **(97.8)** | (80.2) |
| Provision for supplementary unfranked dividend | **(9.1)** | (40.5) |
| Net tax balances | **58.9** | 26.0 |
| Funds employed | **568.8** | 432.6 |
| Net debt | **(376.4)** | (111.8) |
| Shareholders' funds | **192.4** | 320.8 |

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

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

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

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

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

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

## Statement of Cash Flows

Effective cash flow management continues to be one of the Group's key strategies.

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

| | 2008 $Million | 2007 $Million |
|---|---|---|
| **Net debt – opening balance** | **(111.8)** | (40.8) |
| **Normalised EBIT** | **212.9** | 332.3 |
| Depreciation and amortisation | **40.2** | 36.4 |
| **Normalised EBITDA** | **253.1** | 368.7 |
| Non-cash adjustments: | | |
| – Net profit on sale of non-current assets | **0.2** | (2.7) |
| – Share of Elektrončec profit after tax | **(0.5)** | (8.6) |
| – Net foreign exchange differences | **30.1** | 2.5 |
| – Expensing of costs of share-based payments | **4.2** | 9.4 |
| – Non-cash interest income | **(0.8)** | (0.9) |
| Net interest paid | **(19.8)** | (6.0) |
| Net tax paid | **(51.1)** | (96.8) |
| Change in operating assets and liabilities | **(41.6)** | (43.4) |
| **Normalised net cash inflow from operating activities** | **173.8** | 222.2 |
| Payments for acquisitions | **–** | (3.1) |
| Net cash outflow from other investing activities | **(18.3)** | (52.2) |
| Loan repayments from non-related parties | **1.2** | 1.0 |
| Proceeds from exercise of options | **0.6** | 3.0 |
| Payments for shares bought back | **(68.6)** | (52.4) |
| Payments to employee share trust | **–** | (18.0) |
| Dividends paid | **(266.0)** | (182.6) |
| **Normalised movement in net cash** | **(177.3)** | (82.1) |
| Effect of exchange rate changes on net debt | **(29.9)** | 11.1 |
| One-off cash item – Class Action settlement | **(57.4)** | – |
| **Net debt - closing balance** | **(376.4)** | (111.8) |

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

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

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

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

## Dividends

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

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

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

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

## Capital management

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

– an ongoing flow of fully franked dividends which, subject to the Group's franking ability, are expected to approximate 60%-70% of annual earnings;

– the payment of supplementary unfranked dividends totalling 20 cents per annum, payable as two supplementary dividends of 10 cents each; and

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– an on-market share buyback program of up to $100 million per annum over a 3-5 year timeframe.

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

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

– fully franked dividends above 70% of annual earnings influenced in the short term by the volatility in earnings in the current year;

– the payment of supplementary unfranked dividends totalling 12 cents per share; and

– the purchase of shares to the value of $68.6 million under the on-market share buyback program.

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

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

## Bank facilities

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

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

| Facility | Drawn as at 31 December 2008 | Limit | Maturity Date |
|---|---|---|---|
| 364 Day Debt | **A$150.0m** | A$220m | February 2010 |
| Letter of Credit | **–** | US$100m | February 2010 |
| 3 Year Debt | **A$332.9m** | A$585m | February 2011 |

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

## Debt ratios

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

| Ratio | 31 December 2008 | 31 December 2007 |
|---|---|---|
| EBITDA*/interest expense* | **13.9X** | 29.0X |
| Debt/EBITDA* | **1.7X** | 0.5X |
| Net debt/EBITDA* | **1.4X** | 0.3X |

* EBITDA and interest expense are based on the preceding 12 months' results. EBITDA represents Bank EBITDA which is inclusive of interest received but excludes Class Action settlement, disposal of land and buildings and the impairment charge against the investment in PokerTek Inc.

For financial management purposes, the Group pays particular attention to the interest cover ratio (EBITDA/interest expense) as it reflects the ability of the Group to service its debt and is regarded as more relevant than gearing calculations. The Group's objective is to maintain conservative debt levels and to continue to operate at debt coverage ratios which are well within those considered appropriate of an investment grade rating.

## Credit rating

The Group's Standard & Poor's credit rating is BBB- which is investment grade, reflecting the Group's strong strategic, operational and financial position and outlook.

## Foreign exchange

Given the extent of the Group's global operations and the percentage of its earnings derived from overseas, its reported results are impacted by movements in foreign exchange rates. These impacts can be classified into two categories:

– *Translational* – the effect of changes in exchange rates on the translated value of foreign denominated earnings and net assets; and

– *Transactional* – the impact of changes in exchange rates on underlying local currency results where the local business undertakes foreign currency denominated transactions.

### Translational foreign exchange

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

In the current period, revenue and profit after tax were favourably impacted by $52.8 million and $9.2 million respectively as a result of the translational impact of the generally weaker Australian dollar compared with the prior corresponding period. In addition, the net effect of the re-translation of the net assets of foreign controlled entities (recognised through the foreign currency translation reserve) was a favourable $60.2 million (compared to an unfavourable $14.6 million as at 31 December 2007).

Based on the Group's 2008 mix of profitability, the major exposure to translational foreign exchange results from the Group's US dollar profits. A US dollar 1 cent change in the USD/AUD exchange rate results in an estimated $2.0 million translational impact on the Group's reported profit after tax. This impact will vary as the magnitude of overseas profits changes.

### Transactional foreign exchange

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

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

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

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

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

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## Business segment review

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

### Australia

| | **2008 $Million** | 2007 $Million | **Variance $Million** | **Variance %** |
|---|---|---|---|---|
| Revenue | **185.3** | 280.1 | (94.8) | (33.8)% |
| Profit | **52.0** | 109.5 | (57.4) | (52.5)% |
| Margin | **28.1%** | 39.1% | – | (11.0)pts |

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

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

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

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

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

## The Americas

### North America

| Reported | **2008 $Million** | 2007 $Million | **Variance $Million** | **Variance %** |
|---|---|---|---|---|
| Revenue | **470.4** | 483.6 | (13.2) | (2.7%) |
| Profit | **187.6** | 203.9 | (16.3) | (8.0%) |
| Margin | **39.9%** | 42.2% | – | (2.3)pts |
| **At constant currency*** | | | | |
| Revenue | **456.7** | 483.6 | (26.9) | (5.6%) |
| Profit | **181.4** | 203.9 | (22.5) | (11.0%) |
| Margin | **39.7%** | 42.2% | – | (2.5)pts |

* Adjusted for translational exchange rates using rates applying in 2007.

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

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

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

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

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

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

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

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

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

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

**South America**

| **Reported** | **2008 $Million** | 2007 $Million | **Variance $Million** | **Variance %** |
|---|---|---|---|---|
| Revenue | **43.5** | 23.2 | 20.3 | 87.5% |
| Profit | **13.4** | 8.7 | 4.7 | 54.0% |
| Margin | **30.8%** | 37.5% | – | (6.7)pts |
| **At constant currency*** | | | | |
| Revenue | **40.7** | 23.2 | 17.5 | 75.4% |
| Profit | **13.8** | 8.7 | 5.1 | 58.6% |
| Margin | **33.9%** | 37.5% | – | (3.6)pts |

* Adjusted for translational exchange rates using rates applying in 2007.

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

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

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

## Japan

| Reported | **2008 $Million** | 2007 $Million | Variance $Million | Variance % |
|---|---|---|---|---|
| Revenue | **214.3** | 91.2 | 123.1 | 135.0% |
| Profit | **52.3** | 5.9 | 46.4 | 786.4% |
| Margin | **24.4%** | 6.5% | – | 17.9pts |
| **At constant currency*** | | | | |
| Revenue | **174.8** | 91.2 | 83.6 | 91.7% |
| Profit | **43.4** | 5.9 | 37.5 | 635.6% |
| Margin | **24.8%** | 6.5% | – | 18.3pts |

* Adjusted for translational exchange rates using rates applying in 2007.

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

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

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

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

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

# Management Discussion and Analysis

## New Zealand

| Reported | 2008 $Million | 2007 $Million | Variance $Million | Variance % |
|---|---|---|---|---|
| Revenue | **21.7** | 25.2 | (3.5) | (13.9%) |
| Profit | **8.4** | 9.5 | (1.1) | (11.6%) |
| Margin | **38.7%** | 37.7% | – | 1.0pts |
| **At constant currency*** | | | | |
| Revenue | **22.9** | 25.2 | (2.3) | (9.1%) |
| Profit | **8.9** | 9.5 | (0.6) | (6.3%) |
| Margin | **38.9%** | 37.7% | – | 1.2pts |

* Adjusted for translational exchange rates using rates applying in 2007.

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

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

## Other international

| Reported | 2008 $Million | 2007 $Million | Variance $Million | Variance % |
|---|---|---|---|---|
| Revenue | **124.9** | 217.2 | (92.3) | (42.5%) |
| Profit | **44.2** | 80.1 | (35.9) | (44.8%) |
| Margin | **35.4%** | 36.9% | – | (1.5)pts |
| **At constant currency*** | | | | |
| Revenue | **128.8** | 217.2 | (88.4) | (40.7%) |
| Profit | **44.4** | 80.1 | (35.7) | (44.6%) |
| Margin | **34.5%** | 36.9% | – | (2.4)pts |

* Adjusted for translational exchange rates using rates applying in 2007.

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

### Asia-Pacific

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

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

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

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

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

### Europe

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

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

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

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

# Management Discussion and Analysis

### South Africa

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

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

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

### ACE

| Reported | **2008 $Million** | 2007 $Million | **Variance $Million** | **Variance %** |
|---|---|---|---|---|
| Revenue | **19.9** | 1.5 | 18.4 | n/a |
| Profit | **(1.2)** | (11.6) | 10.4 | n/a |
| Margin | **n/a** | n/a | – | n/a |
| **At constant currency*** | | | | |
| Revenue | **18.0** | 1.5 | 16.5 | n/a |
| Profit | **(1.6)** | (11.6) | 10.0 | n/a |
| Margin | **n/a** | n/a | – | n/a |

* Adjusted for translational exchange rates using rates applying in 2007.

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

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

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

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

## Elektronček (50% ownership)

| Reported | 2008 $Million | 2007 $Million | Variance $Million | Variance % |
|---|---|---|---|---|
| Revenue | **27.6** | 38.5 | (10.9) | (28.3%) |
| Profit | **0.4** | 10.1 | (9.7) | (96.0%) |
| Margin | **1.4%** | 26.2% | – | (24.8)pts |
| **At constant currency*** | | | | |
| Revenue | **27.2** | 38.5 | (11.3) | (29.4%) |
| Profit | **0.4** | 10.1 | (9.7) | (96.0%) |
| Margin | **1.5%** | 26.2% | – | (24.7)pts |

* Adjusted for ranslational exchange rates using rates applying in 2007.

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

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

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

# Remuneration Report

The Directors of the Company present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* (Cth) (Act) for the Company and the consolidated group for the year ended 31 December 2008.

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Act. This Remuneration Report forms part of the Directors' Report.

This Report details the policy and principles that govern the remuneration of Directors and executives of the Company, the link between remuneration policy and principles and the Company's performance for the financial year, and the remuneration and service agreements of Directors and executives.

## 1 Non-Executive Directors

Details of the Non-Executive Directors of the Company during the twelve months ended 31 December 2008 are provided in the Directors' Report.

### 1.1 Board policy on Non-Executive Director remuneration

The remuneration of the Non-Executive Directors is not linked to the performance of the Company in order to maintain their independence and impartiality. In setting fee levels, the Remuneration Committee, which makes recommendations to the Board, obtains advice from an independent remuneration consultant and takes into account the demands and responsibilities associated with the Directors' roles and the global scope and highly regulated environment that the Company operates in. Fees include a provision for the onerous probity requirements placed on Non-Executive Directors by regulators around the world. The Board will continue to review its approach to Non-Executive Director remuneration to ensure it remains in line with general industry practice.

### 1.2 Components of remuneration

The table below summarises the components of Non-Executive Director remuneration.

| | Element | | |
|---|---|---|---|
| Directors' fees | Non-Executive Directors' fees are set by the Board within the maximum aggregate amount of A$1,750,000 approved by shareholders at the Annual General Meeting (AGM) in May 2004. Current fees for Directors, which have remained unchanged since 1 July 2007, are set out below. The Chairman does not receive any additional fees for his committee responsibilities. | | |
| | Chairman | A$365,000 | |
| | Director – Australia | A$155,000 | |
| | Director – US | US$131,549 | |
| Committee fees | | **Chair** | **Member** |
| | Audit | A$30,000 | A$15,000 (Australia)<br>US$12,731 (US) |
| | Remuneration | A$20,000 | A$10,000 |
| | Nomination and Governance | A$15,500 | A$7,750 |
| | Regulatory and Compliance | US$21,218 | A$12,500 |

| | Element |
|---|---|
| Shares | Non-Executive Directors may contribute a portion of their remuneration to purchase shares on-market during appropriate trading periods under the Non-Executive Directors Share Plan (NEDSP). The NEDSP is not a performance based share plan, nor is it intended as an incentive component of Non-Executive Directors' remuneration. |
| Superannuation | Superannuation contributions are made on behalf of the Directors in accordance with statutory superannuation obligations. Fees set out above include any superannuation payable. |
| Other fees/benefits | Directors may be paid additional fees for special exertions or extra services in accordance with the Constitution. No such fees were paid during the year.<br><br>Directors are also entitled to be reimbursed for all business related expenses, including travel, as may be incurred in the discharge of their duties.<br><br>The Company does not make sign-on payments to new Directors. |
| Other post-employment benefit | A resolution was passed at the AGM in May 2004 to cease retirement allowances for any Directors appointed after May 2003. There currently remains one eligible Director with existing accrued retirement allowances which were frozen as at 1 June 2004 and indexed to the annual change in the Consumer Price Index (All Groups). The benefit may only be paid out when the eligible Director actually leaves the Board.<br><br>No other Non-Executive Director receives any retirement benefits other than the statutorily prescribed superannuation contributions referred to above. |

# Remuneration Report

## 1.3 Details of remuneration

The remuneration details of Non-Executive Directors for the financial year are set out below.

| Name | Year | Short-term benefits | | | Post-employment benefits | | Share-based payments | Total | % of Share-based remuneration |
|---|---|---|---|---|---|---|---|---|---|
| | | Cash salary & fees[1] $ | Cash bonus $ | Non-monetary benefits[4] $ | Superannuation[2] $ | Retirement benefits[3] $ | Options & PSRs $ | $ | % |
| DJ Simpson[5] | **2008** | **334,862** | **–** | **–** | **30,138** | **–** | **–** | **365,000** | **–** |
| | 2007 | 334,862 | – | – | 30,138 | – | – | 365,000 | – |
| WM Baker | **2008** | **188,452** | **–** | **16,128** | **2,133** | **8,211** | **–** | **214,924** | **–** |
| | 2007 | 169,666 | – | 6,930 | 1,788 | 6,003 | – | 184,387 | – |
| RA Davis | **2008** | **170,184** | **–** | **–** | **15,316** | **–** | **–** | **185,500** | **–** |
| | 2007 | 169,037 | – | – | 15,213 | – | – | 184,250 | – |
| P Morris | **2008** | **202,750** | **–** | **–** | **–** | **–** | **–** | **202,750** | **–** |
| | 2007 | 200,250 | – | – | – | – | – | 200,250 | – |
| SAM Pitkin | **2008** | **172,018** | **–** | **–** | **15,482** | **–** | **–** | **187,500** | **–** |
| | 2007 | 172,018 | – | – | 15,482 | – | – | 187,500 | – |
| AW Steelman[6] | **2008** | **51,617** | **–** | **25,426** | **1,354** | **231,520** | **–** | **309,917** | **–** |
| | 2007 | 156,589 | – | 7,580 | 4,179 | 5,695 | – | 174,043 | – |
| RV Dubs[7] | **2008** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | 2007 | – | – | – | – | – | – | – | – |
| Total | **2008** | **1,119,883** | **–** | **41,554** | **64,423** | **239,731** | **–** | **1,465,591** | **–** |
| | 2007 | 1,202,422 | – | 14,510 | 66,800 | 11,698 | – | 1,295,430 | – |

1. Amounts shown as cash salary and fees include amounts sacrificed in lieu of other benefits at the discretion of the individual. To the extent that any non-monetary benefits are subject to Fringe Benefits Tax (FBT), amounts shown include FBT.
2. Superannuation contributions include amounts required to satisfy the Company's obligations under applicable Superannuation Guarantee legislation.
3. Amounts provided for by the Company during the financial year in relation to the indexation of frozen retirement allowances, payable upon retirement from office.
4. Amounts relate to spousal travel.
5. DJ Simpson became Executive Chairman on 29 September 2008. DJ Simpson has declined receiving any additional remuneration for this role.
6. AW Steelman retired from the Board on 29 April 2008.
7. RV Dubs was nominated to the Board on 22 December 2008, her formal appointment as a Non-Executive Director is pending regulatory approval in 2009. She received an amount of $3,822 for the period to 31 December 2008.

## 2 Group performance

Over the past five financial years, the Board has set financial performance targets for management and has directly aligned executive incentives to the achievement of those targets. The link is clear: when target performance is achieved, target executive rewards are earned, and when above or below target performance is achieved, executives earn above or below target rewards.

Short Term Incentive (STI) payments to participating executives mirror Group performance in 2008.

### 2.1 Earnings

The Group's earnings for the five years to 31 December 2008 are summarised below.

| | 2008 * $million | 2007 $million | 2006 $million | 2005 $million | 2004 $million |
|---|---|---|---|---|---|
| Revenue from operating activities | **1,079.9** | 1,122.0 | 1,074.5 | 1,296.3 | 1,132.8 |
| Earnings before interest and tax | **212.9** | 332.3 | 335.3 | 358.3 | 230.0 |
| Profit before tax | **192.7** | 326.2 | 332.9 | 363.9 | 225.4 |
| Net profit after tax | **141.0** | 247.9 | 240.0 | 244.3 | 142.1 |

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

### 2.2 Shareholder wealth

The table below shows the Group's Total Shareholder Return (TSR), basic earnings per share, dividends per share and the share price from 2004 to 2008, all of which are measures of the consequences of Group performance on shareholder wealth.

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Share price as at 31 December (A$) | **3.88** | 11.25 | 15.90 | 12.32 | 9.95* |
| Total dividends paid (cps) | **36.0** | 49.0 | 36.0 | 30.0 | 8.0 |
| Capital returns (cps) | **–** | – | – | 21.0 | – |
| Share buy-back ($m) | **68.6** | 52.4 | 34.6 | 102.4 | 10.7 |
| Fully diluted earnings per share (cps)** | **30.5** | 52.8 | 50.9 | 51.1 | 29.2 |
| Return on shareholders' equity** | **73.4%** | 77.1% | 65.7% | 69.5% | 38.0% |

* The closing share price for 2004 has not been re-stated to reflect the capital return of 21 cents per share paid in 2005.

** The earnings used in the fully diluted earnings per share calculation for 2008 and return on shareholders' equity are before the impact of the Class Action settlement, disposal of land and buildings and the impairment charge against the investment in PokerTek Inc, which are considered abnormal on the basis that they are non-recurring in nature and are not representative of the underlying operational performance of the Group.

# Remuneration Report

## 3 Executive remuneration

The disclosures in this section relate to those executives listed below, being the Executive Directors and the key management personnel or KMP (ie, those executives with authority and responsibility for planning, directing and controlling the activities of the Company and the Group during the financial year). The executives listed below also include the five most highly remunerated Company and Group executives during the financial year, or as stated otherwise.

The term 'Senior Executives' is used throughout this Report to mean the group of executives consisting of the Executive Directors, KMP and the five most highly remunerated Company and Group executives.

| | |
|---|---|
| **Executive KMP** | |
| SCM Kelly | Chief Financial Officer and Finance Director, Company Secretary<br>(Appointed Company Secretary on 25 July 2008) |
| PK Kitchin | Group General Manager, Marketing<br>(Appointed 18 August 2008) |
| GS Phillips | Chief Technology Officer |
| IH Timmis | Group General Manager, Corporate Development<br>(Appointed 1 May 2008. Prior to this, IH Timmis was Group General Manager, Business & Strategic Development) |
| **Other nominated executives*** | |
| WP Jowett | Executive General Manager, Australasia and Asia Pacific |
| NR Khin | President, Americas<br>(Appointed 12 September 2008. Prior to this, NR Khin was Executive General Manager, Europe, Middle East and Africa) |
| **Former KMP and nominated executives*** | |
| PN Oneile | Chief Executive Officer<br>(Ceased on 29 September 2008) |
| SJ Parker | Group General Manager, Business Innovation<br>(Ceased on 15 August 2008) |
| TJ Parrott | President, Americas<br>(Ceased on 12 September 2008) |
| BJ Yahl | Group General Manager, Commercial and Legal and Company Secretary<br>(Ceased on 25 July 2008) |

* Within the definition of section 300A(1)(c) of the Act.

### 3.1 Board Policy on Senior Executive remuneration

Senior Executive remuneration is designed to remunerate executives for increasing shareholder value and for achieving financial targets and business strategies. It is also set to attract, retain and motivate appropriately qualified and experienced executives. Accordingly, the Board considers it desirable for remuneration packages of Senior Executives to include both a fixed component and an at-risk or performance related component (comprising both short-term and long-term incentives). The Board views the at-risk component as an essential driver of a high performance culture. The Remuneration Committee has recommended, and the Board has adopted, a policy that remuneration will:

(a) reinforce the short, medium and long-term financial targets and business strategies of the Company as set out in the strategic business plans endorsed by the Board;

(b) provide a common interest between executives and shareholders by aligning the rewards that accrue to management to the creation of value for shareholders; and

(c) be competitive in the markets in which the Company operates in order to attract, motivate and retain high calibre executives.

Details of the composition and responsibilities of the Remuneration Committee are set out in the Corporate Governance Statement included in this Annual Report.

The Committee receives external advice on matters relating to remuneration.

### 3.2 Components of remuneration

As indicated above, remuneration for Senior Executives has the following components:

(a) Fixed remuneration; and

(b) Performance-based 'at-risk' remuneration, comprising:

- Short-Term Incentive (STI) – based on annual performance at an individual, business unit and Company level; and
- Long-Term Incentive (LTI) – based on sustained creation of shareholder value over a 3 year period.

The Board aims to achieve a balance between fixed and performance-related components of remuneration that reflect market conditions at each job and seniority level.

The actual remuneration mix for the Senior Executives will vary depending on the level of performance achieved at a Group, business and individual level. Where stretch targets for short-term and long-term incentives are met, then the proportion of total remuneration derived from at-risk components will be higher. This higher weighting of at-risk remuneration reflects the Board's commitment to performance-based reward.

The relative target proportions of remuneration that are linked to performance and those that are fixed are set out on the following page.

# Remuneration Report

| Name | Fixed Remuneration 2008 % | Fixed Remuneration 2007 % | At risk – STI 2008 % | At risk – STI 2007 % | At risk – LTI 2008 % | At risk – LTI 2007 % |
|---|---|---|---|---|---|---|
| Executive KMP | | | | | | |
| PN Oneile | **39.8** | 39.8 | **30.1** | 30.1 | **30.1** | 30.1 |
| SCM Kelly | **50.0** | 50.0 | **25.0** | 25.0 | **25.0** | 25.0 |
| PK Kitchin | **50.0** | – | **25.0** | – | **25.0** | – |
| SJ Parker | **50.0** | 50.0 | **25.0** | 25.0 | **25.0** | 25.0 |
| GS Phillips | **66.7** | 66.7 | **6.6** | 6.6 | **26.7** | 26.7 |
| IH Timmis | **53.0** | 53.0 | **21.0** | 21.0 | **26.0** | 26.0 |
| BJ Yahl | **50.0** | 50.0 | **25.0** | 25.0 | **25.0** | 25.0 |
| Other nominated executives* | | | | | | |
| WP Jowett | **50.0** | 50.0 | **25.0** | 25.0 | **25.0** | 25.0 |
| NR Khin | **50.0** | 63.0 | **25.0** | 18.0 | **25.0** | 19.0 |
| TJ Parrott | **50.0** | 57.0 | **25.0** | 21.5 | **25.0** | 21.5 |

* Within the definition of section 300A(1)(c) of the Act.

For full details of the remuneration paid to Senior Executives for the 2008 financial year, refer to section 3.4.

### 3.2.1 Fixed remuneration

Senior Executives receive a competitive base salary comprising cash salary, superannuation and other benefits which make up the 'fixed remuneration' component of their total remuneration package.

Fixed remuneration is reviewed annually against the external market and compared to similar sized roles from a specifically identified peer group of Australian companies (based on market capitalisation) to ensure competitive positioning. The international nature of the Company's operations and the global responsibilities of the Senior Executives, in addition to the mix of knowledge, skills, experience and performance are considered when determining remuneration. The onerous probity requirements placed on executives by regulators of the global jurisdictions in which the Company operates are also considered in determining remuneration levels.

Senior Executives have the flexibility and choice to have a combination of benefits including additional superannuation contributions and the provision of a vehicle provided out of their fixed remuneration.

Senior Executives also receive other benefits including salary continuance, trauma, death and disability insurance, financial planning consultation and annual health assessments, the costs of which are included within fixed remuneration. In addition, executives are able to maintain memberships to appropriate professional associations. As appropriate, expatriate executives receive additional support including accommodation allowances, travel and life insurance and taxation advice.

Senior Executives do not receive retirement benefits other than those disclosed in section 3.3 of this Report.

### 3.2.2 Short-Term Incentive (STI) program

| | |
|---|---|
| What is the STI and who participates? | The annual STI program is a cash-based plan that involves linking specific targets with the opportunity to earn incentives based on a percentage of fixed salary for Senior Executives, including the CEO and CFO. |
| What is the minimum and maximum amounts executives can earn under the STI? | No STI is awarded if minimum performance across the Company does not meet the required threshold. Target STIs vary from 10% to 76% of fixed remuneration depending on the role and seniority of the individual. Typically, Senior Executives have target STIs in excess of 20% of fixed remuneration. |
| What are the performance conditions for the STI? | Performance measures are based on a mixture of Company, business unit and individual objectives, based on an individual's ability to influence the Company's performance. Financial targets are established following Board review and approval of the annual plan for the following year. Participants are eligible to receive an incentive payment if the Company or the business unit achieves over 85% of target net operating profit after tax (NOPAT) and less than 125% of target Funds Employed/Working Capital on a graduated performance scale. Other targets include occupational health and safety, talent management and environmental performance.<br><br>In addition, the performance of each Senior Executive is assessed against objectives specific to their role and responsibilities.<br><br>The hurdles are set so that achievement of internal financial goals (business plan) and personal objectives result in 100% of the award being earned. Incentives start to be earned at 50% of the STI target level once performance measures exceeded threshold levels. Additional incentive payments are available for performance exceeding target objectives.<br><br>Performance measures and conditions are reviewed annually and are subject to change as considered appropriate. |
| Why were these performance conditions chosen? | The Board considers these performance measures to be appropriate as they are aligned with the Company's objectives of delivering profitable growth and improving shareholder return. In addition, executives have a clear line of sight to the targets and are able to affect results through their actions. |
| Who assesses performance and when? | The Remuneration Committee assesses performance against the conditions in respect of the CEO and makes a recommendation to the Board. The CEO assesses the performance against the conditions in respect of other Senior Executives and makes recommendations to the Remuneration Committee. Performance against hurdles is determined, and incentives paid, following the completion of the audit of the accounts for the financial year. |

Specific information relating to the percentage of the STI which was paid and the percentage that was forfeited for the Senior Executives of the Group are set out in section 3.4.

# Remuneration Report

### 3.2.3 Long-Term Incentive (LTI) program

| | |
|---|---|
| What is the LTI and who participates? | The LTI plan is an element of the Company's remuneration strategy and links reward with ongoing creation of shareholder value through the grant of equity securities, subject to performance conditions which underpin sustainable growth in shareholder value. Participation is only offered to executives who are able, or have the potential, to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against relevant performance hurdles. |
| Why does the Board consider the LTI to be an appropriate incentive? | The LTI facilitates share ownership by the Senior Executives and links a significant proportion of their potential remuneration with the key performance drivers which underpin sustainable growth in shareholder value – comprising both share price and returns to shareholders. |
| What equity instruments are granted under the LTI? | Under the LTI, participating Senior Executives receive annual grants of performance share rights (PSRs) under the Company's LTI Plan which was implemented in 2004. Details of the grants made to KMP during the 2008 financial year are set out in section 3.4.<br><br>A Performance Option Plan was also introduced at the same time in 2004, however no options have been granted under that plan since its inception. |
| What are the key terms of PSRs granted under the LTI? | PSRs are granted at no cost to the participant. Each PSR granted will entitle the participant to one ordinary share in the Company, subject to satisfaction of performance conditions set by the Board in respect of the grant, over a performance period of three years. No amounts are payable by the participant upon vesting of the PSRs.<br><br>If the relevant performance conditions are satisfied at the end of the performance period, then the PSRs will vest automatically and fully paid shares in the Company will be allocated to the participant at no cost. PSRs granted under the plan are not transferable, and participating executives are prohibited from entering into hedging arrangements in respect of unvested PSRs. |
| Are the shares granted upon vesting of PSRs subject to restrictions? | Shares allocated on vesting of the PSRs are subject to disposal restrictions set out in the Plan Rules, and carry full dividend and voting rights upon allocation. |
| What are the performance conditions for the PSRs granted in the 2008 financial year? | The PSRs are subject to a performance condition based on the Company's Total Shareholder Return (TSR) and growth in earnings per share (EPSG) over the relevant period relative to a Comparator Group. A vesting scale determines how many shares are allocated.<br><br>**TSR performance test**<br>The TSR is the return to shareholders, calculated by reference to share price appreciation plus dividends expressed as a percentage of the investment. Therefore, the TSR reflects the increase in value delivered to shareholders over the performance period.<br><br>**EPSG performance test**<br>EPSG is the percentage increase in fully diluted earnings per share over the performance period. In determining EPSG, adjustments are made for the Company and the Comparator Group companies for capital management initiatives, including the effect of net changes in capital and any other distortionary items which unduly impact reported EPSG in order to ensure an appropriate like-for-like comparison. |

| | |
|---|---|
| What are the performance conditions for the PSRs granted in the 2008 financial year? *(continued)* | The TSR and EPSG targets are the achievement of a TSR or EPSG ranking above the 50th percentile by the Company against the individual TSRs and EPSGs of the companies comprising the Comparator Group (as set out later in this Report).<br><br>The link between performance and the percentage of the relevant PSRs which will vest is represented in the following table: |

| Company performance (TSR and EPSG percentile ranking) | % of vesting |
|---|---|
| Up to the 50.1st percentile | 0% |
| At the 50.1st percentile | 45% |
| Between 51st – 55th percentile | 46 – 50% pro-rata vesting (for each percentile improvement, an additional 1% vesting) |
| Between 56th – 74th percentile | 52.5 – 97.5% pro-rata vesting (for each percentile improvement, an additional 2.5% vesting) |
| At the 75th percentile or above | 100% |

| | |
|---|---|
| Why were these performance conditions chosen? | The Board selected TSR as a performance measure on the basis that it:<br>• ensures an alignment between comparative shareholder return and reward for the executive; and<br>• provides a relative, external, market-based performance measure against those companies with which the Company competes for capital, customers and talent.<br><br>The Board selected EPSG as a performance measure for vesting of PSRs on the basis that it:<br>• is a relevant indicator of increases in shareholder value; and<br>• is a target that provides a suitable line of sight to encourage executive performance.<br><br>The Board believes the performance measures and targets it has adopted for the LTI are appropriately tailored to motivate Senior Executives to deliver sustained returns to shareholders. |
| Who assesses performance and when? | Participation in the plan, performance measures, the designated performance period and the quantity of the PSRs offered to each participant is determined by the Remuneration Committee and approved by the Board.<br><br>Performance against the hurdles is determined, and incentives paid, following the completion of the audit of the accounts for the financial year in which the PSRs vest.<br><br>It is the Company's intention to make offers under this plan annually, or at such other times as are appropriate, subject to the ability of the Company to offer such share plans, future directions in executive variable remuneration, and approval of the Board and shareholders, where applicable. The terms of individual plans may vary from offer to offer. |
| Is there any re-testing of PSRs? | No re-testing of PSRs is provided for. |
| What happens in the event of a change of control? | The Directors have discretion to determine that the PSRs will vest in the event of a change of control, subject to pro-rata performance up to the relevant date. |
| What happens if the executive ceases employment during the performance period? | If a participant ceases employment with the Company before the performance condition is tested, then any PSRs will lapse. If the cessation is due to death or redundancy, or where the Board otherwise consents, a proportionate number of PSRs may vest at the Board's discretion. Where a participant acts fraudulently, dishonestly or is, in the Board's opinion, in breach of his or her obligations to the Company, then any unvested PSRs will lapse. |

# Remuneration Report

## Comparator Group

The Comparator Group comprises 50 companies listed on the Australian Securities Exchange (ASX) of a similar size, based on the average market capitalisation of the Company for the three months up to 1 January, excluding real estate, energy, metals and mining companies. The TSR and EPSG of all Comparator Group companies and the Company will be ranked at the end of the performance period.

| | Comparator Group Series 5, 6* & 7* | Comparator Group Series 8 & 9 | Comparator Group Series 10 & 11 |
|---|---|---|---|
| 1 | ABC Learning Centres Limited | ABC Learning Centres Limited | ABC Learning Centres Limited |
| 2 | Alinta Limited | Alinta Limited | AGL Energy Limited |
| 3 | Amcor Limited | Amcor Limited | Amcor Limited |
| 4 | Ansell Limited | APN News & Media Limited | Asciano Group |
| 5 | APN News & Media Limited | Auckland Airport | Auckland Airport |
| 6 | Auckland Airport | Australian Gas Light Company | Babcock & Brown Infrastructure Group |
| 7 | Australian Gas Light Company | Babcock & Brown Infrastructure Group | Billabong International Limited |
| 8 | AWB Limited | Billabong International Limited | Boart Longyear Limited |
| 9 | Billabong International Limited | Boral Limited | Boral Limited |
| 10 | Boral Limited | Brambles Industries Limited | Brambles Limited |
| 11 | Brambles Industries Limited | Coca-Cola Amatil Limited | Coca-Cola Amatil Limited |
| 12 | Burns Philp & Company Limited | Cochlear Limited | Cochlear Limited |
| 13 | Carter Holt Harvey | Coles Myer Limited | Computershare Limited |
| 14 | Coca-Cola Amatil Limited | Computershare Limited | Consolidated Media Holdings Limited |
| 15 | Cochlear Limited | Consolidated Media Holdings Limited | CSL Limited |
| 16 | Coles Myer Limited | CSL Limited | CSR Limited Industrials |
| 17 | Computershare Limited | CSR Limited Industrials | Fairfax Media Limited |
| 18 | Consolidated Media Holdings Limited | Downer EDi Limited | Fletcher Building Limited |
| 19 | CSL Limited | Fairfax Media Limited | Flight Centre Limited |
| 20 | CSR Limited Industrials | Fletcher Building Limited | Foster's Group Limited |
| 21 | DCA Group Limited | Foster's Group Limited | Goodman Fielder Limited |
| 22 | Downer EDi Limited | Goodman Fielder Limited | Harvey Norman Holdings Limited |
| 23 | Fairfax Media Limited | Harvey Norman Holdings Limited | Incitec Pivot Limited |
| 24 | Fletcher Building Limited | James Hardie Industries N.V. | James Hardie Industries N.V. |
| 25 | Foster's Group Limited | Leighton Holdings Limited | Leighton Holdings Limited |
| 26 | Harvey Norman Holdings Limited | Lion Nathan Limited | Lion Nathan Limited |
| 27 | James Hardie Industries N.V. | Macquarie Airports | Macquarie Airports |
| 28 | Leighton Holdings Limited | Macquarie Communications Infrastructure Group | Macquarie Communications Infrastructure Group |
| 29 | Lion Nathan Limited | Macquarie Infrastructure Group | Macquarie Infrastructure Group |
| 30 | Macquarie Airports | Mayne Pharma Limited | Metcash Limited |
| 31 | Macquarie Infrastructure Group | Metcash Limited | News Corporation Inc |
| 32 | Metcash Limited | News Corporation Inc | Orica Limited |
| 33 | News Corporation Inc | Orica Limited | Qantas Airways Limited |
| 34 | Nufarm Limited | Qantas Airways Limited | ResMed Inc |
| 35 | Orica Limited | Resmed Inc | Seven Network Limited |
| 36 | Patrick Corporation Limited | Rinker Group Limited | Singapore Telecommunications Limited |
| 37 | Qantas Airways Limited | Seven Network Limited | Sonic Healthcare Limited |
| 38 | Rinker Group Limited | Sigma Pharmaceuticals Group | Symbion Health Limited |
| 39 | Rural Press | Sky City Entertainment Group Limited | Tabcorp Holdings Limited |
| 40 | Seven Network Limited | Sonic Healthcare Limited | Tattersalls Limited |
| 41 | Sky City Entertainment Group Limited | Symbion Health Limited | Telecom Corporation of New Zealand Limited |
| 42 | Sonic Healthcare Limited | Tabcorp Holdings Limited | Telstra Corporation Limited |
| 43 | Tabcorp Holdings Limited | Tattersalls Limited | Toll Holdings Limited |
| 44 | Tattersalls Limited | Telecom Corporation of New Zealand Limited | Transfield Services Limited Industrials |
| 45 | Telecom Corporation of New Zealand Limited | Telstra Corporation Limited | Transpacific Industries Industrials |
| 46 | Telstra Corporation Limited | Toll Holdings Limited | Transurban Group |
| 47 | Toll Holdings Limited | Transurban Group | United Group Limited |
| 48 | Transurban Group | Wesfarmers Limited | Wesfarmers Limited |
| 49 | Wesfarmers Limited | West Australian Newspapers Holdings Limited | West Australian Newspapers Holdings Limited |
| 50 | Woolworths Limited | Woolworths Limited | Woolworths Limited |

* On 24 February 2009, the Board determined that the PSRs under Series 6A, 6B, 7A and 7B had not met the required performance criteria and therefore lapsed.

### 3.2.4 Previous LTI arrangements

Prior to adopting the current plan in 2004, the Company used the Employee Share Option Plan (ESOP) as the long term incentive component of remuneration for Executive Directors and Senior Executives. Whilst the Company no longer makes grants under these plans, one Executive Director still holds LTIs under the ESOP. As such the plan will remain in place until all options granted prior to its discontinuance are exercised or lapse.

Under ESOP, options were granted under the plan for no consideration and for a five year period. Options were divided into four equal tranches that must be held for at least 18, 30, 42 and 54 months respectively. Employees' entitlements to the options vest as soon as they become exercisable. The options cannot be transferred, have no voting or dividend rights and they are not quoted on the ASX. The exercise price of the options is based on the weighted average price for all shares in the Company sold on the ASX during the one week period leading up to and including the grant date (or such other date or period as ensures compliance with any relevant laws relating to taxation or as otherwise determined at the discretion of the Board). Options are exercisable, subject to performance hurdles, under the terms of each option series.

The performance hurdle which must be achieved before the options vest is based on either share price growth or TSR performance. At the time ESOP was established these measures were considered to be the most appropriate for driving shareholder return and value. The performance hurdle is tested on an ongoing basis commencing on the expiry of the minimum holding period. Options vest if one of the following applies:

- the percentage growth in the Company's share price between the date the options were issued and the date of testing is greater than the percentage growth of the ASX 200 accumulation index share price during that period; or
- if the Company's TSR is greater than the ASX 200 accumulation index's TSR.

The Company does not make loans to executives to exercise options. Amounts receivable on the exercise of the options are recognised as share capital if issued or as reserves if purchased under the share trust which was established during 2005 to acquire shares in lieu of obligations under employee share-based remuneration plans.

### 3.3 Service agreements

The remuneration and other terms of employment for the Senior Executives are formalised in service agreements, which have no specified term. Each of these agreements provide for performance-related cash bonuses under the STI plan (as disclosed above), and participation, where eligible, in the Company's LTI plan (as disclosed above). No sign-on payments have been made to Senior Executives prior to them agreeing to take office.

JR Odell was appointed Chief Executive Officer (CEO) and Managing Director (MD) Elect on 1 February 2009. He was appointed, on an ongoing basis subject to termination provisions. Notice periods and termination payments relevant to the CEO's contract are listed below.

**Restraint of trade**

Under the CEO service agreement, upon termination of employment for any reason, he is prohibited from engaging in any activity that would compete with the Company for a period of 6 months in order to protect the Company's business interests. For other Senior Executives, a restraint period of up to 12 months applies.

Other major provisions of the service agreements of the Senior Executives are as follows:

| | Notice to be given by executive | Notice to be given by Company** | Termination payment |
|---|---|---|---|
| **Executive KMP** | | | |
| JR Odell | 3 months | 9 months | – |
| SCM Kelly | 3 months | 3 months | 9 months |
| PK Kitchin | 3 months | 3 months | – |
| GS Phillips | 6 months | 6 months | 6 months |
| IH Timmis | 3 months | 3 months | – |
| **Other nominated executives*** | | | |
| WP Jowett | 3 months | 3 months | 12 months |
| NR Khin | 3 months | 3 months | 6 months |

* Within the definition of section 300A(1)(c) of the Act.

** Payments maybe made in lieu of notice period.

# Remuneration Report

### 3.4 Details of executive remuneration

Details of the remuneration paid to the Senior Executives are set out below.

| | Year | Short-term benefits | | | Post-employment benefits | | Share–based payments[4] | Total | % of Share–based remuner–ation |
|---|---|---|---|---|---|---|---|---|---|
| | | Cash salary[1] $ | Cash bonuses $ | Non–monetary benefits[2] $ | Super–annuation $ | Termination[3] $ | Options & PSRs[5] $ | $ | % |
| **Executive KMP** | | | | | | | | | |
| PN Oneile[6] | **2008** | **1,353,877** | **420,000** | **23,700** | **10,003** | **454,626** | **(788,881)** | **1,473,325** | **–** |
| | 2007 | 1,805,596 | 1,334,200 | 62,435 | 12,908 | – | 1,549,572 | 4,764,711 | 32.5 |
| SCM Kelly | **2008** | **689,930** | **116,359** | **42,375** | **11,248** | **–** | **235,944** | **1,095,856** | **21.5** |
| | 2007 | 605,274 | 346,409 | 14,429 | 12,908 | – | 569,209 | 1,548,229 | 36.8 |
| PK Kitchin[7] | **2008** | **129,617** | **21,180** | **–** | **10,459** | **–** | **–** | **161,256** | **–** |
| | 2007 | – | – | – | – | – | – | – | – |
| SJ Parker[8] | **2008** | **314,811** | **–** | **1,484** | **26,305** | **141,653** | **(114,037)** | **370,216** | **–** |
| | 2007 | 440,869 | 238,931 | 9,423 | 38,362 | – | 282,166 | 1,009,751 | 27.9 |
| GS Phillips | **2008** | **368,062** | **8,344** | **6,210** | **33,126** | **–** | **101,858** | **517,600** | **19.7** |
| | 2007 | 391,261 | 33,672 | 9,851 | 35,213 | – | 253,268 | 723,265 | 35.0 |
| IH Timmis | **2008** | **361,290** | **37,555** | **32,913** | **34,723** | **–** | **122,770** | **589,251** | **20.8** |
| | 2007 | 342,738 | 160,780 | 97,803 | 30,846 | – | 263,072 | 895,239 | 29.4 |
| BJ Yahl[9] | **2008** | **334,910** | **–** | **1,258** | **30,142** | **288,652** | **(189,308)** | **465,654** | **–** |
| | 2007 | 555,536 | 286,078 | 7,235 | 49,998 | – | 337,455 | 1,236,302 | 27.3 |
| **Other nominated executives*** | | | | | | | | | |
| WP Jowett | **2008** | **466,400** | **39,555** | **16,701** | **41,976** | **–** | **156,878** | **721,510** | **21.7** |
| | 2007 | 432,124 | 303,903 | 46,889 | 38,891 | – | 325,699 | 1,147,506 | 28.4 |
| NR Khin | **2008** | **433,322** | **34,209** | **113,359** | **10,899** | **–** | **115,517** | **707,306** | **16.3** |
| | 2007 | 362,920 | 115,705 | 74,873 | 16,857 | – | 149,377 | 719,732 | 20.8 |
| TJ Parrott[10] | **2008** | **372,575** | **–** | **20,737** | **6,931** | **139,417** | **(13,431)** | **526,229** | **–** |
| | 2007 | 522,785 | 107,214 | – | – | – | 166,063 | 796,062 | 20.9 |
| **Total** | **2008** | **4,824,794** | **677,202** | **258,737** | **215,812** | **1,024,348** | **(372,690)** | **6,628,203** | **–** |
| Total | 2007 | 5,459,103 | 2,926,892 | 322,938 | 235,983 | – | 3,895,881 | 12,840,797 | 30.3 |

* Within the definition of section 300A(1)(c) of the Act.

1. Amounts shown as cash salary and fees include amounts sacrificed in lieu of other benefits at the discretion of the individual. To the extent that benefits are paid and subject to FBT, the above amount includes FBT.
2. Non-monetary benefits comprised primarily of cars, fuel and travel benefits.
3. PN Oneile and SJ Parker termination payments represent amounts payable for balance of notice period. Termination payment for BJ Yahl represents transition fees associated with assisting with certain key objectives after ceasing employment.

4. In accordance with the requirements of the Accounting Standards, remuneration includes a proportion of the fair value of equity compensation granted or outstanding during the year. The fair value of equity instruments which do not vest during the reporting period is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. An independent accounting valuation for each tranche of PSRs at their respective grant dates has been performed by Deloitte. In undertaking the valuation of the rights, Deloitte has used a TSR model and an EPSG model. These models are described below.

   **TSR model**

   Deloitte has developed a Monte-Carlo simulation-based model which incorporates the impact of performance hurdles and the vesting scale on the value of the shares. This pricing model takes into account factors such as the Company's share price at the date of grant, volatility of the underlying shares, the risk free rate of return, expected dividend yield and the likelihood that vesting conditions will be met. The accounting valuation of rights issued is allocated equally over the vesting period.

   **EPSG model**

   The Black-Scholes Generalised model was used to determine the fair value of PSRs which incorporates the impact of the earnings per share performance condition. This pricing model takes into account factors such as the Company's share price at the date of grant, current price of the underlying shares, volatility of the underlying share price, the risk free rate of return, expected dividend yield and time to maturity. The accounting valuation of rights issued is allocated over the vesting period so as to take into account the actual level of vesting over the performance period.

   For the purposes of remuneration packaging, the TSR accounting valuation as at the commencement of the performance period is adopted for determining the total number of PSRs to be allocated as this valuation best reflects the fair value of PSRs to each executive at that time. The requirements of AASB 2 in relation to the treatment of non-market vesting conditions such as EPSG and share-based remuneration requiring shareholder approval results in accounting expense and disclosures differing from the value allocated for the purposes of remuneration packaging.
5. Share based payments include shares to the value of A$1,000 allocated under the General Employee Share Plan (GESP).
6. PN Oneile left the Company on 29 September 2008.
7. PK Kitchin joined the Company on 18 August 2008.
8. SJ Parker left the Company on 15 August 2008.
9. BJ Yahl left the Company on 25 July 2008.
10. TJ Parrott left the Company on 12 September 2008.

The following table provides the percentage of STI paid and forfeited for the year ended 31 December 2008:

| For the year to 31 December 2008 | Actual STI payment $[1, 2] | Actual STI payment as % of maximum STI | % of maximum STI payment forfeited |
|---|---|---|---|
| **Executive KMP** | | | |
| SCM Kelly | 116,359 | 16.0% | 84.0% |
| PK Kitchin** | 21,180 | 16.0% | 84.0% |
| GS Phillips | 8,344 | 11.0% | 89.0% |
| IH Timmis | 37,555 | 11.0% | 89.0% |
| **Other nominated executives*** | | | |
| WP Jowett | 39,555 | 7.0% | 93.0% |
| NR Khin | 34,209 | 11.0% | 89.0% |
| **Former KMP and nominated executives*** | | | |
| PN Oneile | 420,000 | 16.0% | 84.0% |
| SJ Parker | – | – | 100.0% |
| TJ Parrott | – | – | 100.0% |
| BJ Yahl | – | – | 100.0% |

* Within the definition of section 300A(1)(c) of the Act.

** The bonus for PK Kitchin has been calculated on a pro-rata basis since his appointment on 18 August 2008.

1. STI constitutes a cash incentive earned during 2008, and is payable after release of the Company's annual results, other than for former executives where payment was made on ceasing employment.
2. A minimum level of performance must be achieved before any STI is paid. The minimum potential value of the STI which was granted in respect of the year was nil.

# Remuneration Report

The PSRs granted to Senior Executives during the year were as follows:

| | Number of PSRs granted[1, 2] | Grant date | Maximum value of grant[3] | Vested No. | Vested % | Forfeited No. | Forfeited % |
|---|---|---|---|---|---|---|---|
| **Executive KMP** | | | | | | | |
| SCM Kelly | 75,332 | 29 April 2008 | $3.70 | – | – | – | – |
| PK Kitchin | – | n/a | n/a | – | – | – | – |
| GS Phillips | 34,150 | 1 January 2008 | $5.01 | – | – | – | – |
| IH Timmis | 44,618 | 1 January 2008 | $5.01 | – | – | – | – |
| **Other nominated executives*** | | | | | | | |
| WP Jowett | 56,394 | 1 January 2008 | $5.01 | – | – | – | – |
| NR Khin | 27,900 | 1 January 2008 | $5.01 | – | – | – | – |
| **Former KMP and nominated executives*** | | | | | | | |
| PN Oneile | 279,442 | 29 April 2008 | $3.70 | – | – | 279,442 | 100.0% |
| SJ Parker | 53,546 | 1 January 2008 | $5.01 | – | – | 53,546 | 100.0% |
| TJ Parrott | 68,432 | 1 January 2008 | $5.01 | – | – | 68,432 | 100.0% |
| BJ Yahl | 64,340 | 1 January 2008 | $5.01 | – | – | 64,340 | 100.0% |
| **Total** | **704,154** | | | **–** | **–** | **465,760** | **100.0%** |

* Within the definition of section 300A(1)(c) of the Act.

1. The grants made to the Senior Executives constituted 100% of the grants available for the year. As the PSRs only vest on satisfaction of performance conditions which are to be tested in future financial periods, none of the PSRs set out above vested, however where the executive ceased employment during the year those PSRs were forfeited.
2. PSRs granted in 2008 will vest in 2010 (3 years after the grant date) subject to the achievement of performance conditions. Unvested PSRs will expire at that time if it has been determined that the performance conditions were not met.
3. The fair value of a PSR is determined by the Board based on an accounting valuation performed by Deloitte, having regard to the likelihood that vesting conditions will be met. This value will not be equal to the market value of a share at the commencement of the performance period as a result of PSR being contingent rights to shares in the future. The fair value of the PSR at the commencement of a performance period is influenced by the Company's share price at the date of grant, volatility of the underlying shares, the risk free rate of return, expected dividend yield, time to maturity and the likelihood that vesting conditions will be met.

   At 1 January 2008, for the 2008 grant of PSRs, the remuneration value of a PSR was determined, in accordance with the above methodology, as $5.01 per share compared with a closing market price (on 31 December 2007) of an Aristocrat Leisure Limited share of $11.25. The minimum total value of the grant, if the applicable performance conditions are not met, is nil.

   At 29 April 2008, for the 2008 grant of PSRs to Executive Directors, the remuneration value of a PSR was determined, in accordance with the above methodology as $3.70 per share compared with a closing market price (on 28 April 2008) of an Aristocrat Leisure Limited share of $8.04. The minimum total value of the grant, if the applicable performance conditions are not met, is nil.

The following sets out details of the movement in the number of PSRs during the year:

| | Series | Performance period expiry date | Value per right at grant date | Balance at 1 January 2008 | Granted during the year[1] | Vested[2,3] | Lapsed / forfeited | Balance at 31 December 2008 |
|---|---|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | | | |
| SCM Kelly | 3A | 31-Dec-2007 | $6.10 | 10,854 | – | (4,518) | (6,336) | – |
| | 3B | 31-Dec-2007 | $6.10 | 10,853 | – | (4,518) | (6,335) | – |
| | 7A[4] | 31-Dec-2008 | $6.01 | 25,123 | – | – | – | 25,123 |
| | 7B[4] | 31-Dec-2008 | $11.25 | 25,122 | – | – | – | 25,122 |
| | 9A | 31-Dec-2009 | $7.79 | 21,629 | – | – | – | 21,629 |
| | 9B | 31-Dec-2009 | $14.41 | 21,628 | – | – | – | 21,628 |
| | 11A | 31-Dec-2010 | $3.70 | – | 37,666 | – | – | 37,666 |
| | 11B | 31-Dec-2010 | $7.09 | – | 37,666 | – | – | 37,666 |
| **Executive KMP** | | | | | | | | |
| PK Kitchin | – | – | – | – | – | – | – | – |
| GS Phillips | 1B | 31-Dec-2007 | $6.25 | 41,572 | – | (41,572) | – | – |
| | 6A[4] | 31-Dec-2008 | $6.01 | 13,920 | – | – | – | 13,920 |
| | 6B[4] | 31-Dec-2008 | $11.25 | 13,920 | – | – | – | 13,920 |
| | 8A | 31-Dec-2009 | $8.41 | 11,786 | – | – | – | 11,786 |
| | 8B | 31-Dec-2009 | $15.25 | 11,785 | – | – | – | 11,785 |
| | 10A | 31-Dec-2010 | $5.01 | – | 17,075 | – | – | 17,075 |
| | 10B | 31-Dec-2010 | $9.59 | – | 17,075 | – | – | 17,075 |
| IH Timmis | 1B | 31-Dec-2007 | $6.25 | 41,627 | – | (41,627) | – | – |
| | 6A[4] | 31-Dec-2008 | $6.01 | 16,838 | – | – | – | 16,838 |
| | 6B[4] | 31-Dec-2008 | $11.25 | 16,838 | – | – | – | 16,838 |
| | 8A | 31-Dec-2009 | $8.41 | 13,536 | – | – | – | 13,536 |
| | 8B | 31-Dec-2009 | $15.25 | 13,535 | – | – | – | 13,535 |
| | 10A | 31-Dec-2010 | $5.01 | – | 22,309 | – | – | 22,309 |
| | 10B | 31-Dec-2010 | $9.59 | – | 22,309 | – | – | 22,309 |
| **Other nominated executives*** | | | | | | | | |
| WP Jowett | 1B | 31-Dec-2007 | $6.25 | 46,593 | – | (46,593) | – | – |
| | 6A[4] | 31-Dec-2008 | $6.01 | 20,516 | – | – | – | 20,516 |
| | 6B[4] | 31-Dec-2008 | $11.25 | 20,516 | – | – | – | 20,516 |
| | 8A | 31-Dec-2009 | $8.41 | 16,791 | – | – | – | 16,791 |
| | 8B | 31-Dec-2009 | $15.25 | 16,791 | – | – | – | 16,791 |
| | 10A | 31-Dec-2010 | $5.01 | – | 28,197 | – | – | 28,197 |
| | 10B | 31-Dec-2010 | $9.59 | – | 28,197 | – | – | 28,197 |
| NR Khin | 1B | 31-Dec-2007 | $6.25 | 16,575 | – | (16,575) | – | – |
| | 6A[4] | 31-Dec-2008 | $6.01 | 7,451 | – | – | – | 7,451 |
| | 6B[4] | 31-Dec-2008 | $11.25 | 7,451 | – | – | – | 7,451 |
| | 8A | 31-Dec-2009 | $8.41 | 11,232 | – | – | – | 11,232 |
| | 8B | 31-Dec-2009 | $15.25 | 11,232 | – | – | – | 11,232 |
| | 10A | 31-Dec-2010 | $5.01 | – | 13,950 | – | – | 13,950 |
| | 10B | 31-Dec-2010 | $9.59 | – | 13,950 | – | – | 13,950 |

# Remuneration Report

| | Series | Performance period expiry date | Value per right at grant date | Balance at 1 January 2008 | Granted during the year[1] | Vested[2,3] | Lapsed / forfeited | Balance at 31 December 2008 |
|---|---|---|---|---|---|---|---|---|
| **Former KPM and nominated executives*** | | | | | | | | |
| PN Oneile | 4A | 31-Dec-2007 | $6.10 | 34,172 | – | (14,224) | (19,948) | – |
| | 4B | 31-Dec-2007 | $6.10 | 34,171 | – | (14,224) | (19,947) | – |
| | 7A | 31-Dec-2008 | $8.18 | 99,001 | – | – | (99,001) | – |
| | 7B | 31-Dec-2008 | $13.09 | 99,002 | – | – | (99,002) | – |
| | 9A | 31-Dec-2009 | $7.79 | 89,859 | – | – | (89,859) | – |
| | 9B | 31-Dec-2009 | $14.41 | 89,859 | – | – | (89,859) | – |
| | 11A | 31-Dec-2010 | $3.70 | – | 139,721 | – | (139,721) | – |
| | 11B | 31-Dec-2010 | $7.09 | – | 139,721 | – | (139,721) | – |
| SJ Parker | 1B | 31-Dec-2007 | $6.25 | 38,165 | – | (38,165) | – | – |
| | 6A | 31-Dec-2008 | $6.01 | 16,138 | – | – | (16,138) | – |
| | 6B | 31-Dec-2008 | $11.25 | 16,137 | – | – | (16,137) | – |
| | 8A | 31-Dec-2009 | $8.41 | 16,092 | – | – | (16,092) | – |
| | 8B | 31-Dec-2009 | $15.25 | 16,092 | – | – | (16,092) | – |
| | 10A | 31-Dec-2010 | $5.01 | – | 26,773 | – | (26,773) | – |
| | 10B | 31-Dec-2010 | $9.59 | – | 26,773 | – | (26,773) | – |
| TJ Parrott | 8A | 31-Dec-2009 | $8.41 | 22,306 | – | – | (22,306) | – |
| | 8B | 31-Dec-2009 | $15.25 | 22,306 | – | – | (22,306) | – |
| | 10A | 31-Dec-2010 | $5.01 | – | 34,216 | – | (34,216) | – |
| | 10B | 31-Dec-2010 | $9.59 | – | 34,216 | – | (34,216) | – |
| BJ Yahl | 1B | 31-Dec-2007 | $6.25 | 30,000 | – | (30,000) | – | – |
| | 6A | 31-Dec-2008 | $6.01 | 24,746 | – | – | (24,746) | – |
| | 6B | 31-Dec-2008 | $11.25 | 24,746 | – | – | (24,746) | – |
| | 8A | 31-Dec-2009 | $8.41 | 19,894 | – | – | (19,894) | – |
| | 8B | 31-Dec-2009 | $15.25 | 19,893 | – | – | (19,893) | – |
| | 10A | 31-Dec-2010 | $5.01 | – | 32,170 | – | (32,170) | – |
| | 10B | 31-Dec-2010 | $9.59 | – | 32,170 | – | (32,170) | – |

* Within the definition of section 300A(1)(c) of the Act.

1. The value of the PSRs granted to Senior Executives during the year (including the aggregate value of PSRs granted) is set out in section 3.4 above. No options were granted during the year to any Senior Executive.
2. The value of each PSR on the date of vesting was $10.60 being the closing price of the Company's shares on the ASX on the preceding trading day. The aggregate value of PSRs which vested during the year is $2,671,370.
3. As the shares are immediately allocated on vesting, none will be vested and exercisable or vested but not yet exercisable.
4. On 24 February 2009, the Board determined that the PSRs under Series 6A, 6B, 7A and 7B had not met the required performance criteria and therefore lapsed.

The following sets out details of the movement in the number of PSRs during the prior year:

| | Series | Performance period expiry date | Value per right at grant date | Balance at 1 January 2007 | Granted during the year[1] | Vested[2,3] | Lapsed / forfeited | Balance at 31 December 2007 |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| PN Oneile | 2 | 31-Dec-06 | $8.68 | 380,000 | – | (380,000) | – | – |
| | 4A | 31-Dec-07 | $6.10 | 34,172 | – | – | – | 34,172 |
| | 4B | 31-Dec-07 | $6.10 | 34,171 | – | – | – | 34,171 |
| | 7A | 31-Dec-08 | $8.18 | 99,001 | – | – | – | 99,001 |
| | 7B | 31-Dec-08 | $13.09 | 99,002 | – | – | – | 99,002 |
| | 9A | 31-Dec-09 | $7.79 | – | 89,859 | – | – | 89,859 |
| | 9B | 31-Dec-09 | $14.41 | – | 89,859 | – | – | 89,859 |
| SCM Kelly | 3A | 31-Dec-07 | $6.10 | 10,854 | – | – | – | 10,854 |
| | 3B | 31-Dec-07 | $6.10 | 10,853 | – | – | – | 10,853 |
| | 6A | 31-Dec-08 | $6.01 | 25,123 | – | – | – | 25,123 |
| | 6B | 31-Dec-08 | $11.25 | 25,122 | – | – | – | 25,122 |
| | 9A | 31-Dec-09 | $7.79 | – | 21,629 | – | – | 21,629 |
| | 9B | 31-Dec-09 | $14.41 | – | 21,628 | – | – | 21,628 |
| **Executive KMP** | | | | | | | | |
| SJ Parker | 1A | 31-Dec-06 | $6.45 | 38,166 | – | (38,166) | – | – |
| | 1B | 31-Dec-07 | $6.25 | 38,165 | – | – | – | 38,165 |
| | 6A | 31-Dec-08 | $6.01 | 16,138 | – | – | – | 16,138 |
| | 6B | 31-Dec-08 | $11.25 | 16,137 | – | – | – | 16,137 |
| | 8A | 31-Dec-09 | $8.41 | – | 16,092 | – | – | 16,092 |
| | 8B | 31-Dec-09 | $15.25 | – | 16,092 | – | – | 16,092 |
| GS Phillips | 1A | 31-Dec-06 | $6.45 | 41,572 | – | (41,572) | – | – |
| | 1B | 31-Dec-07 | $6.25 | 41,572 | – | – | – | 41,572 |
| | 6A | 31-Dec-08 | $6.01 | 13,920 | – | – | – | 13,920 |
| | 6B | 31-Dec-08 | $11.25 | 13,920 | – | – | – | 13,920 |
| | 8A | 31-Dec-09 | $8.41 | – | 11,786 | – | – | 11,786 |
| | 8B | 31-Dec-09 | $15.25 | – | 11,785 | – | – | 11,785 |

# Remuneration Report

| | Series | Performance period expiry date | Value per right at grant date | Balance at 1 January 2007 | Granted during the year[1] | Vested[2,3] | Lapsed / forfeited | Balance at 31 December 2007 |
|---|---|---|---|---|---|---|---|---|
| **Executive KMP *continued*** | | | | | | | | |
| IH Timmis | 1A | 31-Dec-06 | $6.45 | 41,628 | – | (41,628) | – | – |
| | 1B | 31-Dec-07 | $6.25 | 41,627 | – | – | – | 41,627 |
| | 6A | 31-Dec-08 | $6.01 | 16,838 | – | – | – | 16,838 |
| | 6B | 31-Dec-08 | $11.25 | 16,838 | – | – | – | 16,838 |
| | 8A | 31-Dec-09 | $8.41 | – | 13,536 | – | – | 13,536 |
| | 8B | 31-Dec-09 | $15.25 | – | 13,535 | – | – | 13,535 |
| BJ Yahl | 1A | 31-Dec-06 | $6.45 | 30,000 | – | (30,000) | – | – |
| | 1B | 31-Dec-07 | $6.25 | 30,000 | – | – | – | 30,000 |
| | 6A | 31-Dec-08 | $6.01 | 24,746 | – | – | – | 24,746 |
| | 6B | 31-Dec-08 | $11.25 | 24,746 | – | – | – | 24,746 |
| | 8A | 31-Dec-09 | $8.41 | – | 19,894 | – | – | 19,894 |
| | 8B | 31-Dec-09 | $15.25 | – | 19,893 | – | – | 19,893 |
| **Other nominated executives*** | | | | | | | | |
| WP Jowett | 1A | 31-Dec-06 | $6.45 | 46,593 | – | (46,953) | – | – |
| | 1B | 31-Dec-07 | $6.25 | 46,593 | – | – | – | 46,593 |
| | 6A | 31-Dec-08 | $6.01 | 20,516 | – | – | – | 20,516 |
| | 6B | 31-Dec-08 | $11.25 | 20,516 | – | – | – | 20,516 |
| | 8A | 31-Dec-09 | $8.41 | – | 16,791 | – | – | 16,791 |
| | 8B | 31-Dec-09 | $15.25 | – | 16,791 | – | – | 16,791 |
| NR Khin | 1A | 31-Dec-06 | $6.45 | 16,575 | – | (16,575) | – | – |
| | 1B | 31-Dec-07 | $6.25 | 16,575 | – | – | – | 16,575 |
| | 6A | 31-Dec-08 | $6.01 | 7,451 | – | – | – | 7,451 |
| | 6B | 31-Dec-08 | $11.25 | 7,451 | – | – | – | 7,451 |
| | 8A | 31-Dec-09 | $8.41 | – | 11,232 | – | – | 11,232 |
| | 8B | 31-Dec-09 | $15.25 | – | 11,232 | – | – | 11,232 |
| TJ Parrott | 8A | 31-Dec-09 | $8.41 | – | 22,306 | – | – | 22,306 |
| | 8B | 31-Dec-09 | $15.25 | – | 22,306 | – | – | 22,306 |

* Within the definition of section 300A(1)(c) of the Act.

The following sets out details of the movement in executive options during the year.

| | Series | Expiry date | Exercise price[1] | Balance at 1 January 2008 | Exercised during the Year | Balance at 31 December 2008 | Vested during the Year | Fair value at exercise date $ |
|---|---|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | | | |
| SCM Kelly | 29D[5] | 1-Sep-2008 | $2.9503 | 125,000 | (125,000) | – | 125,000 | 937,463 |
| | 31C[3] | 1-Sep-2009 | $7.7016 | 125,000 | – | 125,000 | 125,000 | – |
| | 31D[5] | 1-Sep-2009 | $8.2016 | 125,000 | – | 125,000 | – | – |
| **Executive KMP** | | | | | | | | |
| GS Phillips | 30[4] | 3-Nov-2008 | $2.2177 | 50,000 | (50,000) | – | – | 214,615 |
| **Other nominated executives*** | | | | | | | | |
| WP Jowett | 28[4] | 26-Aug-2008 | $1.3497 | 50,000 | (50,000) | – | – | 455,015 |
| **Former KMP and nominated executives*** | | | | | | | | |
| SJ Parker | 28[4] | 26-Aug-2008 | $1.3497 | 50,000 | (50,000) | – | – | 473,515 |

The following sets out details of the movement in executive options during the prior year.

| | Series | Expiry date | Exercise price[1] | Balance at 1 January 2007 | Exercised during the Year | Balance at 31 December 2007 | Vested during the Year | Fair value at exercise date $ |
|---|---|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | | | |
| SCM Kelly | 29C[3] | 1-Sep-2008 | $2.4503 | 125,000 | (125,000) | – | 125,000 | 1,659,963 |
| | 29D[5] | 1-Sep-2008 | $2.9503 | 125,000 | – | 125,000 | – | – |
| | 31A[6] | 1-Sep-2009 | $6.7016 | 125,000 | (125,000) | – | 125,000 | 1,128,550 |
| | 31B[2] | 1-Sep-2009 | $7.2016 | 125,000 | (125,000) | – | 125,000 | 719,800 |
| | 31C[3] | 1-Sep-2009 | $7.7016 | 125,000 | – | 125,000 | – | – |
| | 31D[2] | 1-Sep-2009 | $8.2016 | 125,000 | – | 125,000 | – | – |
| **Executive KMP** | | | | | | | | |
| SJ Parker | 28[4] | 26-Aug-2008 | $1.3497 | 100,000 | (50,000) | 50,000 | 50,000 | 719,015 |
| GS Phillips | 30[4] | 3-Nov-2008 | $2.2177 | 100,000 | (50,000) | 50,000 | 50,000 | 661,615 |
| **Other nominated executives*** | | | | | | | | |
| WP Jowett | 26[4] | 7-Mar-2007 | $5.7431 | 12,500 | (12,500) | – | 12,500 | – |
| | 26[4] | 7-Mar-2007 | $5.7431 | 12,500 | (12,500) | – | 12,500 | – |
| | 28[4] | 26-Aug-2008 | $1.3497 | 100,000 | (50,000) | 50,000 | 50,000 | 750,015 |

* Within the definition of section 300A(1)(c) of the Act.

1. The option exercise price has been adjusted for the 21 cent capital return paid in July 2005. Where options were exercised prior to the capital return the exercise price was 21 cents higher than shown above.
2. Options are exercisable 30 months after grant date.
3. Options are exercisable 42 months after grant date.
4. Options are exercisable in 4 equal tranches at intervals of 18, 30, 42 and 54 months after the grant date.
5. Options are exercisable 54 months after grant date.
6. Options are exercisable 18 months after grant date.

# Remuneration Report

The following sets out details of the movement in shares held under the GESP during the year.

| | Balance as at 1 January 2008 | Shares issued/granted during the year | Shares vested/lapsed during the year | Balance as at 31 December 2008 |
|---|---|---|---|---|
| **Executive Director** | | | | |
| SCM Kelly | 168 | – | (89) | 79 |
| **Executive KMP** | | | | |
| PK Kitchin | – | – | – | – |
| IH Timmis | 237 | 157 | (89) | 305 |
| GS Phillips | 143 | – | – | 143 |
| **Other nominated executives*** | | | | |
| WP Jowett | 237 | 157 | (89) | 305 |
| NR Khin** | 237 | 157 | (89) | 305 |
| **Former KMP and nominated executives*** | | | | |
| PN Oneile | – | – | – | – |
| SJ Parker | 237 | 157 | (394) | – |
| TJ Parrott** | 69 | 157 | (226) | – |
| BJ Yahl | 237 | 157 | (394) | – |

* Within the definition of section 300A(1)(c) of the Act.

** As overseas employees, NR Khin and TJ Parrott were granted a contingent right to 157 shares each during the year in lieu of a share allocation under the GESP, subject to continued employment for a period of 3 years.

The following sets out details of the movement in shares held under the GESP during the prior year.

| | Balance as at 1 January 2007 | Shares issued/granted during the year | Shares vested/lapsed during the year | Balance as at 31 December 2007 |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| PN Oneile | – | – | – | – |
| SCM Kelly | 431 | – | (263) | 168 |
| **Executive KMP** | | | | |
| SJ Parker | 431 | 69 | (263) | 237 |
| GS Phillips** | 337 | 69 | (263) | 143 |
| IH Timmis | 431 | 69 | (263) | 237 |
| BJ Yahl | 168 | 69 | – | 237 |
| **Other nominated executives*** | | | | |
| WP Jowett | 431 | 69 | (263) | 237 |
| TJ Parrott | – | 69 | – | 69 |

* Within the definition of section 300A(1)(c) of the Act.

** As an overseas employee, GS Phillips was granted a contingent right to 74 shares during the year in lieu of a share allocation under the GESP, subject to continued employment for a period of 3 years.

## 4 Shareholdings

The number of shares (excluding those unvested under the GESP and the Performance Share Plan (PSP)) in the Company held during the year ended 31 December 2008, and the comparative year by each Director and executive KMP of the Group, including their personally related entities are set out on page 48.

No amounts are unpaid on any of the shares issued. Where shares are held by the individual Director or executive and any entity under the joint or several control of the individual Director or executive they are shown as 'beneficially held'. Shares held by those who are defined by AASB 124 *Related Party Disclosures* as close members of the family of the individual Director or executive are shown as 'non-beneficially held'.

# Remuneration Report

The following sets out details of the movement in shares in the Company held by Directors and KMP during the year.

| | Type | Balance as at 1 January 2008 | Options exercised, performance shares and GESP shares vested | Other net changes during the year | Balance as at 31 December 2008** |
|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | |
| DJ Simpson* | Beneficially held | 106,000 | – | 7,000 | 113,000 |
| | Non-beneficially held | – | – | – | – |
| WM Baker | Beneficially held | 4,700 | – | – | 4,700 |
| | Non-beneficially held | – | – | – | – |
| RA Davis | Beneficially held | 6,654 | – | 4,031 | 10,685 |
| | Non-beneficially held | – | – | – | – |
| P Morris | Beneficially held | 9,488 | – | 10,388 | 19,876 |
| | Non-beneficially held | 12,560 | – | – | 12,560 |
| SAM Pitkin | Beneficially held | 2,061 | – | 135 | 2,196 |
| | Non-beneficially held | 11,100 | – | 3,500 | 14,600 |
| AW Steelman | Beneficially held | 22,834 | – | – | 22,834 |
| | Non-beneficially held | 4,505 | – | – | 4,505 |
| **Executive Director** | | | | | |
| SCM Kelly | Beneficially held | 700,431 | 134,036 | (125,000) | 709,467 |
| | Non-beneficially held | – | – | – | – |
| **Executive KMP** | | | | | |
| PK Kitchin | Beneficially held | – | – | 2,000 | 2,000 |
| | Non-beneficially held | – | – | – | – |
| GS Phillips | Beneficially held | 125,913 | 91,572 | (69,539) | 147,946 |
| | Non-beneficially held | – | – | – | – |
| IH Timmis | Beneficially held | 263 | 41,717 | (41,628) | 352 |
| | Non-beneficially held | – | – | 10,000 | 10,000 |
| **Former KMP** | | | | | |
| PN Oneile | Beneficially held | 380,000 | 28,448 | (25,000) | 383,448 |
| | Non-beneficially held | 6,000 | 4,000 | – | 10,000 |
| SJ Parker | Beneficially held | 169,028 | 88,558 | (112,000) | 145,586 |
| | Non-beneficially held | – | – | – | – |
| BJ Yahl | Beneficially held | 30,000 | 30,394 | (60,394) | – |
| | Non-beneficially held | – | – | – | – |

* DJ Simpson became Executive Chairman on 29 September 2008.

** Where applicable, the balance disclosed is the balance of shareholding as at the date of cessation of employment.

The following sets out details of the movement in shares in the Company held by Directors and KMP during the prior year.

| | Type | Balance as at 1 January 2007 | Options exercised, performance shares and GESP shares vested | Other net changes during the year | Balance as at 31 December 2007 |
|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | |
| DJ Simpson | Beneficially held | 106,000 | – | – | 106,000 |
| | Non-beneficially held | – | – | – | – |
| WM Baker | Beneficially held | 4,700 | – | – | 4,700 |
| | Non-beneficially held | – | – | – | – |
| RA Davis | Beneficially held | 3,449 | – | 3,205 | 6,654 |
| | Non-beneficially held | – | – | – | – |
| P Morris | Beneficially held | 658 | – | 8,830 | 9,488 |
| | Non-beneficially held | 12,560 | – | – | 12,560 |
| SAM Pitkin | Beneficially held | 572 | – | 1,489 | 2,061 |
| | Non-beneficially held | 7,000 | – | 4,100 | 11,100 |
| AW Steelman | Beneficially held | 16,000 | – | 6,834 | 22,834 |
| | Non-beneficially held | 4,505 | – | – | 4,505 |
| **Executive Directors** | | | | | |
| PN Oneile | Beneficially held | – | 380,000 | – | 380,000 |
| | Non-beneficially held | 6,000 | – | – | 6,000 |
| SCM Kelly | Beneficially held | 325,000 | 375,431 | – | 700,431 |
| | Non-beneficially held | – | – | – | – |
| **Executive KMP** | | | | | |
| SJ Parker | Beneficially held | 80,599 | 88,428 | – | 169,027 |
| | Non-beneficially held | – | – | – | – |
| GS Phillips | Beneficially held | 103,201 | 91,835 | (69,123) | 125,913 |
| | Non-beneficially held | – | – | – | – |
| IH Timmis | Beneficially held | – | 41,891 | (41,628) | 263 |
| | Non-beneficially held | – | – | – | – |
| BJ Yahl | Beneficially held | – | 30,000 | – | 30,000 |
| | Non-beneficially held | – | – | – | – |

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## Auditor's Independence Declaration

As lead auditor for the audit of Aristocrat Leisure Limited for the year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Aristocrat Leisure Limited and the entities it controlled during the period.

R L Gavin
Partner

Sydney
24 February 2009

# Corporate Governance Statement

### For the 12 months ended 31 December 2008

The Board of the Company is committed to maintaining the highest standards of corporate governance, in line with the revised *Corporate Governance Principles and Recommendations* published by the ASX Corporate Governance Council (ASX Principles).

Set out below is a summary of the Company's corporate governance principles which were in place throughout the 2008 reporting period. The Company complies with the ASX Principles except where disclosed below. For ease of reference this statement has been prepared and presented in a format consistent with the ASX Principles.

## Principle 1 – Lay solid foundations for management and oversight

### Board roles and responsibilities

The Board has formalised its roles and responsibilities into a Board Charter which is available on the Company's website, www.aristocratgaming.com. In summary, the Board's main responsibilities include the:

- review and approval of Company strategy;
- performance management with specific responsibility for the monitoring of Company performance and overall conduct;
- selection, appointment, remuneration and performance evaluation of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO);
- evaluation of the principal risks of the Company and continued monitoring of appropriate risk management and reporting systems;
- establishment and monitoring of policies to ensure compliance with the legal and regulatory regimes to which the Company is subject and to ensure the highest standards of corporate conduct; and
- promotion of open and proper communication between the Company and its stakeholders.

### Delegation to senior executives

The Board has delegated certain responsibilities to senior executives including the day to day operation and administration of the Company. The Board Charter clearly specifies those matters that are reserved for the Board only.

### Appointment, induction and performance evaluation for senior executives

Upon appointment, senior executives including the CEO and CFO are provided with formal letters of appointment setting out their term of office, duties, rights and responsibilities, and entitlements on termination.

An induction program is in place for all new senior executives to provide them with knowledge of the Company's financial position, strategies, operations, policies and risk management procedures.

The Board, based on recommendations from the Remuneration Committee in conjunction with the Nomination and Governance Committee, determines the CEO's key performance indicators (KPIs) annually and reviews performance against these on an ongoing basis, with a formal evaluation being completed at the end of each year. The CEO, under the delegated authority of the Board, determines the KPIs of senior executive team members and reviews their performance on an ongoing basis. The CEO formally reviews the performance of senior executives annually with the Remuneration Committee, which reports its findings to the Board for endorsement.

The performance evaluation of the CEO and senior executives is undertaken annually in the first quarter of each year.

## Principle 2 – Structure the Board to add value

### Board composition

The Board has determined that its optimal size is between seven and nine members. As at 31 December 2008, the Board comprises the Executive Chairman, four independent Non-Executive Directors and one Executive Director. Details including the term of office, qualifications and experience, and information on other directorships held by each member of the Board, can be found in the Directors' Report.

The Board has also nominated Dr RV Dubs to be appointed as an independent Non-Executive Director and Mr JR Odell to be appointed as CEO and Managing Director (MD), subject to regulatory approval.

The Board comprises members with a broad range of skills and experience. The Board considers it important for the following skills and experience to be represented on the Board:

# Corporate Governance Statement

- experience as a Chief Executive;
- international business experience;
- financial experience;
- technology experience especially in the software or computer industries;
- marketing experience;
- legal and regulatory experience; and
- corporate governance and risk management experience.

The Board annually reviews the skills and experience of its members and decides on whether any action needs to be taken to augment or complement those skills.

## Continuing education of Directors and access to information

Directors receive management presentations and tutorials from external experts during the year as part of a continuing education process. This allows Directors the opportunity to pose questions about the Company and factors impacting, or likely to impact, on the business. Directors are also entitled to request additional information where they consider such information necessary to make informed decisions.

## Board meetings

The Board meets regularly and during 2008 the Board met a total of 11 times which included meetings focused on strategy and budget. The number of meetings attended by each Director is tabled in the Directors' Report. Executive management are regularly invited to attend and present at Board meetings. During the year the Non-Executive Directors also held meetings without the presence of executive management.

## Director independence

All Directors, whether independent or not, bring an impartial judgement to bear on Board decisions and are subject to the Board's policy regarding management of conflict of interests.

The Board annually assesses each of the Non-Executive Directors against specific criteria to decide whether they are independent. In making such an assessment, consideration is given to whether the Director:

- is a substantial shareholder of the Company or an officer of a substantial shareholder of the Company;
- has been employed in an executive capacity in the last three years by the Company or a subsidiary of the Company;
- has been employed as a principal of a material professional adviser to the Company during the past three years;
- is a material supplier or customer of the Company or any subsidiary of the Company;
- has any material contractual relationship with the Company (other than as a Director); and
- is free from any interest, business or personal, which could or could reasonably be perceived to materially interfere with the Director's ability to act in the best interests of the Company.

Having considered these, the Board was of the view that except for the Executive Chairman as disclosed below, there were no factors affecting the independent status of any other Non-Executive Director at 31 December 2008 or throughout the year.

## Chair of the Board

Mr DJ Simpson was appointed Chair by the Board in 2004. He was an independent Non-Executive Director until 29 September 2008, when he became Executive Chairman following the resignation of the CEO and MD. While not holding the title of CEO, Mr DJ Simpson acted in the capacity of interim CEO to ensure the continued performance of the Company pending the appointment of a permanent replacement.

The Chair is responsible for the leadership of the Board, ensuring effectiveness in all aspects of its role including:

- setting Board meeting agendas;
- conducting and leading Board meetings;
- ensuring effective communication with shareholders;
- conducting and leading shareholder meetings; and
- being the main point of contact between the Board and the CEO.

## Independent professional advice

Any Director may seek independent external advice in relation to any Board matter at the expense of the Company with the prior consent of the Chair. Whenever practicable the advice is commissioned in the joint names of the Director and the Company and a copy of the advice should be made available to the entire Board.

## Board committees

The Board is assisted in fulfilling its responsibilities by four committees. Each committee is governed by a Charter which is regularly reviewed and approved by the Board. The Charters are available on the Company's website www.aristocratgaming.com. The four Board committees are the:

- Audit Committee;
- Nomination and Governance Committee;
- Regulatory and Compliance Committee; and
- Remuneration Committee.

Members are appointed for a three year term (or shorter time as they remain in the office of Director) and, subject to continuing to be a Director, are eligible for re-appointment at the end of their term.

An overview of the composition and responsibilities of each of the Board committees is provided below.

## Audit Committee

As at 31 December 2008, the committee comprises three members, the majority of whom are independent Non-Executive Directors. The committee is chaired by an independent chair who is not the Chair of the Board. The current committee members are Mrs P Morris (Chair), Mr RA Davis and Mr DJ Simpson. Mr DJ Simpson was an independent Non-Executive Director member of the committee until he became Executive Chairman on 29 September 2008. Prior to that date, the Audit Committee consisted only of independent Non-Executive Directors. All members of the committee are financially literate and the committee possesses sufficient financial expertise and knowledge of the industry in which the Company operates.

The committee is scheduled to meet four times throughout the year. During the year, in addition to scheduled committee meetings, separate meetings also took place between the Chair of the committee and both the Company's internal and external auditors. The number of actual committee meetings and attendance by its members is contained in the Directors' Report.

The committee responsibilities include:

- evaluating and monitoring of the Company's internal control environment and risk management function;
- overseeing and reviewing the scope, quality and cost of the internal and external audits;
- reviewing the reports presented to the committee by both the auditors and management;
- recommending to the Board the appointment of internal and external auditors;
- reviewing the Company's management and statutory reporting (including the half year and full year accounts);
- reviewing and approving of finance and accounting policies and the ongoing monitoring of their implementation and effectiveness;
- ongoing financial monitoring of the Company's various disclosure obligations; and
- the review and pre-approval of any non-audit services provided by the internal or external auditors to ensure their independence is maintained at all times.

## Nomination and Governance Committee

As at 31 December 2008, the committee comprises three members, the majority of whom are independent Non-Executive Directors. The current committee members are Mr RA Davis (Chair), Mrs P Morris and Mr DJ Simpson. The committee is scheduled to meet three times per year. The number of actual committee meetings and attendance at meetings by its members is contained in the Directors' Report.

The committee responsibilities include:

- recommendations on Board structure, membership, tenure, succession planning and committee membership;
- induction and education of Directors;
- the Board and individual Director performance assessment;
- overall Company corporate governance policies and procedures; and
- in conjunction with the Remuneration Committee, setting the CEO's annual KPIs.

# Corporate Governance Statement

## Regulatory and Compliance Committee

The committee is chaired by Mr WM Baker who is an independent Non-Executive Director. The committee also comprises another independent Non-Executive Director, Ms SAM Pitkin, an independent external member, Mr H Keating, and the Global Compliance Manager as a member of executive management. The committee is scheduled to meet four times per year. The number of actual committee meetings and attendance at meetings by its members is contained in the Directors' Report.

The committee responsibilities include:

- assisting the Board and executive management in obtaining information necessary to make decisions in the area of hiring key personnel and entering into or continuing business associations;
- the review of existing and proposed business undertakings for regulatory compliance;
- conducting investigations as appropriate and making recommendations to the Board; and
- monitoring and ensuring licensing conditions and regulatory requirements are met.

## Remuneration Committee

As at 31 December 2008, the committee comprises three members, the majority of whom are independent Non-Executive Directors. The current committee members are Ms SAM Pitkin (Chair), Mrs P Morris and Mr DJ Simpson. The committee is scheduled to meet four times per year. The number of actual committee meetings and attendance at meetings by its members is contained in the Directors' Report.

The committee responsibilities include:

- the recruitment, remuneration, retention, succession planning, training policies and procedures for senior management;
- making recommendations to the Board on:
  - CEO and senior management fixed remuneration framework and levels;
  - CEO and senior management performance and equity-based remuneration plans including performance incentives and hurdles;
  - Chair and Non-Executive Director fees; and
  - the Company's superannuation arrangements.

## Nomination, selection and appointment process of new Directors

Recommendations for the nomination of new Directors are made by the Nomination and Governance Committee. Generally, external consultants are used to identify potential Directors. Those nominated are assessed by the committee against a range of criteria including professional skills, experience, qualifications and background including probity and integrity. Any Non-Executive Director nominated during the year will be appointed following receipt of regulatory approval and will stand for election by shareholders at the next AGM of the Company.

The Company's Policy for the Selection and Appointment of Non-Executive Directors is available on the Company's website at www.aristocratgaming.com.

Formal letters of appointment are issued to those joining the Board. All new Directors undergo an induction program which includes being provided with a Director's Handbook, a copy of the strategic plan for the Company together with latest budgets/forecasts and meetings with senior management including the CEO and his direct reports.

## Other directorships

Directors are required to limit the number of directorships of other listed companies to five in order to ensure that sufficient time is available to attend to the affairs of the Company. The Chair is required not to hold more than one other position as Chair of a listed company. The CEO should only accept appointment to the board of another listed company with the approval of the Board.

## Performance evaluation for the Board, Board committees and individual Directors

The Board performance evaluation process involves the Non-Executive Directors collectively undertaking a review at least once every year of the performance of the Board and its committees.

Board performance as a whole is reviewed by reference to the core competency criteria set out in the evaluation process, while committee performance is reviewed in the context of the objectives and responsibilities set out in the relevant charter of each committee. The Company engaged an external consultant to undertake these reviews during the fourth quarter of 2007, where feedback was presented to the Nomination and Governance Committee during the first quarter of 2008. An internal assessment facilitated by the Chair took place during the fourth quarter of 2008, where the Directors provided written feedback in relation to the performance of the Board against a set of agreed criteria.

On an ongoing basis, all Directors are encouraged to raise any issues of concern regarding the performance of any other Director with the Chair, or if the concern relates to the Chair, with the Chair of the Nomination and Governance Committee. The Chair or Chair of the Nomination and Governance Committee, as applicable, is responsible for determining the appropriate follow up of any matters raised.

The Chair of the Nomination and Governance Committee has overall responsibility for managing and overseeing the performance evaluation process.

## Principle 3 – Promote ethical and responsible decision-making

### Code of Conduct

The Board has adopted a Code of Conduct (Code) which applies to Directors and all employees. The Code is reinforced through various training programs and Company publications. The Code provides an ethical and behavioural framework for the way business is conducted and contains a set of general business ethics including (but not limited to):

- act honestly and fairly in all dealings and to conduct business with strict professional courtesy and integrity;
- abide and comply with all applicable laws and regulations;
- report suspected corrupt or unethical conduct;
- ensure that Company resources and property are used properly and efficiently; and
- not disclose information or documents relating to the Company or its businesses other than as required by law and not to make any public comment on Company matters unless authorised to do so.

The Code is available on the Company's website, www.aristocratgaming.com.

The Board and senior management of the Company are committed to the Code and the principles contained within it. The Code is regularly communicated and distributed to employees. New employees are issued with an employee handbook which contains, amongst other things, the Code and they are required to certify (prior to commencing their employment) that they have read and understood the requirements contained in it.

The Code together with the policies listed in this Principle are aimed at ensuring the Company maintains the highest standards of honesty, integrity and fair trading with shareholders, customers, suppliers, employees, regulators and the community.

The Company has procedures in place to monitor overall compliance with the Code. It is made clear in the Code that any breaches are treated seriously and could lead to disciplinary action including termination of employment.

In addition to the Code, the Company also has policies which govern:

- occupational health and safety;
- trade practices;
- conflicts of interest;
- gifts, gratuities and donations;
- dealing in Company securities;
- market disclosure; and
- privacy.

The Company has implemented training courses dealing with harassment in the workplace, discrimination, legal and operational compliance globally which all employees are required to complete. In addition the Company has provided training to relevant employees on privacy, fair trading, restrictive trade practices and gaming legislation.

### 'Tip-offs Anonymous' program

'Tip-offs Anonymous' is an independent, confidential telephone, email and postal service that provides an effective channel for employees to anonymously report instances of suspected workplace misconduct. The service is available to all employees worldwide.

All reported incidents are reviewed by a select group of senior executives who decide on the appropriate course of action to be taken. A summary of all reported incidents and action taken is provided to the Audit Committee. Any reported incidents involving senior executives are reported directly to the Chair of the Board and the Chair of the Audit Committee by the Tip-offs Anonymous service provider.

# Corporate Governance Statement

### Share trading policy

The Company's policy prohibits any Director or employee dealing in the securities of the Company if they are in possession of any price-sensitive information. Subject to this, Directors and senior executives may only deal in the shares of the Company from the day after until the 42nd calendar day following:

- announcement of the half year and full year results;
- the AGM;
- any half or full year profit guidance released to the ASX by the Company where the Directors determine, at their discretion, that such announcement is sufficiently comprehensive for this purpose and executives are advised accordingly; and
- the issue of any prospectus by the Company.

During the year, the Board amended the Share Trading Policy to prohibit Non-Executive Directors from entering into a margin loan or similar funding arrangement over the Company's securities. Executives may only enter into a margin loan or similar funding arrangement over any securities with the prior approval of the Chair of the Board.

The Company prohibits the hedging of unvested equity instruments at all times, irrespective of trading windows.

The Policy can be found on the Company's website, www.aristocratgaming.com.

## Principle 4 – Safeguard integrity in financial reporting

### Audit Committee

The Audit Committee's composition, roles and responsibilities are provided under Principle 2 of this statement.

### Selection of auditor

The Audit Committee is responsible for overseeing the external auditor selection process. This process includes assessing each of the submissions received and making a formal recommendation to the Board on the appointment of the external auditor.

As part of that selection process, the Audit Committee assesses each of the submissions received on the following criteria:

- independence;
- overall audit approach and methodology;
- relevant industry experience;
- experience and qualifications of key audit staff; and
- cost.

Every year, the Audit Committee assesses the external auditor's performance and recommends to the Board the appointment of the Company's external auditor for the ensuing year.

During the fourth quarter of 2008, a competitive tender for both internal and external audit services was held, with PricewaterhouseCoopers continuing in office as the Company's external auditor, and Ernst & Young appointed as the Company's internal auditor.

### Auditor independence

The Company has adopted a formal Charter of Audit Independence. The Charter restricts the types of non-audit services that can be provided by either the internal or external auditors. In addition, any non-audit services which are to be provided by the internal or external auditors need to be pre-approved by the Chair of the Audit Committee.

The Charter does not allow the following services to be provided by the external auditor:

- preparation of source documents, bookkeeping or other services related to preparing accounting records or financial statements;
- financial information systems design and implementation services;
- appraisal or valuation services for financial purposes;
- fairness opinions;
- contribution in kind reports;
- actuarial services;
- internal audit outsourcing;
- management functions (including any decision-making, supervisory or ongoing monitoring function and authorising, executing or consummating transactions, or exercise authority, on behalf of management);
- human resources and recruitment functions;
- design and implementation of financial information technology systems that are used to generate financial information;

- broker or dealer, investment adviser, or investment banking services;
- legal services and other expert advocacy services;
- any service that involves a contingent fee;
- any service that involves taking custody of the Company's assets; and
- any other service the Board determines.

The Audit Committee reviews the independence of the auditors four times a year. The Company requires the senior external audit partner to rotate every five years. The Charter also places restrictions on the hiring of employees or former employees of the auditor firms. The Company expects the external auditor to attend the AGM of the Company and to respond to questions relating to the conduct of the audit and the auditor's role.

## Principle 5 – Make timely and balanced disclosure

The Company has written policies dealing with the Company's disclosure obligations and responsibilities under both the ASX Listing Rules and the Act. The Company's policy on continuous disclosure is available on the Company's website www.aristocratgaming.com.

The Company has in place the following procedures in order to comply with its continuous disclosure responsibilities:

- to immediately advise the ASX of any information which a reasonable person would expect to have a material effect on the price of the Company's securities subject to the exceptions set out in the Listing Rules. The CEO and CFO of the Company confer regularly to determine if any announcement should be made under ASX Listing Rule 3.1;
- the Chair, CEO, CFO and the Company's media relations adviser are the only persons authorised to talk to the media, analysts or shareholders;
- any employee who comes into possession of information which is likely to affect the price of the Company's securities must immediately inform the Company Secretary, who in consultation with the CEO and CFO, will determine whether an announcement is required;
- where appropriate, the consideration of whether matters under discussion would trigger continuous disclosure obligations at meetings of the Board, Audit Committee and the Executive and Risk Review Committee; and
- there is an established protocol and approval procedure for all intended announcements.

## Principle 6 – Respect the rights of shareholders

One of the most significant responsibilities of the Board is to have regard to the long term sustainability of returns to shareholders taking into account the interests of other stakeholders.

The Company promotes effective communication with shareholders and encourages effective participation at general meetings to ensure a high level of accountability and discussion of the Company's strategy, goals and performance. The Company maintains a website (www.aristocratgaming.com) which is regularly updated with all recent announcements to the ASX, annual reports, briefing materials, and presentations to investors and analysts. The Corporate Governance section of the website allows shareholders direct access to the Board Charter, committee charters and key governance policies.

The AGM is webcast each year. The Company's most recent full year and half year results presentation webcasts are archived and can be accessed through the investor information link on the Company's website.

The Company's Shareholder Communication Policy is available on the Company's website at www.aristocratgaming.com.

## Principle 7 – Recognise and manage risk

The Board recognises the importance of a sound framework of risk oversight, risk management and internal control to good corporate governance and has put in place a formal ongoing process for identifying, assessing, monitoring and managing the material business risks faced, or potentially exposed to, by the Company in pursuing its objectives. The adequacy and effectiveness of this process has been continually reviewed by the Board and is in accordance with the Australian Standard AS 4360:2004 Risk Management.

# Corporate Governance Statement

Elements of the Company's risk management system include:

- a formal risk management policy which is based on Australian Standard AS 4360:2004 Risk Management. A summary of the Company's Risk Management Policy is available on the Company's website at www.aristocratgaming.com;
- well-defined roles and accountabilities of the Board, Audit Committee, Executive and Risk Review Committee and internal audit function;
- the training of key executives and managers in the area of risk and the requirements of the Company's Risk Management Policy;
- formal risk identification workshops and meetings across the business to identify and rate material business risks. These risks include but are not limited to: operational, compliance, strategic, reputation or brand, technological, product or service quality, human resources, financial reporting and market related risks;
- the rating of risks for the likelihood of occurrence, possible consequence and the level of current controls and strategies which exist to manage the risk;
- formal risk management updates on the Company's management of its material business risks, including changes to the Company's risk profile, are provided to the Board on a monthly basis;
- a dedicated Group Risk & Audit Team is responsible for assisting management in implementing the Board's Risk Management Policies;
- the monthly review of risks by the Executive and Risk Review Committee;
- the establishment of an internal audit function which is independent of the external auditor and has direct access to the Board and management;
- the internal audit function provides assurance to the Board by carrying out analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control system;
- the development of a risk based internal audit plan;
- an organisation structure with well-defined scopes of responsibility, clear lines of accountability and appropriate levels of delegated authority and approval limits;
- detailed financial policies and procedures in the areas of expenditure authorisations, credit, treasury and required internal controls;
- annual budgeting and monthly reporting systems for all operating units;
- a group-wide regulatory compliance program covering licensure, environment, occupational health and safety and employment practices;
- a comprehensive insurance program; and
- a confidential Tip-offs Anonymous program deployed worldwide.

The Company uses a governance, risk and compliance software to facilitate the update and maintenance of the Company's risk register and to track risk management activities.

### Certification from the CEO and the CFO

The Board received a written certification on 24 February 2009 from both the Executive Chairman and the CFO that the declaration provided in accordance with section 295A of the Act (the integrity of financial statements) is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Due to the limitations that are inherent in any system of risk management and internal control, the systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement, adverse events or more volatile outcomes from arising.

## Principle 8 – Remunerate fairly and responsibly

### Remuneration Committee

The composition of the committee, its roles and responsibilities are provided under Principle 2 of this statement.

### Remuneration of Directors and senior executives

Details of the principles and amounts of remuneration of Non-Executive Directors, Executive Directors and other senior executives are set out in the Remuneration Report, which also includes disclosures on equity based remuneration provided by the Company.

# Corporate Social Responsibility

The Company is committed to sustainable and ethical business practices. The Company's corporate responsibilities cover several critical areas, including social, health and safety, community and environmental considerations. Set out below are some initiatives of the Company in these areas.

## Responsible gaming

The Company is committed to the long-term sustainability of the global gaming industry by recognising the interests of all industry stakeholders, and supporting the adoption of evidence based 'responsible gaming' practices and measures by its customers and players. The Company is involved with numerous industry associations which work in the responsible gaming area in the jurisdictions in which the Company operates, including the American Gaming Association, the Gaming Technologies Association, and the Australian Gaming Council. The Company both directly and through its industry association memberships, actively supports the conduct of independent and impartial research into the causes and treatments for pathological problem gambling. The Company is the first major gaming equipment manufacturer to design and deliver through its Swedish subsidiary, ACE Interactive AB and its major customer Norsk Tipping of Norway, the software and infrastructure for a jurisdiction networked 'player pre-commitment and self exclusion' solution. This solution is now the subject of several academic research projects aimed at determining the effectiveness of such measures in promoting responsible gaming.

## Environment

The Company's operations have a limited impact on the environment. The Company is subject to a number of environmental regulations in respect of its integration activities. The Company integrates (assembles) machines and systems in Australia, the USA, Macau, Japan, UK, South Africa and New Zealand. Machines are also assembled under contract in Japan. The Company uses limited amounts of chemicals in its assembly process.

The Company has also conducted a review of its energy consumption and greenhouse gas emissions in relation to the *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER), and determined that based on current emission levels, the Company is not required to register and report under NGER. However, the Company continues to receive reports and monitors its position to ensure compliance with NGER.

The Company is committed to not only complying with the various environmental laws to which its operations are subject, but also to achieving a high standard of environmental performance across all its operations. The Company is aware of, and continues to plan for, any new Australian regulatory requirements on climate change. It is the Company's view that climate change does not pose any significant risks to its operations in the short to medium term.

Throughout the Company, new programs and initiatives have been introduced to ensure the Company is well prepared for new regulatory regimes and to reduce its carbon footprint. These initiatives include:

- introducing energy efficiency and recycling programs in all its offices and sites and water recycling in the Integration Centres;
- investment in research and technology to develop more environmentally friendly products;
- removal of hazardous materials previously used in products and ensuring suppliers comply with similar standards;
- increasing the usage of recyclable material in products and packaging, and labelling of all plastics with the appropriate recyclable symbol and material type; and
- introducing policies to define the Company's environmental considerations in the design of the Company's products.

The Company engages the services of an external environmental reporting adviser to provide regular reports on energy consumption and greenhouse gas emissions. In addition, the Company's performance in relation to its environmental obligations is monitored internally with compliance reported to the senior executive team and the Board where appropriate. Annually, the Board reports on the Company's performance in relation to environmental legislation in accordance with its financial reporting obligations.

# Corporate Social Responsibility

## Occupational health and safety (OHS)

The Company is committed to ensuring a safe and secure workplace, operating a comprehensive OHS program including policies and procedures, regular training and updates, information and consultation, and a dedicated OHS team.

The Company's Safety First program has been developed to reinforce the culture and focus needed to reduce risks and injuries in the workplace and meets the key requirements of Australian and international safety management standards (AS/NZ 4801, ANSI/AIHA Z10 and ISO 18001). It is implemented Company-wide at all global locations.

To ensure continuous improvement in safety, the Company provides both induction and ongoing OHS related and risk management training. OHS performance is monitored continuously through incident registers, OHS related KPIs for management performance and regular performance reports. Audits are also conducted to verify the implementation of the Company's OHS related policies and procedures.

## Employee wellness programs

The Company has a range of employee wellness programs in place to help provide an enjoyable and meaningful work experience to its employees. These include:

- The Employee Assistance Program, which is a free, independent and confidential counselling service provided to all employees and their immediate family. Employees are encouraged to use this service to help resolve any problems that may be causing them or their family concern, such as personal issues, work/life balance, performance management and trauma management.
- The Health and Wellbeing Program, which is designed to raise awareness of employee fitness and wellness. Health fairs are held where employees can receive tests on blood cholesterol, glucose and pressure; consult with a dietician and/or physiotherapist; or receive relaxation massages from a massage therapist.
- The Company has also negotiated discount memberships with a number of fitness organisations for its employees.
- During 2008, the Company launched an interactive and personalised online Health Portal and Active Life Programs aimed at motivating and supporting employees to reach their goals in health and wellbeing, fitness and nutrition, sport and recreation, and successful weight management. The portal is run by a group of leading Australian health professionals and elite sportspersons. Employees may choose to enrol in one of the Active Life Programs offered by the portal. These include weight loss, healthy eating, and training for sprint triathlons, fun runs and open water swims. The Programs will provide weekly email updates detailing forthcoming activities and recommended schedules.

## Social

The Company encourages involvement of its employees in community projects through non-profit, charitable, social or sporting bodies where no real or perceived conflict of interest is apparent. The Company is involved from time to time in local community fundraising activities and other sponsorship programs.

In addition, the Company's graduates participate in community service days as part of the Graduate Program.

# Five Year Summary

| 12 months ended 31 December: | | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|
| $'000 (except where indicated) | | | | | | |
| **Profit and loss items** | | | | | | |
| Revenue from operating activities (i) | | **1,079,902** | 1,121,969 | 1,074,534 | 1,296,323 | 1,132,854 |
| EBITDA | | **196,891** | 368,693 | 366,707 | 398,111 | 265,914 |
| Depreciation and amortisation | | **40,231** | 36,435 | 31,415 | 39,735 | 35,901 |
| EBIT | | **156,660** | 332,258 | 335,292 | 358,376 | 230,013 |
| Net interest revenue/(expense) | | **(19,826)** | (6,027) | (2,364) | 5,571 | (4,555) |
| Profit/(loss) from ordinary activities before income tax expense | | **136,834** | 326,231 | 332,928 | 363,947 | 225,458 |
| Income tax expense | | **34,907** | 78,295 | 92,873 | 119,626 | 83,286 |
| Profit/(loss) from ordinary activities after income tax expense | | **101,927** | 247,936 | 240,055 | 244,321 | 142,172 |
| Minority interests | | **(720)** | (764) | (1,057) | – | – |
| Net profit attributable to members of Aristocrat Leisure Limited | | **101,207** | 247,172 | 238,998 | 244,321 | 142,172 |
| Total dividend paid - parent entity only | | **266,146** | 182,827 | 149,947 | 66,746 | 33,210 |
| **Balance sheet items** | | | | | | |
| Contributed equity | | **(67,298)** | 1,291 | 53,633 | 88,240 | 282,449 |
| Reserves | | **(28,762)** | (101,635) | (85,131) | (41,928) | (34,391) |
| Retained earnings | | **288,505** | 420,470 | 395,420 | 305,245 | 126,430 |
| Outside equity interest | | **(16)** | 675 | 1,047 | – | – |
| Total equity | | **192,429** | 320,801 | 364,969 | 351,557 | 374,488 |
| Cash and cash equivalents | | **106,243** | 80,618 | 123,496 | 359,532 | 285,973 |
| Other current assets | | **435,220** | 354,334 | 288,321 | 378,966 | 305,103 |
| Property, plant and equipment | | **150,776** | 103,004 | 117,846 | 116,455 | 117,462 |
| Intangible assets | | **154,420** | 128,212 | 146,392 | 76,183 | 72,636 |
| Other non-current assets | | **169,712** | 159,730 | 201,907 | 136,284 | 127,221 |
| Total assets | | **1,016,371** | 825,898 | 877,962 | 1,067,420 | 908,395 |
| Current payables and other liabilities | | **258,294** | 203,243 | 209,547 | 354,294 | 225,106 |
| Current borrowings | | **150,000** | 45,000 | – | 175,808 | 166,383 |
| Current tax liabilities and provisions | | **30,617** | 74,283 | 71,191 | 116,798 | 81,944 |
| Non-current borrowings | | **332,644** | 147,459 | 164,287 | – | – |
| Non-current provisions | | **25,121** | 18,008 | 20,039 | 18,292 | 19,401 |
| Other non-current liabilities | | **27,266** | 17,104 | 47,929 | 50,671 | 41,073 |
| Total liabilities | | **823,942** | 505,097 | 512,993 | 715,863 | 533,907 |
| Net assets | | **192,429** | 320,801 | 364,969 | 351,557 | 374,488 |
| **Other information** | | | | | | |
| Employees at year end | Number | **2,128** | 2,219 | 2,282 | 2,140 | 2,080 |
| Return on Aristocrat shareholders' equity | % | **52.6** | 77.1 | 65.5 | 69.5 | 38.0 |
| Basic earnings per share | Cents | **22.0** | 53.0 | 51.2 | 51.4 | 29.9 |
| Net tangible assets per share | $ | **0.08** | 0.41 | 0.47 | 0.59 | 0.63 |
| Total dividends per share - ordinary | Cents | **36.0** | 49.0 | 36.0 | 30.0 | 8.0 |
| Dividend payout ratio | % | **163.6** | 92.8 | 70.7 | 58.7 | 27.3 |
| Issued shares at year end | '000 | **455,330** | 464,296 | 467,713 | 470,536 | 476,898 |
| Net (cash)/debt (ii) | $'000 | **376,401** | 111,841 | 40,791 | (183,724) | (119,590) |
| Net cash (debt)/equity | % | **(195.6)** | (34.9) | (11.2) | 52.3 | 31.9 |

(i) Revenue from operating activities as per Note 5 to the financial statements
(ii) Current and non-current borrowings net of cash and cash equivalents

# Financial Statements

# Financial Statements

## for the year ended 31 December 2008

This financial report covers both Aristocrat Leisure Limited (Company) as an individual entity and the consolidated entity consisting of the Company and its subsidiaries (Group). The financial report is presented in Australian dollars.

The Company is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Aristocrat Leisure Limited
Building A, Pinnacle Office Park
85 Epping Road
North Ryde NSW 2113
Australia

A description of the nature of the consolidated Group's operations and principal activities is included in the Management Discussion and Analysis and in the Directors' Report, both of which are not part of this financial report.

The financial report was authorised for issue by the Directors on 24 February 2009. The Company has the power to amend and reissue the financial report.

Through the use of the internet, the Company ensures that its corporate reporting is timely, complete and available globally at minimum cost to the Group. All press releases, financial reports, and other information are available in the investor information section of the Company's website: www.aristocratgaming.com.

# Income statements

## for the year ended 31 December 2008

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| Revenue from operating activities | 5 | **1,079,902** | 1,121,969 | **–** | – |
| Cost of revenue from operating activities | | **(517,190)** | (470,443) | **–** | – |
| **Gross profit** | | **562,712** | 651,526 | **–** | – |
| Other revenue and other income | 5 | **30,312** | 23,381 | **275,520** | 198,702 |
| Research and development costs | | **(117,154)** | (104,158) | **–** | – |
| Sales and marketing costs | | **(114,392)** | (107,108) | **–** | – |
| General and administration costs | | **(201,274)** | (131,576) | **(57,553)** | (136) |
| Finance costs | | **(23,865)** | (14,447) | **–** | – |
| Share of net profits of jointly controlled entity | 28 | **495** | 8,613 | **–** | – |
| **Profit from ordinary activities before income tax expense** | | **136,834** | 326,231 | **217,967** | 198,566 |
| Income tax (expense)/credit | 6 | **(34,907)** | (78,295) | **26,589** | 1,888 |
| **Profit from ordinary activities after income tax expense** | | **101,927** | 247,936 | **244,556** | 200,454 |
| Profit is attributable to: | | | | | |
| Members of Aristocrat Leisure Limited | | **101,207** | 247,172 | **244,556** | 200,454 |
| Minority interest | 23 | **720** | 764 | **–** | – |
| | | **101,927** | 247,936 | **244,556** | 200,454 |

| **Earnings per share for profit attributable to the ordinary equity holders of the Company** | | **Cents** | Cents |
|---|---|---|---|
| Basic earnings per share | 34 | **22.0** | 53.0 |
| Diluted earnings per share | 34 | **22.0** | 52.8 |

The above income statements should be read in conjunction with the accompanying notes.

# Balance sheets
## as at 31 December 2008

| | Notes | 2008 $'000 | Consolidated 2007 $'000 | 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | 8 | **106,243** | 80,618 | **53** | 38 |
| Trade receivables | 9 | **294,671** | 251,657 | **–** | 22,785 |
| Inventories | 10 | **95,813** | 61,357 | **–** | – |
| Financial assets | 11 | **11,674** | 9,053 | **–** | – |
| Other assets | 12 | **8,788** | 4,816 | **–** | – |
| Tax assets | | **9,887** | – | **26,697** | – |
| | | **527,076** | 407,501 | **26,750** | 22,823 |
| Non-current assets classified as held for sale | 13 | **14,387** | 27,451 | **–** | – |
| **Total current assets** | | **541,463** | 434,952 | **26,750** | 22,823 |
| **Non-current assets** | | | | | |
| Trade receivables | 9 | **16,579** | 20,324 | **–** | 64,161 |
| Financial assets | 11 | **104,079** | 98,878 | **35,368** | 31,186 |
| Property, plant and equipment | 14 | **150,776** | 103,004 | **–** | – |
| Deferred tax assets | 15 | **49,054** | 40,528 | **1,782** | 1,030 |
| Intangible assets | 16 | **154,420** | 128,212 | **–** | – |
| **Total non-current assets** | | **474,908** | 390,946 | **37,150** | 96,377 |
| **Total assets** | | **1,016,371** | 825,898 | **63,900** | 119,200 |
| **Current liabilities** | | | | | |
| Trade and other payables | 17 | **234,472** | 177,467 | **5,243** | 3,479 |
| Borrowings | 18 | **150,000** | 45,000 | **–** | – |
| Current tax liabilities | | **–** | 14,506 | **–** | 18,624 |
| Provisions | 19 | **30,617** | 59,777 | **9,107** | 40,827 |
| Other liabilities | 20 | **23,822** | 25,776 | **–** | – |
| **Total current liabilities** | | **438,911** | 322,526 | **14,350** | 62,930 |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 17 | **275** | – | **46,925** | – |
| Borrowings | 18 | **332,644** | 147,459 | **–** | – |
| Provisions | 19 | **25,121** | 18,008 | **–** | – |
| Other liabilities | 20 | **26,991** | 17,104 | **–** | – |
| **Total non-current liabilities** | | **385,031** | 182,571 | **46,925** | – |
| **Total liabilities** | | **823,942** | 505,097 | **61,275** | 62,930 |
| **Net assets** | | **192,429** | 320,801 | **2,625** | 56,270 |
| **Equity** | | | | | |
| Contributed equity | 21 | **(67,298)** | 1,291 | **(67,298)** | 1,291 |
| Reserves | 22(a) | **(28,762)** | (101,635) | **54,735** | 49,921 |
| Retained earnings | 22(b) | **288,505** | 420,470 | **15,188** | 5,058 |
| **Parent entity interest** | | **192,445** | 320,126 | **2,625** | 56,270 |
| **Minority interest** | 23 | **(16)** | 675 | **–** | – |
| **Total equity** | | **192,429** | 320,801 | **2,625** | 56,270 |

The above balance sheets should be read in conjunction with the accompanying notes.

# Statements of changes in equity

## for the year ended 31 December 2008

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| **Total equity at the beginning of the financial year** | | **320,801** | 364,969 | **56,270** | 119,247 |
| Net movement in foreign currency translation reserve | 22(a)(i) | **60,179** | (14,589) | **–** | – |
| Net movement in available-for-sale revaluation reserve | 22(a)(iv) | **7,327** | (3,024) | **–** | – |
| **Net income/(loss) recognised directly in equity** | | **67,506** | (17,613) | **–** | – |
| **Profit for the financial year** | | **101,927** | 247,936 | **244,556** | 200,454 |
| **Total recognised income and expense for the financial year** | | **169,433** | 230,323 | **244,556** | 200,454 |
| **Transactions with equity holders in their capacity as equity holders** | | | | | |
| Shares bought back on-market and cancelled (including transaction costs) | 21 | **(68,615)** | (52,432) | **(68,615)** | (52,432) |
| Shares issued in lieu of unclaimed dividend payments | 21 | **26** | 90 | **26** | 90 |
| | | **(68,589)** | (52,342) | **(68,589)** | (52,342) |
| Net movement in share-based payments reserve | 22(a)(ii) | **(13,168)** | (7,287) | **4,814** | 12,566 |
| Net movement in share-based payments trust reserve | 22(a)(iii) | **18,535** | 8,396 | **–** | – |
| Equity dividends | 7 | **(233,172)** | (222,122) | **(234,426)** | (223,655) |
| Dividends paid to minority shareholder | 23 | **(1,410)** | (1,020) | **–** | – |
| Net movement in reserves attributable to minority interest | 23 | **(1)** | (116) | **–** | – |
| | | **(297,805)** | (274,491) | **(298,201)** | (263,431) |
| **Total equity at the end of the financial year** | | **192,429** | 320,801 | **2,625** | 56,270 |
| **Total recognised income and expense for the financial year is attributable to:** | | | | | |
| Members of Aristocrat Leisure Limited | | **168,685** | 229,443 | **244,556** | 200,454 |
| Minority interest | | **748** | 880 | **–** | – |
| | | **169,433** | 230,323 | **244,556** | 200,454 |

The above statements of changes in equity should be read in conjunction with the accompanying notes.

# Statements of cash flows

## for the year ended 31 December 2008

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Receipts from customers (inclusive of goods and services tax) | | **1,125,143** | 1,179,924 | **–** | – |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(884,973)** | (857,328) | **(43)** | (135) |
| | | **240,170** | 322,596 | **(43)** | (135) |
| Other income | 5 | **4,860** | 3,062 | **–** | – |
| Interest received | | **4,783** | 8,397 | **33** | 231 |
| Finance costs paid | | **(24,898)** | (15,133) | **–** | – |
| Income taxes (paid)/refunded | | **(51,096)** | (96,765) | **6,246** | – |
| Class Action settlement | | **(57,410)** | – | **(57,410)** | – |
| **Net cash inflow from operating activities** | 35 | **116,409** | 222,157 | **(51,174)** | 96 |
| **Cash flows from investing activities** | | | | | |
| Payments for property, plant and equipment | | **(62,214)** | (52,243) | **–** | – |
| Payments for investment in jointly controlled entity | | **–** | (3,072) | **–** | – |
| Payments for patents, trademarks and computer technology | 16 | **(2,795)** | (1,658) | **–** | – |
| Loans from related parties | | **–** | – | **385,318** | 232,052 |
| Loan repayments from non-related party | | **1,203** | 995 | **–** | – |
| Proceeds from sale of property, plant and equipment | | **46,616** | 1,663 | **–** | – |
| **Net cash (outflow)/inflow from investing activities** | | **(17,190)** | (54,315) | **385,318** | 232,052 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue and exercise of options under the Employee Share Option Plan | 22(a)(ii) | **632** | 3,029 | **632** | 3,029 |
| Shares purchased by trust | 22(a)(iii) | **–** | (17,971) | **–** | – |
| Payments for shares bought back | 21 | **(68,615)** | (52,432) | **(68,615)** | (52,432) |
| Proceeds from borrowings | | **250,000** | 45,000 | **–** | – |
| Dividends paid | 7 | **(264,574)** | (181,567) | **(266,146)** | (182,737) |
| Dividends paid to minority shareholder | 23 | **(1,410)** | (1,020) | **–** | – |
| **Net cash outflow from financing activities** | | **(83,967)** | (204,961) | **(334,129)** | (232,140) |
| **Net increase/(decrease) in cash and cash equivalents held** | | **15,252** | (37,119) | **15** | 8 |
| Cash and cash equivalents at the beginning of the financial year | | **80,618** | 123,496 | **38** | 30 |
| Effects of exchange rate changes on cash and cash equivalents | | **10,373** | (5,759) | **–** | – |
| **Cash and cash equivalents at the end of the financial year** | 8 | **106,243** | 80,618 | **53** | 38 |

The above statements of cash flows should be read in conjunction with the accompanying notes.

# Notes to the financial statements

for the year ended 31 December 2008

## Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Aristocrat Leisure Limited (Company) as an individual entity and the consolidated entity consisting of the Company and its subsidiaries (Group).

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations and the *Corporations Act 2001* (Cth) (Act).

#### (i) Compliance with IFRS

Australian Accounting Standards include AIFRS. Compliance with AIFRS ensures that the consolidated financial statements and notes of the Company comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS.

#### (ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss and for property, plant and equipment which have been measured at deemed cost.

#### (iii) Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

### (b) Principles of consolidation

#### (i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company (or parent entity) as at 31 December 2008 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the Group.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Refer to Note 1(i).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (ii) Jointly controlled entities

The investment in a jointly controlled entity is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of the jointly controlled entity is recognised in the income statement, and the share of movements in reserves is recognised in reserves in the balance sheet.

Profits or losses on transactions establishing the jointly controlled entity and transactions with the entity are eliminated to the extent of the Group's ownership interest until such time as they are realised by the jointly controlled entity on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

### (iii) Employee Share Trust

The Group has formed a trust to adminster the Group's employee share scheme. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Treasury shares acquired by Aristocrat Employee Equity Plan Trust are recorded in share-based payment reserves. Information relating to these shares is disclosed in Note 22(a)(ii) and (iii).

## (c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

## (d) Foreign currency translation

### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the available-for-sale investments revaluation reserve in equity.

### (iii) Group companies

The results and financial position of all the Group companies (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the foreign currency translation reserve in equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences is recognised in the income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## Note 1. Summary of significant accounting policies *continued*

### (e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, settlement discounts and duties and taxes paid. Revenue is recognised for the major business activities as follows:

#### (i) Revenue from the sale of goods

**Platform/machine sales**

Revenue is recognised when goods have been despatched to a customer pursuant to a sales order, the associated risks have passed to the customer, and it is probable that future economic benefits will flow to the Group.

**Value Added Customer Agreements**

Revenue arising from Value Added Customer Agreements where gaming machines, games, conversions and other incidental items are licensed to customers for extended periods, is recognised on delivery in the case of gaming machines and games, and for other items including conversions, only as the long-term goods or services are delivered. Where appropriate, receivables are discounted to present values at the relevant implicit interest rates.

**Value Added Service Agreements**

Revenue arising from Value Added Service Agreements where gaming machines and games are licensed to customers for extended periods and a service fee is payable over the term of the contract for warranty conversions to ensure product performance at or above the agreed level, is recognised on delivery in the case of gaming machines and games, and over the term of the contract on a straight-line basis for the service fee provided for warranty conversions. Where appropriate, receivables are discounted to present values at the relevant implicit interest rates.

**Long-term contracts**

Revenue on long-term contracts for systems and similar installations is recognised progressively over the period of individual contracts, wherever a reliable estimate can be made, using the percentage of completion method. Where a reliable estimate cannot be made, revenue is recognised to the extent of costs incurred, where it is probable that the costs will be recovered.

#### (ii) Revenue from gaming operations and services

**Participation revenue**

Participation revenue is where the Group's owned machines are placed directly by the Group or indirectly through a licensed operator in venues in return for a fee per day which can either be fixed or performance based. The amount of revenue recognised is calculated by either: (i) multiplying a daily fee by the total number of days the machine has been operating on the venue floor in the reporting period; or (ii) an agreed fee based upon a percentage of turnover of participating machines.

**Rental**

Rental income from operating leases is recognised on a straight-line basis over the term of the operating lease contract.

**Service revenue**

Service revenue is recognised as work is performed, other than for service agreements, where revenue is recognised evenly over the period of the service agreement.

**Revenue in advance**

Revenue derived from prepaid service contracts is apportioned on a pro-rata basis over the life of each respective agreement. Amounts received at balance date in respect of future periods are treated as revenue in advance and are included in current liabilities.

## (f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate for each jurisdiction adjusted for changes in deferred tax assets and liabilities, current income tax of prior years, unused tax losses and unused tax credits. Deferred tax assets and liabilities are attributable to temporary differences which arise when there is a difference between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or loss or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses and unused tax credits only if it is probable that future taxable amounts will be available to utilise those temporary differences, losses and tax credits.

Current and deferred tax balances attributable to amounts recognised directly in equity are recognised directly in equity.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

## (g) Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2004.

The head entity, Aristocrat Leisure Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured by applying a group allocation approach, which uses a combination between the 'stand alone tax payer' and 'separate tax payer within a group' approach as described in UIG 1052 Tax Consolidation Accounting.

In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under the tax funding agreement with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. Details about the tax funding agreement are disclosed in Note 6.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

## (h) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property, or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

## Note 1. Summary of significant accounting policies *continued*

### (i) Business combinations

The purchase method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to Note 1(t)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

### (j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (that is, cash-generating units).

### (k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Any bank overdrafts will be shown within borrowings in current liabilities on the balance sheet.

### (l) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment.

The collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

### (m) Inventories

#### (i) Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value using principally standard costs. Standard cost for work in progress and finished goods includes direct materials, direct labour and an appropriate proportion of fixed and variable production overheads. Standards are reviewed on a regular basis.

### (ii) Contract work in progress

Contract work in progress is stated at cost less progress billings. Cost includes all costs directly related to specific contracts and an allocation of overhead expenses incurred in connection with the Group's contract operations. Where a loss is indicated on completion, the work in progress is reduced to the level of recoverability less progress billings.

## (n) Intellectual property rights

A controlled entity has entered into an agreement to purchase intellectual property rights in the form of licence tags to certain technology relating to cashless gaming systems in the United States. These rights are capitalised and subsequently expensed as and when the licence tags are consumed.

## (o) Non-current assets held for sale

Non-current assets that are classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet.

## (p) Investments and other financial assets

**Classification**

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of the Group's investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

### (iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are classified as non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

### (iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

## Note 1. Summary of significant accounting policies *continued*

### (p) Investments and other financial assets *continued*

**Recognition and derecognition**

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

**Subsequent measurement**

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Details on how the fair value of financial instruments is determined are disclosed in Note 1(r).

**Impairment**

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

### (q) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or (ii) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

#### (i) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

### (ii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in a hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventories) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

### (iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

## (r) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## (s) Property, plant and equipment

All property, plant and equipment are stated at deemed cost less accumulated depreciation. Deemed cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated remaining useful lives, as follows:

| | |
|---|---|
| – Buildings | 40 years |
| – Leasehold improvements | 2-10 years |
| – Plant and equipment | 2-10 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to Note 1(j)).

## Note 1. Summary of significant accounting policies *continued*

### (s) Property, plant and equipment *continued*

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

### (t) Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each region of operation by each primary reporting segment. Refer to Note 16.

#### (ii) Computer technology

Computer technology has a finite useful life and is carried at cost less accumulated amortisation and impaired losses. Computer technology acquired through a business combination is measured at fair value at acquisition date. Amortisation is calculated using the straight-line method to allocate the value of computer technology over its estimated useful life, which varies from three to 10 years.

#### (iii) Trademarks and licences

Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives, which vary from three to 12 years.

#### (iv) Research and development

Research expenditure is expensed as incurred.

An intangible asset arising from development expenditure is only recognised when all of the recognition criteria can be demonstrated. The recognition criteria for the development activity are:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the generation by the intangible asset of probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

As at balance date, only development costs relating to creation of an asset that can be used or sold and can be reliably measured are capitalised as intangible assets.

Other development costs are recognised in the income statement as incurred.

## (u) Payables

Trade and other creditors represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30-120 days of recognition.

Payables include employee benefits. Refer to Note 1(y).

## (v) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## (w) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

## (x) Provisions

Provisions are recognised when: (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is more likely than not that an outflow of resources will be required to settle the obligation; and (iii) the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### (i) Progressive jackpot liabilities

In certain jurisdictions in the United States, the Group is liable for progressive jackpots, which are paid as an initial amount followed by either: (i) an annuity paid out over 19 or 20 years after winning; or (ii) a lump sum amount equal to the present value of the progressive component. Base jackpots are charged to cost of sales with the level of play expected based on statistical analysis. The progressive component increases at a rate based on the number of coins played. The possibility exists that a winning combination may be hit before the Group has fully accrued the base component amount, at which time any unaccrued portion is expensed.

### (ii) Warranties

Provision is made for the estimated liability on all products still under warranty at balance date. The amount of the provision is the estimated cash flows expected to be required to settle the warranty obligations, having regard to the service warranty experience and the risks of the warranty obligations. The provision is not discounted to its present value as the effect of discounting is not material.

### (iii) Make good allowances

Provision is made for the estimated liability where required on leases still held at balance date. The amount of the provision is the estimated discounted cash flows expected to be required to satisfy the make good clauses in the lease contracts.

## (y) Employee benefits – payable

### (i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the balance sheet date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

## Note 1. Summary of significant accounting policies *continued*

### (y) Employee benefits – payable *continued*

#### (ii) Retirement benefit obligations

The controlled entities in Australia contribute a minimum of 9% of employees' base salary to Australian-based approved defined contribution funds. Contributions are recognised as an expense when they become payable.

#### (iii) Share-based payments

Share-based compensation benefits are provided to employees via the Employee Share Option Plan, the Long-Term Performance Option Plan, the Performance Share Plan and the General Employee Share Plan.

**Shares, options and rights granted before 7 November 2002 and/or vested before 1 January 2005**

No expense is recognised in respect of these options or rights. The shares are recognised when the options are exercised and the proceeds received allocated to contributed equity.

**Shares, options and rights granted after 7 November 2002 and vested after 1 January 2005**

The fair value of options and rights granted under the Employee Share Option Plan, the Long-Term Performance Option Plan and the Performance Share Plan is recognised as an employee benefits expense with a corresponding increase in reserves. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options and rights.

The fair value of options at grant date is independently determined using a modified version of the Merton Reiner Rubinstein Barrier Option model. The model has been modified to deal with options where a total shareholder return hurdle barrier is applicable. The model takes into account the exercise price, the expected life of the option, the non-tradeable nature of the option, the share price at grant date, the vesting criteria, the expected price volatility of the underlying share, and the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of share rights at grant date is independently determined using either a Monte-Carlo Simulation-based Pricing model or a Black-Scholes model that takes into account the share price at grant date, the estimated expected share price volatility, the risk-free interest rate, the expected dividend yield, the term of the share right and the vesting and performance criteria.

Upon the exercise of options or rights, the balance of the share-based payments reserve relating to those options or rights is transferred to share capital only if the shares are a new issue from contributed equity.

Shares issued through Aristocrat Employee Equity Plan Trust continue to be recognised in the share-based payments reserve in equity. Similarly, treasury shares acquired by Aristocrat Employee Equity Plan Trust are recorded in share-based reserves. Information relating to these shares is disclosed in Note 22(a)(ii) and (iii).

The market value of shares issued to employees for no cash consideration under the General Employee Share Plan is recognised as an employee benefits expense with a corresponding increase in reserves.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefits expense recognised each period takes into account the most recent estimate.

#### (iv) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

– there are formal terms in the plan for determining the amount of the benefits;

– the amounts to be paid are determined before the time of completion of the financial statements; or

– past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

### (v) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

### (vi) Termination benefits

Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised in those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised in other creditors. Liabilities for termination benefits expected to be settled within 12 months are measured at the amounts expected to be paid when they are settled.

## (z) Employee benefits – provision

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the balance sheet date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the balance sheet date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

## (aa) Contributed equity

Ordinary shares are classified as contributed equity.

Incremental costs directly attributable to the issue of new shares or options are shown in contributed equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

## (ab) Dividends

Provision is made for the amount of any dividend declared on or before the end of the period but not distributed at balance date.

## (ac) Earnings per share

### (i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the post-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## (ad) AASB Accounting Standards issued but not yet effective

The following accounting standards have been issued by the AASB but have not been adopted by the Group as they are not effective until after annual reporting periods beginning on or after 1 January 2008:

### AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8

Effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 may result in a change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. Application of AASB 8 may result in different segments disclosures, however it is not expected to affect any of the amounts recognised in the financial statements.

## Note 1. Summary of significant accounting policies *continued*

### (ad) AASB Accounting Standards issued but not yet effective *continued*

#### Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

Effective for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 January 2009.

#### Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]

Effective for annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and, when adopted, will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The Group has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Group's financial report.

#### AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations

Effective for annual reporting periods commencing on or after 1 January 2009. The amendments clarify that vesting conditions comprise service conditions and performance conditions only. They also specify that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The changes are not expected to affect any of the amounts recognised in the financial statements.

#### Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127

Effective for annual reporting periods commencing on or after 1 July 2009. The changes will impact accounting for any future business combinations.

#### AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

Effective for annual reporting periods commencing on or after 1 July 2009. The changes will impact disclosure requirements if the Group enters into a sale plan involving the loss of control of a subsidiary.

#### AASB 2008-8 Amendment to IAS 39 Financial Instruments: Recognition and Measurement

Effective for annual reporting periods commencing on or after 1 July 2009. The amendments clarify how the principals that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item. The changes are not expected to affect any of the amounts recognised in the financial statements.

### (ae) Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission (ASIC), relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

## Note 2. Financial risk management

The Group's activities expose it to a variety of financial risks, which include: market risk (including cash flow and fair value interest rate risk, foreign exchange risk and price risk); credit risk; and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures when necessary. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

Financial risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investment of excess liquidity.

The parent entity is not exposed to any significant financial risk.

### (a) Market risk

#### (i) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from floating rate borrowings drawn under bank debt facilities. If deemed necessary, the Group has the ability to manage floating interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Under the Group Treasury policy, the mix between fixed to floating rate debt is reviewed on a regular basis. The Group had floating rate AUD and USD denominated borrowings during 2008 (2007: floating rate AUD and USD denominated borrowings only). There were no interest rate swaps in place at the end of the period (2007: nil).

Refer to Note 18 for further details of the Group's borrowings.

**Group sensitivity**

A sensitivity analysis of interest rate risk on the Group's financial assets and liabilities is provided in the table at Note 2(a)(iv).

#### (ii) Foreign exchange risk

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 when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Refer to Notes 9(i) and 17(a) for receivables and payables denominated in foreign currencies.

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.

Unrealised gains or losses on outstanding foreign exchange contracts are taken to the Group's income statement on a monthly basis.

**Group sensitivity**

A sensitivity analysis of foreign exchange risk on the Group's financial assets and liabilities is provided in the table at Note 2(a)(iv).

#### (iii) Price risk

The Group is exposed to equity securities price risk. This arises from an investment held by the Group and classified on the balance sheet as available-for-sale. The Group's exposure to commodity price risk is indirect and is not considered likely to be material. Changes in price risk are unrealised and reflected through equity.

The Group's equity investment is in PokerTek Inc shares publicly traded on the NASDAQ Index in the United States.

#### (iv) Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk, foreign exchange risk and price risk. These sensitivities are prior to the offsetting impact of hedging instruments:

## Note 2. Financial risk management *continued*

| 2008 | Carrying amount $'000 | Interest rate risk -1% Profit $'000 | Interest rate risk +1% Profit $'000 | Foreign exchange risk -10% Profit $'000 | Foreign exchange risk +10% Profit $'000 | Price risk -10% Equity $'000 | Price risk +10% Equity $'000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 106,243 | (972) | 972 | 1,299 | (1,588) | – | – |
| Receivables | 304,953 | – | – | (8,130) | 6,310 | – | – |
| Loans – other | 6,297 | (63) | 63 | 700 | (575) | – | – |
| Financial assets: | | | | | | | |
| Equity securities available-for-sale, current | 9,854 | (98) | 98 | – | – | – | – |
| Equity securities available-for-sale, non-current* | 3,340 | – | – | – | – | (334) | 334 |
| Debt securities held-to-maturity | 16,148 | (161) | 161 | – | – | – | – |
| Investment in jointly controlled entity | 86,411 | – | – | – | – | – | – |
| **Financial liabilities** | | | | | | | |
| Payables | 234,747 | – | – | 75 | (91) | – | – |
| Borrowings | 482,644 | 4,826 | (4,826) | – | – | – | – |
| Progressive jackpot liabilities | 24,976 | 250 | (250) | – | – | – | – |
| **Total increase/(decrease)** | | **3,782** | **(3,782)** | **(6,056)** | **4,056** | **(334)** | **334** |

* Investment in PokerTek.

| 2007 | Carrying amount $'000 | Interest rate risk -1% Profit $'000 | Interest rate risk +1% Profit $'000 | Foreign exchange risk -10% Profit $'000 | Foreign exchange risk +10% Profit $'000 | Price risk -10% Equity $'000 | Price risk +10% Equity $'000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 80,618 | (775) | 775 | – | – | – | – |
| Receivables | 265,001 | – | – | (8,329) | 6,814 | – | – |
| Loans – other | 6,980 | (63) | 63 | (635) | 776 | – | – |
| Financial assets: | | | | | | | |
| Equity securities available-for-sale, current | 7,623 | (76) | 76 | – | – | – | – |
| Equity securities available-for-sale, non-current* | 15,890 | – | – | – | – | (1,589) | 1,589 |
| Debt securities held-to-maturity | 12,674 | (127) | 127 | – | – | – | – |
| Investment in jointly controlled entity | 71,744 | – | – | – | – | – | – |
| **Financial liabilities** | | | | | | | |
| Payables | 177,467 | – | – | (290) | 237 | – | – |
| Borrowings | 192,459 | 1,925 | (1,925) | – | – | – | – |
| Progressive jackpot liabilities | 18,911 | 189 | (189) | – | – | – | – |
| **Total increase/(decrease)** | | **1,073** | **(1,073)** | **(9,254)** | **7,827** | **(1,589)** | **1,589** |

* Investment in PokerTek.

The parent entity is not exposed to any significant financial risk.

## (b) Credit risk

Credit risk is managed on a Group basis. The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

## (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available. Group Treasury policy requires that the drawn portion of committed facilities must remain below 80% of the sum of committed facilities at any time.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow. See Note 18(a) for details of available facilities.

The tables below analyse the Group's and the parent entity's financial liabilities and net settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

| Group – 2008 | Less than 1 year $'000 | Between 1 and 5 year(s) $'000 | Over 5 years $'000 |
|---|---|---|---|
| Payables | 234,472 | 275 | – |
| Borrowings | 150,000 | 332,644 | – |
| Progressive jackpot liabilities | 10,648 | 6,430 | 7,898 |

| Group – 2007 | Less than 1 year $'000 | Between 1 and 5 year(s) $'000 | Over 5 years $'000 |
|---|---|---|---|
| Payables | 177,467 | – | – |
| Borrowings | 45,000 | 147,459 | – |
| Progressive jackpot liabilities | 7,667 | 5,265 | 5,979 |

| Parent entity – 2008 | Less than 1 year $'000 | Between 1 and 5 year(s) $'000 | Over 5 years $'000 |
|---|---|---|---|
| Payables | 5,243 | 46,925 | – |

| Parent entity – 2007 | Less than 1 year $'000 | Between 1 and 5 year(s) $'000 | Over 5 years $'000 |
|---|---|---|---|
| Payables | 3,479 | – | – |

The Group enters into forward exchange contracts to hedge foreign currency denominated receivables and also to manage the purchase of foreign currency denominated inventory and capital items. Refer to Note 18(b) for the maturity profiles of the Group's existing foreign exchange hedge contracts.

Refer to Note 9(i) for receivables denominated in foreign currencies.

## (d) Fair value estimation

Refer to Note 1(r).

## Note 3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are in relation to impairment of goodwill.

#### Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(t). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations and fair value less cost to sell. These calculations require the use of assumptions. Refer to Note 16 for details of these assumptions and the potential impact of changes to the assumptions.

## Note 4. Segment information

### Primary reporting – geographical segments

| 2008 | Australia $'000 | North America $'000 | South America $'000 | Japan $'000 | New Zealand $'000 | Other $'000 | Total continuing operations $'000 | Inter-segment eliminations/ unallocated $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | | |
| Sales to external customers | 185,257 | 470,397 | 43,488 | 214,312 | 21,655 | 144,793 | 1,079,902 | – | 1,079,902 |
| Inter-segment sales | 55,509 | – | – | – | – | – | 55,509 | (55,509) | – |
| Total sales revenue | 240,766 | 470,397 | 43,488 | 214,312 | 21,655 | 144,793 | 1,135,411 | (55,509) | 1,079,902 |
| Other income (excluding interest) | 22,109 | 1,968 | – | 13 | – | 2,183 | 26,273 | – | 26,273 |
| Total segment revenue/income (excluding interest) | 262,875 | 472,365 | 43,488 | 214,325 | 21,655 | 146,976 | 1,161,684 | (55,509) | 1,106,175 |
| Interest income | | | | | | | | | 4,039 |
| Total consolidated revenue | | | | | | | | | 1,110,214 |
| Result | | | | | | | | | |
| Segment result | 84,054 | 3,367 | 11,426 | 38,511 | 579 | 17,630 | 155,567 | 598 | 156,165 |
| Share of net profits of jointly controlled entity | | | | | | | | | 495 |
| Net interest expense | | | | | | | | | (19,826) |
| Profit before income tax expense | | | | | | | | | 136,834 |
| Income tax expense | | | | | | | | | (34,907) |
| Net profit after tax | | | | | | | | | 101,927 |

| | Australia $'000 | North America $'000 | South America $'000 | Japan $'000 | New Zealand $'000 | Other $'000 | Total continuing operations $'000 | Inter–segment eliminations/ unallocated $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|---|---|
| Assets and liabilities | | | | | | | | | |
| Segment assets | 397,209 | 288,937 | 54,850 | 206,987 | 8,646 | 145,847 | 1,102,476 | (239,036) | 863,440 |
| Unallocated assets | | | | | | | | | 152,931 |
| Total assets | | | | | | | | | 1,016,371 |
| Segment liabilities | 55,294 | 103,291 | 1,668 | 112,314 | 5,062 | 33,514 | 311,143 | 10,889 | 322,032 |
| Unallocated liabilities | | | | | | | | | 501,910 |
| Total liabilities | | | | | | | | | 823,942 |
| Investments in associates | | | | | | | | | – |
| Other segment information | | | | | | | | | |
| Acquisition of property, plant and equipment, intangible assets and other non-current segment assets | 23,105 | 29,755 | 386 | 2,733 | 138 | 4,850 | 60,967 | (245) | 60,722 |
| Depreciation and amortisation expense | 9,699 | 19,681 | 424 | 1,735 | 260 | 8,432 | 40,231 | – | 40,231 |
| Other non-cash expenses | 40,964 | 2,883 | 3,031 | 2,257 | 89 | 632 | 49,856 | – | 49,856 |

# Notes to the financial statements

for the year ended 31 December 2008

## Note 4. Segment information *continued*

| 2007 | Australia $'000 | North America $'000 | South America $'000 | Japan $'000 | New Zealand $'000 | Other $'000 | Total continuing operations $'000 | Inter-segment eliminations/ unallocated $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | | |
| Sales to external customers | 280,097 | 483,562 | 23,192 | 91,205 | 25,233 | 218,680 | 1,121,969 | – | 1,121,969 |
| Inter-segment sales | 126,131 | – | – | – | – | – | 126,131 | (126,131) | – |
| Total sales revenue | 406,228 | 483,562 | 23,192 | 91,205 | 25,233 | 218,680 | 1,248,100 | (126,131) | 1,121,969 |
| Other income (excluding interest) | 12,186 | 1,302 | 45 | 164 | – | 1,264 | 14,961 | – | 14,961 |
| Total segment revenue/income (excluding interest) | 418,414 | 484,864 | 23,237 | 91,369 | 25,233 | 219,944 | 1,263,061 | (126,131) | 1,136,930 |
| Interest income | | | | | | | | | 8,420 |
| Total consolidated revenue | | | | | | | | | 1,145,350 |
| Result | | | | | | | | | |
| Segment result | 291,986 | (7,848) | 8,304 | (2,860) | 700 | 27,464 | 317,746 | 5,897 | 323,643 |
| Share of net profits of jointly controlled entity | | | | | | | | | 8,613 |
| Net interest expense | | | | | | | | | (6,025) |
| Profit before income tax expense | | | | | | | | | 326,231 |
| Income tax expense | | | | | | | | | (78,295) |
| Net profit after tax | | | | | | | | | 247,936 |

| | Australia $'000 | North America $'000 | South America $'000 | Japan $'000 | New Zealand $'000 | Other $'000 | Total continuing operations $'000 | Inter–segment eliminations/ unallocated $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|---|---|
| Assets and liabilities | | | | | | | | | |
| Segment assets | 480,997 | 213,481 | 30,633 | 77,480 | 5,106 | 131,333 | 939,030 | (246,726) | 692,304 |
| Unallocated assets | | | | | | | | | 133,594 |
| Total assets | | | | | | | | | 825,898 |
| Segment liabilities | 119,705 | 77,123 | 1,880 | 31,929 | 2,218 | 24,794 | 257,649 | – | 257,649 |
| Unallocated liabilities | | | | | | | | | 247,448 |
| Total liabilities | | | | | | | | | 505,097 |
| Investments in associates | | | | | | | | | – |
| Other segment information | | | | | | | | | |
| Acquisition of property, plant and equipment, intangible assets and other non-current segment assets | 10,981 | 33,430 | 909 | 594 | 31 | 8,451 | 54,396 | – | 54,396 |
| Depreciation and amortisation expense | 10,288 | 16,495 | 251 | 1,505 | 562 | 7,334 | 36,435 | – | 36,435 |
| Other non-cash expenses | 23,383 | 1,940 | 789 | 8,132 | 96 | 1,195 | 35,535 | – | 35,535 |

## Secondary reporting – business segments

The activities of the entities in the Group are predominantly within a single business which is the development, manufacture, sale, distribution and service of gaming machines and systems.

## Accounting policies

Segment information is prepared in conformity with the accounting policies of the Group as disclosed in Note 1(c) and AASB 114 *Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of payables, employee benefits and provision for warranties. Segment assets and liabilities do not include income taxes and interest bearing liabilities.

Unallocated assets and liabilities include the investment in jointly controlled entity.

## Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an arm's-length basis and are eliminated on consolidation.

Gross margins are measured as revenues less cost revenue from operating activities, being labour and related on-costs as well as direct material costs, as a percentage of revenues.

## Head office expenses

Head office expenses are included in the segment result as they are allocated and charged out to each of the segments.

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|

## Note 5. Profit from ordinary activities

### (a) Revenue from operating activities

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| Sale of goods | 1(e)(i) | **828,486** | 875,988 | **–** | – |
| Gaming operations and services | 1(e)(ii) | **251,416** | 245,981 | **–** | – |
| | | **1,079,902** | 1,121,969 | **–** | – |

### (b) Other revenue and other income

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| Interest | | **4,039** | 8,420 | **35** | 233 |
| Dividends | | **–** | – | **275,474** | 198,469 |
| Other revenue | | **4,039** | 8,420 | **275,509** | 198,702 |
| Foreign exchange gains | 5(d) | **1** | 6,613 | **11** | – |
| Gain on disposal of property, plant and equipment | 5(e) | **21,412** | 5,286 | **–** | – |
| Other income | | **4,860** | 3,062 | **–** | – |
| Other income | | **26,273** | 14,961 | **11** | – |
| Total other revenue and other income | | **30,312** | 23,381 | **275,520** | 198,702 |

### (c) Expenses

#### (i) Depreciation and amortisation

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| Depreciation and amortisation of property, plant and equipment | | | | | |
| – Buildings | | **505** | 518 | **–** | – |
| – Leasehold improvements | | **2,607** | 2,252 | **–** | – |
| – Plant and equipment | | **31,153** | 27,737 | **–** | – |
| Total depreciation and amortisation of property, plant and equipment | 14 | **34,265** | 30,507 | **–** | – |
| Amortisation of intangible assets | | | | | |
| – Computer technology | | **5,579** | 5,799 | **–** | – |
| – Copyrights, patents, trademarks and licensing rights | | **387** | 129 | **–** | – |
| Total amortisation of intangible assets | 16 | **5,966** | 5,928 | **–** | – |
| Total depreciation and amortisation | 35 | **40,231** | 36,435 | **–** | – |

#### (ii) Employee benefits expense

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| Salaries and wages | | **194,971** | 206,983 | **–** | – |
| Superannuation costs | | **8,224** | 10,168 | **–** | – |
| Post-employment benefits other than superannuation | | **3,648** | 6,236 | **–** | – |
| Share-based payments expense | 30(e) | **4,182** | 9,398 | **–** | – |
| Employee benefits expense | | **211,025** | 232,785 | **–** | – |

| | Notes | Consolidated 2008 $'000 | 2007 $'000 | Parent entity 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|---|
| **(iii) Lease payments** | | | | | |
| Rental expense relating to operating leases | | | | | |
| – Minimum lease payments | | **14,935** | 11,860 | **–** | – |
| Total rental expense relating to operating leases | | **14,935** | 11,860 | **–** | – |
| **(iv) Other significant items** | | | | | |
| Other charges against assets | | | | | |
| – Bad and doubtful debts – trade debtors | | **398** | 423 | **–** | – |
| – Write down of inventories to net realisable value | | **23,242** | 18,390 | **–** | – |
| – Impairment of available-for-sale equity securities | | **19,877** | – | **–** | – |
| – Class Action settlement | | **57,410** | – | **57,410** | – |
| – Legal costs | | **10,530** | 20,127 | **–** | – |

## (d) Net foreign exchange gain/(loss)

| | Notes | Consolidated 2008 $'000 | 2007 $'000 | Parent entity 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|---|
| Foreign exchange gain | | **1** | 6,613 | **11** | – |
| Foreign exchange loss | | **(6,889)** | (4) | **–** | – |
| Net foreign exchange gain/(loss) | | **(6,888)** | 6,609 | **11** | – |

## (e) Net gain/(loss) on disposal of property, plant and equipment

| | Notes | Consolidated 2008 $'000 | 2007 $'000 | Parent entity 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|---|
| Gain on disposal of property, plant and equipment | | **21,412** | 5,286 | **–** | – |
| Loss on disposal of property, plant and equipment | | **(13)** | (2,620) | **–** | – |
| Net gain on disposal of property, plant and equipment | 35 | **21,399** | 2,666 | **–** | – |

## Note 6. Income tax expense

Major components of income tax expense/(credit) are:

### (a) Income tax expense/(credit)

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| Current income tax | **44,525** | 76,542 | **(25,297)** | 27 |
| Deferred income tax | **(2,004)** | 6,189 | **(752)** | 2 |
| Adjustments in respect of current income tax of previous years | **(7,614)** | (4,436) | **(540)** | (1,917) |
| Income tax expense/(credit) | **34,907** | 78,295 | **(26,589)** | (1,888) |
| Deferred income tax expense included in income tax expense comprises: | | | | |
| (Increase)/decrease in deferred tax asset | **(1,330)** | 6,859 | **(752)** | 2 |
| Decrease in deferred tax liabilities | **(674)** | (670) | **–** | – |
| Deferred income tax expense included in income tax expense | **(2,004)** | 6,189 | **(752)** | 2 |

### (b) Reconciliation of income tax expense/(credit) to prima facie tax payable

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| Profit from ordinary activities before income tax expense | **136,834** | 326,231 | **217,967** | 198,566 |
| Tax at the Australian tax rate of 30% (2007: 30%) | **41,050** | 97,869 | **65,390** | 59,570 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | | | |
| Research and development | **(5,467)** | (2,180) | **–** | – |
| Share-based payments | **272** | 262 | **–** | – |
| Non-taxable dividends | **374** | 459 | **(82,641)** | (59,541) |
| Share of net profits in jointly controlled entity | **(138)** | (2,577) | **–** | – |
| Sale of land and buildings not taxable | **(6,317)** | (1,530) | **(6,511)** | – |
| Tax losses not previously recognised | **(1,252)** | – | **–** | – |
| Overseas exempt income and non-creditable taxes | **672** | (8,694) | **–** | – |
| Impairment of available-for-sale equity securities | **5,963** | – | **–** | – |
| Other | **292** | 647 | **–** | – |
| | **35,449** | 84,256 | **(23,762)** | 29 |
| Difference in overseas tax rates | **6,934** | 195 | **–** | – |
| Difference in exchange rates on overseas tax rates | **(315)** | 621 | **–** | – |
| Tax losses not recognised | **103** | 1,932 | **–** | – |
| Decrease in deferred tax liability due to land and buildings held for sale and recognition of capital tax losses | **–** | (3,005) | **–** | – |
| Adjustments in respect of current income tax of previous years | | | | |
| Current income tax | **(7,614)** | (4,436) | **(540)** | (1,917) |
| Deferred income tax | **350** | (1,268) | **(2,287)** | – |
| Income tax expense/(credit) | **34,907** | 78,295 | **(26,589)** | (1,888) |
| Average effective tax rate | **25.51%** | 24.00% | **(12.20%)** | (0.95%) |

| | 2008 $'000 | Consolidated 2007 $'000 | 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|

## (c) Amounts recognised directly in equity

| | 2008 $'000 | Consolidated 2007 $'000 | 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit but directly debited or credited to equity | | | | |
| Current income tax – credited directly to equity | **113** | 1,420 | **–** | – |
| Net deferred tax – debited directly to equity | **–** | – | **–** | – |
| Aggregate current and deferred tax arising in the reporting period directly credited/(debited) to equity | **113** | 1,420 | **–** | – |

## (d) Revenue and capital tax losses

| | 2008 $'000 | Consolidated 2007 $'000 | 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| Unused gross tax losses for which no deferred tax asset has been recognised | **22,486** | 24,249 | **–** | – |
| Unused gross capital tax losses for which no deferred tax asset has been recognised | **50,894** | 72,521 | **50,894** | 72,521 |
| | **73,380** | 96,770 | **50,894** | 72,521 |
| Potential tax benefit | **21,533** | 28,517 | **15,268** | 21,756 |

Unused revenue losses were incurred by the Company's overseas subsidiaries. All unused capital tax losses were incurred by Australian entities.

## (e) Unrecognised temporary differences

| | 2008 $'000 | Consolidated 2007 $'000 | 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| Deferred tax assets on general temporary differences | **99** | 71 | **–** | – |
| | **99** | 71 | **–** | – |

Under Australian tax law, the taxable profit made by a tax consolidated group in relation to an entity leaving the group depends on a range of factors, including the tax values and/or carrying values of assets and liabilities of the leaving entity which vary in line with the transactions and events recognised in each entity. The taxable profit or loss ultimately made on the disposal of investments within the tax consolidated group will therefore depend upon when each entity leaves the tax consolidated group and the assets and liabilities that the leaving entity holds at that time.

The Australian tax consolidated group considers the effects of the entities entering or leaving the tax consolidated group to be a change of tax status that is only recognised when those events occur. As a result, temporary differences and deferred tax liability have not been measured or recognised in relation to investments within the tax consolidated group.

The deferred tax balances in relation to the Company's indirect overseas investments have not been recognised. The accounting policy in relation to this is set out in Note 1(f).

## (f) Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities have implemented tax consolidation legislation as of 1 January 2004. The accounting policy in relation to this legislation is set out in Note 1(g).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Aristocrat Leisure Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate the Company for any current tax payable assumed and are compensated by the Company for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Company under the tax consolidation legislation. The funding amounts are determined by reference to the tax funding agreement which applies a group allocation approach, taking into account a combination between the 'stand alone taxpayer' and a 'separate taxpayer within a group' amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables/payables (refer to Notes 9 and 17).

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|

## Note 7. Dividends

### Ordinary shares

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| **Final dividends paid during the year** | | | | |
| – 2007 – 25.0 cents, 100% franked on tax paid at 30%, per fully paid share paid on 31 March 2008 | **115,030** | – | **115,679** | – |
| – 2006 – 24.0 cents, 100% franked on tax paid at 30%, per fully paid share paid on 23 March 2007 | **–** | 111,562 | **–** | 112,224 |
| **Interim dividends paid during the year** | | | | |
| – 2008 – 14.0 cents, 100% franked on tax paid at 30%, per fully paid share paid on 30 September 2008 | **63,470** | – | **63,784** | – |
| – 2007 – 14.0 cents, 100% franked on tax paid at 30%, per fully paid share paid on 18 September 2007 | **–** | 64,493 | **–** | 65,001 |
| **Supplementary unfranked dividend provided and/or paid during the year** | | | | |
| – 2008 – 2.0 cents, unfranked, per fully paid share payable on 5 January 2009 | **9,062** | – | **9,107** | – |
| – 2008 – 10.0 cents, unfranked, per fully paid share paid on 1 July 2008 | **45,610** | – | **45,856** | – |
| – 2007 – 10.0 cents, unfranked, per fully paid share payable on 7 January 2008 | **–** | 46,067 | **–** | 46,430 |
| Total dividends paid and provided during the year | **233,172** | 222,122 | **234,426** | 223,655 |
| Dividends paid were satisfied as follows: | | | | |
| Paid in cash | **247,960** | 141,314 | **247,960** | 141,314 |
| Shares issued in lieu of unclaimed dividend payments | **26** | 90 | **26** | 90 |
| Dividend received by Aristocrat Employee Equity Plan Trust | **(1,572)** | (1,170) | **–** | – |
| Paid through the Dividend Reinvestment Plan | **18,160** | 41,423 | **18,160** | 41,423 |
| | **264,574** | 181,657 | **266,146** | 182,827 |

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| **Dividends not recognised at year end** | | | | |
| Since the end of the year, the Directors have recommended the payment of a final dividend of 10.0 cents (2007: 25.0 cents) per fully paid ordinary share, 100% franked (2007: 100% franked). The aggregate amount of the proposed final dividend expected to be paid on 31 March 2009 out of retained profits at 31 December 2008, but not recognised as a liability at the end of the year is: | | | **45,533** | 116,074 |

### Franked dividends

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| Estimated franking credits expected to be available for subsequent financial years based on a tax rate of 30% (2007: 30%) | **–** | – | **12,150** | 80,896 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
- franking credits that will arise from the payment of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that may be prevented from being distributed in subsequent financial years.

### Dividend Reinvestment Plan

The Directors have determined that the Dividend Reinvestment Plan will operate in respect of the 2008 final dividend for shareholders in Australia and New Zealand.

| | Consolidated 2008 $'000 | 2007 $'000 | Parent entity 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|

## Note 8. Cash and cash equivalents

| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|
| Cash at bank and in hand | **103,243** | 55,946 | **53** | 38 |
| Short-term deposits | **3,000** | 24,672 | **–** | – |
| | **106,243** | 80,618 | **53** | 38 |

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group. Short-term deposits bear a floating interest rate of 4.35% (2007: between 3.70% and 6.75%) per annum.

## Note 9. Trade receivables

| Current | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|
| Trade receivables | **257,766** | 216,497 | **–** | – |
| Provision for doubtful debts | **(7,969)** | (6,954) | **–** | – |
| | **249,797** | 209,543 | **–** | – |
| Tax related amounts receivable from wholly-owned entities* | **–** | – | **–** | 22,685 |
| Other receivables | **42,632** | 39,493 | **–** | 100 |
| Loans to non-related parties – secured | **2,242** | 2,621 | **–** | – |
| | **294,671** | 251,657 | **–** | 22,785 |

* Refer to Note 6 for details of tax sharing and compensation arrangements.

Current receivables other than loans to non-related parties are non-interest bearing and are generally on 30 day terms from the date of billing.

| Non-current | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|
| Trade receivables | **8,499** | 13,866 | **–** | – |
| Receivable from wholly-owned entities** | **–** | – | **–** | 64,161 |
| Other receivables | **4,025** | 2,099 | **–** | – |
| Loans to non-related parties – secured | **4,055** | 4,359 | **–** | – |
| | **16,579** | 20,324 | **–** | 64,161 |

** Refer to Note 33 for terms and conditions relating to receivables from wholly-owned entities.

### (a) Trade receivables – current

At 31 December, the ageing analysis of trade receivables is as follows:

| | Total $'000 | Current $'000 | 0-30 days $'000 | 31-60 days $'000 | 61-90 days $'000 | 91+ days $'000 |
|---|---|---|---|---|---|---|
| **2008 Consolidated** | **257,766** | **226,163** | **26,579** | **4,699** | **325** | **–** |
| **Parent entity** | **–** | **–** | **–** | **–** | **–** | **–** |
| 2007 Consolidated | 216,497 | 179,562 | 34,054 | 1,454 | 575 | 852 |
| Parent entity | – | – | – | – | – | – |

As of 31 December 2008, trade receivables of $781,000 (2007: $2,119,000) were past due and considered impaired and trade receivables of $30,822,000 (2007: $34,816,000) were past due but not impaired.

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|

## Note 9. Trade Receivables *continued*

### (a) Trade receivables – current *continued*

Movements in the provision for doubtful debts are as follows:

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| At 1 January | **(6,954)** | (7,164) | **–** | – |
| Charge for the year | **(3,546)** | (2,253) | **–** | – |
| Transfer to non-current receivables | **4,105** | 1,737 | **–** | – |
| Foreign currency exchange differences | **(1,617)** | 687 | **–** | – |
| Receivables written off during the year as uncollectible | **43** | 39 | **–** | – |
| **At 31 December** | **(7,969)** | (6,954) | **–** | – |

The creation and release of the provision for impaired receivables has been included in general and administration costs in the income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

### (b) Trade receivables – non-current

A provision for doubtful debts of $6,359,000 has been carried forward against the non-current receivables (2007: $1,737,000). There are no other non-current receivables that are impaired or past due but not impaired.

### (c) Other receivables – current

These include prepayments and other receivables incurred under normal terms and conditions and which do not earn interest.

### (d) Other receivables – non-current

These include long-term deposits and prepayments and other receivables incurred under normal terms and conditions and which do not earn interest.

### (e) Loan to non-related parties

This represents a loan issued to a third party on the partial sale of a subsidiary in the African operations (refer to Note 33). The loan is for a term of seven years with annual principal and interest payments due in March of each year. The annual interest rate is the South African prime bank overdraft rate less one percent. The annual repayments are funded from the dividend payment by the African operations to the minority shareholders.

### (f) Interest rate and foreign exchange risk

Details regarding foreign exchange and interest rate risk exposure are disclosed in Note 2(a)(i) and (ii).

### (g) Fair value risk – current

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

## (h) Fair value – non-current

The fair values of non-current receivables approximate their discounted carrying values.

## (i) Interest rate and foreign currency risk

The carrying amounts of the Group's and parent entity's current and non-current receivables are denominated in the following currencies:

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008 $'000** | 2007 $'000 | **2008 $'000** | 2007 $'000 |
| US Dollars | **165,988** | 127,894 | **–** | – |
| Australian Dollars | **51,392** | 87,676 | **–** | 86,946 |
| Other* | **93,870** | 56,411 | **–** | – |
| | **311,250** | 271,981 | **–** | 86,946 |
| Current receivables | **294,671** | 251,657 | **–** | 22,785 |
| Non-current receivables | **16,579** | 20,324 | **–** | 64,161 |
| | **311,250** | 271,981 | **–** | 86,946 |

* Other refers to a basket of currencies (Japanese Yen, Euro, South African Rand, New Zealand Dollars and Swedish Krona).

Details regarding interest rate and foreign exchange risk exposure are disclosed in Note 2(a)(i) and (ii).

## (j) Credit risk

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to Note 2 for more information on the risk management policy of the Group. The Group holds guarantees over the debts of certain customers. The value of debtor balances over which guarantees are held is detailed below:

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008 $'000** | 2007 $'000 | **2008 $'000** | 2007 $'000 |
| Trade receivables* with guarantees | **26,775** | 17,160 | **–** | – |
| Trade receivables* without guarantees | **231,521** | 206,249 | **–** | – |
| | **258,296** | 223,409 | **–** | – |

* Includes current and non-current trade receivables, net of provision for doubtful debts.

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|

## Note 10. Inventories

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| Current | | | | | |
| Raw materials and stores – at cost | | **92,995** | 45,918 | **–** | – |
| Provision for obsolescence | | **(43,463)** | (26,900) | **–** | – |
| | | **49,532** | 19,018 | **–** | – |
| Work in progress | | **1,505** | 2,054 | **–** | – |
| Finished goods – at cost | | **49,084** | 40,340 | **–** | – |
| Provision for obsolescence | | **(7,517)** | (6,696) | **–** | – |
| | | **41,567** | 33,644 | **–** | – |
| Contract work in progress | | **–** | 2,160 | **–** | – |
| Inventory in transit – at cost | | **3,209** | 4,481 | **–** | – |
| | | **95,813** | 61,357 | **–** | – |

### Inventory expense

Inventories recognised as an expense during the year ended 31 December 2008 amounted to $350,022,000 (2007: $321,271,000).

## Note 11. Financial assets

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| Current | | | | | |
| Available-for-sale equity securities | 11(a) | **9,854** | 7,623 | **–** | – |
| Debt securities held-to-maturity | | **1,820** | 1,430 | **–** | – |
| | | **11,674** | 9,053 | **–** | – |
| Non-current | | | | | |
| Debt securities held-to-maturity | | **14,328** | 11,244 | **–** | – |
| Available-for-sale equity securities* | 11(a) | **3,340** | 15,890 | **–** | – |
| Investment in unlisted controlled entities** | | **–** | – | **35,368** | 31,186 |
| Investment in jointly controlled entity | 28(b) | **86,411** | 71,744 | **–** | – |
| | | **104,079** | 98,878 | **35,368** | 31,186 |

* At 31 December 2008, an impairment loss was recognised on these securities, as disclosed in Note 22(a)(iv).

** The increase in investment in unlisted controlled entities, is a non-cash movement as a result of share-based payments transactions.

### (a) Available-for-sale equity securities

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| Balance at the beginning of the year | | **23,513** | 24,926 | **–** | – |
| Additions* | | **2,231** | 1,611 | **–** | – |
| Revaluation | 22(a)(iv) | **(12,550)** | (3,024) | **–** | – |
| Balance at the end of the year | | **13,194** | 23,513 | **–** | – |

* The maximum exposure to credit risk at the reporting date is the fair value of the debentures classified as available-for-sale.

### (b) Investment in jointly controlled entity

The investment in a jointly controlled entity is accounted for in the consolidated financial statements using the equity method of accounting.

### (c) Impairment and risk exposure – available-for-sale financial assets

The maximum exposure to credit risk at the reporting date is the carrying amount of the investments. Current investments were issued by entities rated 'A' or higher.

None of the current financial assets are either past due or impaired.

Non-current available-for-sale financial assets were considered impaired at year-end and an impairment loss was recognised as at 31 December 2008.

For an analysis of the sensitivity of available-for-sale financial assets to interest rate, foreign exchange and price risk, refer to Note 2.

### (d) Impairment and risk exposure – held-to-maturity investments

The maximum exposure to credit risk at the reporting date is the carrying amount of the investments. All investments were issued by entities rated 'A' or higher.

None of the held-to-maturity investments are either past due or impaired.

All held-to-maturity investments are denominated in US Dollars. Details regarding interest rate and foreign exchange risk exposure are disclosed in Note 2. There is also no exposure to price risk as the investments will be held to maturity.

### (e) Impairment and risk exposure – investment in a jointly controlled entity

The investment in jointly controlled entity is subject to foreign exchange risk. Changes in foreign currency risk are unrealised and reflected through equity.

## Note 12. Other assets

| | | Consolidated | | Parent entity | |
|---|---|---|---|---|---|
| | Notes | **2008 $'000** | 2007 $'000 | **2008 $'000** | 2007 $'000 |
| Intellectual property rights | 1(n) | **8,788** | 4,816 | **–** | – |

## Note 13. Current assets – non-current assets classified as held for sale

| | | Consolidated | | Parent entity | |
|---|---|---|---|---|---|
| | Notes | **2008 $'000** | 2007 $'000 | **2008 $'000** | 2007 $'000 |
| Land and buildings | | **14,387** | 27,451 | **–** | – |
| | | **14,387** | 27,451 | **–** | – |

The Group has commenced the process of selling its surplus land and buildings in Australia. Land and buildings totalling $13,100,000 classified as held for sale in the prior year were sold during 2008. The sale process of assets held for sale has commenced as at 31 December 2008.

## Note 14. Property, plant and equipment

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| **Land and buildings** | | | | |
| Land and buildings – at deemed cost | **9,853** | 8,116 | **–** | – |
| Leasehold improvements – at cost | **45,520** | 18,190 | **–** | – |
| Accumulated amortisation | **(15,695)** | (12,059) | **–** | – |
| | **29,825** | 6,131 | **–** | – |
| Total land and buildings | **39,678** | 14,247 | **–** | – |
| **Plant and equipment** | | | | |
| Plant and equipment owned – at cost | **251,330** | 191,652 | **–** | – |
| Accumulated depreciation | **(140,232)** | (102,895) | **–** | – |
| Total plant and equipment | **111,098** | 88,757 | **–** | – |
| | **150,776** | 103,004 | **–** | – |

### Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

| | Land and buildings $'000 | Leasehold improvements $'000 | Plant and equipment $'000 | Total $'000 |
|---|---|---|---|---|
| **Consolidated** | | | | |
| Carrying amount at 1 January 2007 | 36,864 | 7,493 | 73,489 | 117,846 |
| Additions | 149 | 1,358 | 51,231 | 52,738 |
| Disposals | – | – | (3,691) | (3,691) |
| Transfer to current asset – non-current asset held for sale | (27,451) | – | – | (27,451) |
| Depreciation and amortisation | (518) | (2,252) | (27,737) | (30,507) |
| Foreign currency exchange movements | (928) | (468) | (4,535) | (5,931) |
| Carrying amount at 31 December 2007 | 8,116 | 6,131 | 88,757 | 103,004 |
| Additions | – | 14,919 | 43,007 | 57,926 |
| Additions – leasehold incentives | – | 10,865 | – | 10,865 |
| Disposals | – | – | (1,779) | (1,779) |
| Depreciation and amortisation | (505) | (2,607) | (31,153) | (34,265) |
| Foreign currency exchange differences | 2,242 | 517 | 12,266 | 15,025 |
| Carrying amount at 31 December 2008 | 9,853 | 29,825 | 111,098 | 150,776 |

## Note 15. Deferred tax assets

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| The balance comprises temporary differences attributable to: | | | | | |
| Accruals and other provisions | | **11,846** | 10,361 | **1,044** | 1,044 |
| Doubtful debts | | **1,098** | 529 | **–** | – |
| Deferred revenue | | **1,383** | 1,024 | **–** | – |
| Employee benefits | | **11,056** | 10,828 | **–** | – |
| Convertible subordinated bonds | | **449** | 892 | **–** | – |
| Plant, equipment and intangible assets | | **1,171** | 6,132 | **–** | – |
| Prepayments | | **(1,344)** | (603) | **–** | – |
| Provision for stock obsolescence | | **12,607** | 8,525 | **–** | – |
| Share-based equity | | **(3,525)** | (4,816) | **–** | – |
| Overseas tax obligations | | **3,381** | 1,794 | **–** | – |
| Unrealised foreign exchange (gains) / losses | | **8,758** | (1,081) | **(17)** | (17) |
| Tax losses | | **815** | 8,020 | **729** | – |
| Other | | **7,456** | 4,353 | **26** | 3 |
| Gross deferred tax assets | | **55,151** | 45,958 | **1,782** | 1,030 |
| Intangible assets (not offset above) | | **(6,097)** | (5,430) | **–** | – |
| Net deferred tax assets | | **49,054** | 40,528 | **1,782** | 1,030 |
| **Movements** | | | | | |
| Opening balance at 1 January | | **40,528** | 42,206 | **1,030** | 1,033 |
| Charged to the income statement | 6(a) | **2,004** | (6,189) | **752** | (2) |
| Charged to equity (share-based equity and foreign currency exchange differences) | | **440** | 5,103 | **–** | (1) |
| Foreign exchange currency movements | | **6,082** | (592) | **–** | – |
| Closing balance at 31 December | | **49,054** | 40,528 | **1,782** | 1,030 |

## Note 16. Intangible assets

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| Goodwill | **116,843** | 92,023 | **–** | – |
| Copyrights, patents, trademarks and licensing rights | **1,209** | 1,584 | **–** | – |
| Accumulated amortisation | **(1,209)** | (1,197) | **–** | – |
| | **–** | 387 | **–** | – |
| Computer technology | **75,574** | 64,192 | **–** | – |
| Accumulated amortisation | **(37,997)** | (28,390) | **–** | – |
| | **37,577** | 35,802 | **–** | – |
| | **154,420** | 128,212 | **–** | – |

| | Goodwill $'000 | Copyrights, patents, trademarks and licensing rights $'000 | Computer technology $'000 | Total $'000 |
|---|---|---|---|---|
| Consolidated | | | | |
| Carrying amount at 1 January 2007 | 102,501 | 516 | 43,375 | 146,392 |
| Additions | – | – | 1,658 | 1,658 |
| Amortisation charge | – | (129) | (5,799) | (5,928) |
| Foreign currency exchange differences | (10,478) | – | (3,432) | (13,910) |
| Carrying amount at 31 December 2007 | 92,023 | 387 | 35,802 | 128,212 |
| Additions | – | – | 2,795 | 2,795 |
| Amortisation charge | – | (387) | (5,579) | (5,966) |
| Foreign currency exchange differences | 24,820 | – | 4,559 | 29,379 |
| Carrying amount at 31 December 2008 | **116,843** | **–** | **37,577** | **154,420** |

### (a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) which are identified as the geographical business units according to the primary reporting segments.

A summary of the goodwill allocation by CGU is presented below:

**(i) Wholly-owned controlled entities**

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| North America | **75,213** | 59,105 |
| Other – South Africa | **701** | 754 |
| Other – ACE Interactive | **40,929** | 32,164 |
| | **116,843** | 92,023 |

**(ii) Jointly controlled entity**

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Other – Elektronček | **80,955** | 63,618 |
| | **80,955** | 63,618 |

In the financial years ended 31 December 2007 and 2008, the recoverable amount of all the Group's CGUs were determined based on a value-in-use calculation.

## (b) Key assumptions used for value-in-use calculations

### (i) Value-in-use

A discounted cash flow has been used based on operating and investing cash flows (before borrowing costs and tax impacts), in the analysis of the Group's CGUs. The following inputs and assumptions have been adopted:

1. Financial budgets and strategic plans, approved by the Board, to 2011 for North America, South Africa, and Elektrončk and to 2012 for ACE Interactive, with growth rates thereafter of 3% per annum for North America, South Africa and Elektrončk and 5% per annum for ACE Interactive, assumed until 2013.

2. A pre-tax annual discount rate of:

| | **2008** | 2007 |
|---|---|---|
| North America | **12.3%** | 15.6% |
| Other – South Africa | **20.7%** | 18.6% |
| Other – ACE Interactive | **10.4%** | 15.4% |
| Other – Elektrončk | **12.0%** | 14.6% |

3. A terminal growth rate, which does not exceed the long-term average growth rate for the gaming industry in the regions:

| | **2008** | 2007 |
|---|---|---|
| North America | **3.0%** | 3.0% |
| Other – South Africa | **3.0%** | 3.0% |
| Other – ACE Interactive | **5.0%** | – |
| Other – Elektrončk | **3.0%** | 3.0% |

4. An allocation of head office assets.

Management has based the assumptions in the model on the CGUs' past performance and future expectations and forecast growth rates found in local industry reports.

## (c) Impact of possible changes in key assumptions

With regard to the assessment of the value-in-use of the CGUs, management do not believe that a reasonably possible change in any one of the key assumptions would cause the carrying value of the CGUs to materially exceed their recoverable amounts.

## (d) Impairment charge

The annual impairment test indicates no impairment charge is required for the CGUs in either 2008 or 2007.

# Notes to the financial statements
## for the year ended 31 December 2008

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|

## Note 17. Trade and other payables

| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|
| Current | | | | |
| Trade creditors | **97,252** | 51,277 | **–** | – |
| Tax related amounts payable to wholly-owned entities* | **–** | – | **1,764** | – |
| Other creditors | **137,220** | 126,190 | **3,479** | 3,479 |
| | **234,472** | 177,467 | **5,243** | 3,479 |

* Refer to Note 6 for details of tax sharing and compensation arrangements.

| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|
| Non-current | | | | |
| Payable to wholly-owned entities** | **–** | – | **46,925** | – |
| Other creditors | **275** | – | **–** | – |
| | **275** | – | **46,925** | – |

** Refer to Note 33 for terms and conditions relating to payables from wholly-owned entities.

### (a) Foreign currency risk

The carrying amounts of the Group's and parent entity's payables are denominated in the following currencies:

| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|
| US Dollars | **72,317** | 58,104 | **–** | – |
| Australian Dollars | **55,233** | 82,295 | **52,168** | 3,479 |
| Other* | **107,197** | 37,068 | **–** | – |
| | **234,747** | 177,467 | **52,168** | 3,479 |

* Other refers to a basket of currencies (Japanese Yen, Euro, South African Rand, New Zealand Dollars and Swedish Krona).

### (b) Fair value

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

## Note 18. Borrowings

| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|
| Current | | | | |
| **Secured** | | | | |
| Bank loans | **150,000** | 45,000 | **–** | – |
| | **150,000** | 45,000 | **–** | – |
| Non-current | | | | |
| **Secured** | | | | |
| Bank loans | **332,644** | 147,459 | **–** | – |
| | **332,644** | 147,459 | **–** | – |

## Note 18. Borrowings *continued*

### (a) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| **Credit standby arrangements** | | | | | |
| Total facilities | | | | | |
| – Bank overdrafts | (i) | **7,887** | 5,000 | **–** | – |
| – Bank loans | (ii) | **835,120** | 400,000 | **–** | – |
| – Letter of credit | (iii) | **288,684** | 226,860 | **–** | – |
| – Other | (iv) | **25,571** | 16,200 | **–** | – |
| | | **1,157,262** | 648,060 | **–** | – |
| Used at balance date | | | | | |
| – Bank overdrafts | | **–** | – | **–** | – |
| – Bank loans | | **482,644** | 192,459 | **–** | – |
| – Letter of credit | | **–** | – | **–** | – |
| – Other | | **–** | – | **–** | – |
| | | **482,644** | 192,459 | **–** | – |
| Unused at balance date | | | | | |
| – Bank overdrafts | | **7,887** | 5,000 | **–** | – |
| – Bank loans | | **352,476** | 207,541 | **–** | – |
| – Letter of credit | | **288,684** | 226,860 | **–** | – |
| – Other | | **25,571** | 16,200 | **–** | – |
| | | **674,618** | 455,601 | **–** | – |

(i) The bank overdraft facilities ($5,000,000 and US$2,000,000) are subject to annual review.

(ii) The bank loan facilities are structured as follows:

**Syndicated Facility**

– Facility A & C – totalling $250,000,000 tranche matured 6 February 2009. This facility was subsequently rolled over to an amount of $220,000,000. The facility is reviewed annually with extension by mutual agreement.

– Facility B – $585,000,000 tranche maturing 8 February 2011.

The committed bank facility was executed on 8 February 2008, is secured by a negative pledge that imposes certain covenants on the Group and refinanced previous bank loan facilities. The Group was in compliance with the imposed covenants at balance date.

The borrowings are at a floating rate. The borrowings are drawn under Facilities A, B and C of the facility. Renewal of the Group's short-term bank facilities has occurred subsequent to year-end. Refer to Note 24.

(iii) The letter of credit facility totalling US$200,000,000 matured 6 February 2009. This facility was subsequently rolled over to an amount of US$100,000,000. The facility is reviewed annually with extension by mutual agreement.

(iv) Other facilities relate to the Japanese note issuance facilities which are subject to annual review.

## Note 18. Borrowings *continued*

### (b) Forward exchange contracts

The Group enters into derivatives in the form of forward exchange contracts to hedge foreign currency denominated receivables and also to manage the purchase of foreign currency denominated inventory and capital items. The following table provides information as at balance date on the net fair value of the Group's existing foreign exchange hedge contracts:

| | | Maturity profile | | |
|---|---|---|---|---|
| | Weighted average exchange rate | 1 year or less $'000 | 1 to 7 year(s) $'000 | Net fair value gain/(loss)** $'000 |
| AUD/USD: | 0.6974 | 51,519 | 916 | (657) |
| AUD/JPY: | 61.5600 | 1,196 | – | 15 |
| AUD/EUR: | 0.4917 | 12,060 | – | (89) |
| AUD/NZD: | 1.1289 | 837 | – | 48 |
| AUD/ZAR: | 6.6521 | 5,476 | 4,075 | 374 |
| USD/ZAR*: | 10.0683 | 2,841 | – | (185) |
| **Total** | | **73,929** | **4,991** | **(494)** |

* The USD amount is converted at the prevailing AUD/USD exchange rate.
** Refer to Note 1(d)(ii). The net fair value of the derivatives above is included in receivables/(payables).

### (c) Net fair value of financial assets and liabilities

#### (i) On-balance sheet

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair value of non-current borrowings also is equated to the carrying value given that the USD borrowing is a floating rate and is drawn from the three year tranche (Facility B) of the Syndicated Facility (per Note 18(a)(ii)).

#### (ii) Off-balance sheet

At 31 December 2008, there were no off-balance sheet financial assets or liabilities, other than those potential liabilities which may arise from certain contingencies disclosed in Note 25.

### (d) Foreign currency risk

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008 $'000** | 2007 $'000 | **2008 $'000** | 2007 $'000 |
| US Dollars | **187,644** | 147,459 | **–** | – |
| Australian Dollars | **295,000** | 45,000 | **–** | – |
| | **482,644** | 192,459 | **–** | – |

For an analysis of the sensitivity of borrowings to interest rate and foreign exchange risk, refer to Note 2.

## Note 19. Provisions

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| Current | | | | | |
| Dividend | 7 | **9,062** | 40,465 | **9,107** | 40,827 |
| Employee benefits | 1(y) | **8,359** | 9,229 | **–** | – |
| Make good allowances | 1(x)(iii) | **229** | 230 | **–** | – |
| Progressive jackpot liabilities | 1(x)(i) | **10,648** | 7,667 | **–** | – |
| Warranties | 1(x)(ii) | **2,319** | 2,186 | **–** | – |
| | | **30,617** | 59,777 | **9,107** | 40,827 |
| Non-current | | | | | |
| Employee benefits | 1(y) | **7,941** | 5,385 | **–** | – |
| Make good allowances | 1(x)(iii) | **2,852** | 1,379 | **–** | – |
| Progressive jackpot liabilities | 1(x)(i) | **14,328** | 11,244 | **–** | – |
| | | **25,121** | 18,008 | **–** | – |

### Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

| | Make good allowances $'000 | Progressive jackpot liabilities $'000 | Warranties $'000 | Total $'000 |
|---|---|---|---|---|
| Consolidated – current and non-current | | | | |
| Carrying amount at 1 January 2008 | 1,609 | 18,911 | 2,186 | 22,706 |
| Payments | – | – | (150) | (150) |
| Additional provisions recognised | 1,520 | 911 | 380 | 2,811 |
| Reversal of provisions recognised | (89) | – | (95) | (184) |
| Foreign currency exchange differences | 41 | 5,154 | (2) | 5,193 |
| Carrying amount at 31 December 2008 | 3,081 | 24,976 | 2,319 | 30,376 |

## Note 20. Other liabilities

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| Current | | | | |
| Deferred revenue | **23,822** | 25,776 | **–** | – |
| Non-current | | | | |
| **Unsecured** | | | | |
| Deferred revenue | **6,094** | 11,441 | **–** | – |
| Other | **20,897** | 5,663 | **–** | – |
| | **26,991** | 17,104 | **–** | – |

## Note 21. Contributed equity

| | Notes | 2008 Shares | Parent entity 2007 Shares | 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| Ordinary shares, fully paid | | **455,329,650** | 464,295,501 | **(67,298)** | 1,291 |
| **Movements in ordinary share capital** | | | | | |
| Ordinary shares at the beginning of the year | (a) | **464,295,501** | 467,713,246 | **1,291** | 53,633 |
| Shares bought back on-market and cancelled | (b) | **(8,968,881)** | (3,423,820) | **(68,615)** | (52,432) |
| General Employee Share Plan issues | (c) | **–** | – | **–** | – |
| Shares issued in lieu of unclaimed dividend payments | | **3,030** | 6,075 | **26** | 90 |
| Ordinary shares at the end of the financial year | | **455,329,650** | 464,295,501 | **(67,298)** | 1,291 |

### (a) Ordinary shares

Ordinary shares have no par value and entitle the holder to participate in dividends and the winding up of the Company in proportion to the number of, and amounts paid on, the shares held.

On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

### (b) Shares bought back on-market and cancelled

During the year the Company purchased 8,968,881 (2007: 3,423,820) shares under its share buy-back program. The shares were acquired at an average price of $7.65 (2007: $15.31) per share with prices ranging from $6.00 to $10.39 per share.

### (c) General Employee Share Plan

Information concerning the General Employee Share Plan is set out in Note 30(b).

### (d) Capital management

The Group's and the parent entity's overall strategic capital management objective is to maintain a conservative funding structure, which provides sufficient flexibility to fund the operational demands of the business and to underwrite any strategic opportunities. The Group looks to achieve the maximum equity rating while maintaining an appropriate (investment grade) credit rating. The Group holds a credit rating of 'BBB minus' (S&P).

In light of the current economic climate, in the short to medium term, the Group aims to reduce its debt levels.

The Group manages its capital through interest and debt coverage ratios as follows:

| | 2008 | 2007 |
|---|---|---|
| Gearing ratio (gross debt/bank EBITDA*) | **1.7x** | 0.5x |
| Interest coverage ratio (bank EBITDA*/interest expense) | **13.9x** | 29.0x |

* Bank EBITDA = EBITDA + Interest Received

| | Notes | Consolidated 2008 $'000 | 2007 $'000 | Parent entity 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|---|

# Note 22. Reserves and retained earnings

## (a) Reserves

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| Foreign currency translation reserve | (i) | **2,531** | (57,648) | **–** | – |
| Share-based payments reserves | (ii), (iii) | **(31,293)** | (36,660) | **54,735** | 49,921 |
| Available-for-sale investments revaluation reserve | (iv) | **–** | (7,327) | **–** | – |
| | | **(28,762)** | (101,635) | **54,735** | 49,921 |

### Movements

#### (i) Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency exchange differences arising from the translation of foreign operations, the translation of transactions that hedge the Company's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in foreign operations. Refer to Note 1d(iii).

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| Foreign currency translation reserve at the beginning of the financial year | **(57,648)** | (43,059) | **–** | – |
| Net exchange differences on translation of foreign controlled entities, net investment in foreign operations and related hedges | **60,179** | (14,589) | **–** | – |
| Net movement in foreign currency translation reserve | **60,179** | (14,589) | **–** | – |
| Foreign currency translation reserve at the end of the financial year | **2,531** | (57,648) | **–** | – |

#### (ii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of all shares, options and rights both issued and issued but not exercised under the various employee share plans.

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| Share-based payments reserve at the beginning of the financial year | **10,808** | 18,095 | **49,921** | 37,355 |
| Share-based payments expense | **4,182** | 9,528 | **4,182** | 9,537 |
| Employee Share Option Plan issues* | **632** | 3,029 | **632** | 3,029 |
| Issues from the Trust to satisfy vested shares | **(18,535)** | (26,395) | **–** | – |
| Share-based tax adjustment | **553** | 6,551 | **–** | – |
| Net movement in share-based payments reserve | **(13,168)** | (7,287) | **4,814** | 12,566 |
| Share-based payments reserve at the end of the financial year | **(2,360)** | 10,808 | **54,735** | 49,921 |

* Represents the proceeds received from employees on the exercise of share options. The shares have been issued to the employees from shares purchased through the Aristocrat Employee Equity Plan Trust.

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|

## Note 22. Reserves and retained earnings *continued*

### (a) Reserves *continued*

#### (iii) Share-based payments trust reserve

The share-based payments trust reserve is used to recognise the cost, post-income tax, of shares purchased through the Aristocrat Employee Equity Plan Trust.

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| Share-based payments trust reserve at the beginning of the financial year | **(47,468)** | (55,864) | **–** | **–** |
| Purchases | **–** | (17,971) | **–** | – |
| Tax effect on the purchases | **–** | (28) | **–** | – |
| Issues from the Trust to satisfy vested shares | **18,535** | 26,395 | **–** | – |
| Net movement in share-based payments trust reserve | **18,535** | 8,396 | **–** | – |
| Share-based payments trust reserve at the end of the financial year* | **(28,933)** | (47,468) | **–** | – |

* Represents 2,241,854 shares (2007: 3,630,078).

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| Total share-based payments reserves | | | | |
| Total share-based payments reserves at the beginning of the financial year | **(36,660)** | (37,769) | **49,921** | 37,355 |
| Net movement in share-based payments reserves | **5,367** | 1,109 | **4,814** | 12,566 |
| Total share-based payments reserve at the end of the financial year | **(31,293)** | (36,660) | **54,735** | 49,921 |

#### (iv) Available-for-sale investments revaluation reserve

The available-for-sale investments revaluation reserve is used to recognise the changes in the fair value and foreign currency exchange differences arising on translation of equities classified as available-for-sale financial assets as described in Note 1p(iv). Amounts are recognised in the income statement when the associated assets are sold or impaired.

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| Total available-for-sale investments revaluation reserve at the beginning of the financial year | **(7,327)** | (4,303) | **–** | – |
| Revaluation movement in available-for-sale investments revaluation reserve | **(12,550)** | (3,024) | **–** | – |
| Impairment of available-for-sale investment* | **19,877** | – | **–** | – |
| Total available-for-sale investments revaluation reserves at the end of the financial year | **–** | (7,327) | **–** | – |

* An impairment loss was recorded at 31 December 2008 as a result of a significant decline in the value of the investment.

### (b) Retained earnings

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| Retained earnings at the beginning of the financial year | | **420,470** | 395,420 | **5,058** | 28,259 |
| Net profit attributable to members of Aristocrat Leisure Limited | | **101,207** | 247,172 | **244,556** | 200,454 |
| Dividends paid or provided for | 7 | **(233,172)** | (222,122) | **(234,426)** | (223,655) |
| Retained earnings at the end of the financial year | | **288,505** | 420,470 | **15,188** | 5,058 |

## Note 23. Minority interest

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2008 $'000** | 2007 $'000 | **2008 $'000** | 2007 $'000 |
| Outside equity interest in controlled entity comprises: | | | | |
| Retained earnings | **749** | 1,005 | **–** | – |
| Profit from ordinary activities after income tax expense | **720** | 764 | **–** | – |
| Dividends paid | **(1,410)** | (1,020) | **–** | – |
| Retained earnings | **59** | 749 | **–** | – |
| Reserves | **(75)** | (74) | **–** | – |
| | **(16)** | 675 | **–** | – |

## Note 24. Events occurring after reporting date

Other than the refinancing of the Group's debt facilities, referred to in the Management Discussion and Analysis, there has not arisen, in the interval between the end of the financial year and the date of this Report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## Note 25. Contingent liabilities

The Group and parent entity have contingent liabilities at 31 December 2008 in respect of the following matters:

(i) a contingent liability exists in relation to a guarantee given by the Company in respect of loans, advances, hire purchase and leasing facilities extended to a controlled entity, Aristocrat Technologies Australia Pty Limited;

(ii) a number of controlled entities within the Group are parties to civil actions. The Directors are of the opinion that no material loss will arise as a result of these actions;

(iii) under the terms of currently held service contracts, termination benefits may be required to be paid by the Company or a controlled entity to senior executives, at the option of the individual parties to the agreements depending on individual circumstances. The amounts, which may be paid, depend upon the specific circumstances in which termination occurs;

(iv) the Company issued USD130 million of 5% convertible subordinated bonds (bonds) due 31 May 2006 on 31 May 2001 and 7 June 2001. The Indenture permits the Company to call for the redemption of the bonds after the Company's shares have traded for a period of more than 20 trading days during a period of 30 consecutive trading days at a price exceeding 140% of the conversion price.

Consistent with its view of the parties' agreement, the Company took the steps on 20 December 2004 which it believed necessary and sufficient to call for the redemption of the bonds in accordance with the Indenture, thereby terminating bondholder conversion rights. On the same day, the Company commenced legal action in the United States District Court for the Southern District of New York (the District Court), seeking a declaration from the District Court that (1) an exchange rate error should be corrected and the Indenture reformed to reflect the intended rate; and (2) the call for redemption of the bonds terminated the rights of the bondholders to convert. Various bondholders subsequently intervened in the case.

On 12 August 2005, the District Court issued an Opinion and Order that the exchange rate should be corrected and that bondholder conversion rights had not been terminated as of 20 December 2004. In so holding, the District Court adopted an interpretation of the Indenture not argued by the Company or the bondholders. The District Court otherwise deferred ruling on various counterclaims.

## Note 25. Contingent liabilities *continued*

On 30 May 2006, the District Court issued a further Opinion deciding a summary judgement motion filed by the bondholders. The District Court granted the motion insofar as it requested a declaration that the Company was in breach of the Indenture for failing to deliver shares to the bondholders but it denied the bondholders' petition for a specific performance remedy that would have required the Company to deliver shares of its common stock to the bondholders, rather than a cash damages amount determined by the District Court. The District Court further held that the bondholders would be entitled to prejudgement interest on the damage amounts ultimately awarded at a statutorily prescribed rate of 9%.

The Company intends to appeal the District Court's 12 August 2005 Order and certain aspects of the District Court's 30 May 2006 Opinion upon entry of final judgement. As of the date of this Report, it is not possible to comment on when final judgement will be entered or when that appeal will take place. To proceed to appeal, it is likely that the Company will provide a surety to the District Court.

During 2006, the Company entered into 'Receipt and Release Agreements' with all but three of the bondholders. Under these agreements, the Company paid those bondholders 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 US$1.1 million, being principal and interest to maturity (30 May 2006). An amount of US$0.5 million, equal to the remaining principal, was subsequently deposited in Court. The Company funded these payments, totalling approximately US$130 million, from cash and bank facilities;

(v) The Company, Aristocrat International Pty Limited, Aristocrat Technologies Australia Pty Limited, Aristocrat (Asia) Pty Limited and Aristocrat (Macau) Pty Limited are parties to a deed of cross guarantee which has been lodged with and approved by ASIC as discussed in Note 36. During the financial year ended 31 December 2008, Aristocrat (Holdings) Pty Limited was added to the deed of cross guarantee;

(vi) a complaint was served in February 2004 on the Company, Aristocrat Technologies Australia Pty Limited and Aristocrat Technologies Inc (Aristocrat) on behalf of a US-based individual. In March 2004, the individual passed away and the administrator for his estate has been substituted as the plaintiff. In February 2005, the Federal District Court, Reno granted an order releasing the Company from the case;

The plaintiff is seeking unspecified compensation and damages against the Company and third party defendants in the gaming industry. The plaintiff alleges, among other things, that the Company's Hyperlink progressive jackpot gaming machines infringe a US patent and that the Company misappropriated trade secrets of the plaintiff. Another party has made claim to ownership of the patent being asserted as well as to other patents.

On 7 August 2008 the US District Court, District of Nevada found in favour of Aristocrat's application for a declaration of patent invalidity, declaring the US Patent invalid. The plaintiff is continuing its proceedings against Aristocrat for misappropriation of trade secrets.

The proceedings are being defended. As of the date of this report, it is not possible to determine the likely outcome of these proceedings;

(vii) the Company and its controlled entities have a contingent liability at 31 December 2008 of $380,486 (2007: $380,486) in respect of a guarantee facility provided by Commonwealth Bank of Australia;

(viii) under the terms of severance agreements with a former Executive Director, a controlled entity is obliged to fund certain costs of a motor vehicle provided to the former Executive Director for an indefinite period. The estimated annual cost of providing the motor vehicle and associated benefits amounts to $56,952 (2007: $56,952); and

(ix) on adoption of tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Aristocrat Leisure Limited.

## Note 26. Commitments

| | Consolidated 2008 $'000 | 2007 $'000 | Parent entity 2008 $'000 | 2007 $'000 |
|---|---|---|---|---|
| **Capital commitments** | | | | |
| Capital equipment and other commitments contracted at the balance date but not recognised as liabilities, payable within one year | **1,241** | 364 | **–** | – |
| **Lease commitments** | | | | |
| **Operating leases** | | | | |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | | | |
| Within one year | **15,063** | 10,105 | **–** | – |
| Later than one year but not later than five years | **48,559** | 42,127 | **–** | – |
| Later than five years | **62,724** | 63,094 | **–** | – |
| Commitments not recognised in the financial statements | **126,346** | 115,326 | **–** | – |

## Note 27. Subsidiaries

| | Notes | Country of incorporation | Equity holding 2008 % | Equity holding 2007 % |
|---|---|---|---|---|
| Ultimate parent entity | | | | |
| Aristocrat Leisure Limited | | Australia | – | – |
| Controlled entities | | | | |
| Aristocrat Technical Services Pty Limited | (c) | Australia | **100** | 100 |
| Aristocrat Properties Pty Limited | (c) | Australia | **100** | 100 |
| Aristocrat (Holdings) Pty Limited | (a) | Australia | **100** | 100 |
| Aristocrat Technologies Australia Pty Limited | (a) | Australia | **100** | 100 |
| ASSPA Pty Limited | (c) | Australia | **100** | 100 |
| Aristocrat Technology Gaming Systems Pty Limited | (c) | Australia | **100** | 100 |
| Aristocrat International Pty Limited | (a) | Australia | **100** | 100 |
| Aristocrat Leisure Cyprus Limited | (b) | Cyprus | **100** | 100 |
| ACEI AB | (b) | Sweden | **100** | 100 |
| ACE Interactive Software Norway AS | (b) | Norway | **100** | 100 |
| Aristocrat Gaming LLC | (b) | Russia | **100** | 100 |
| Aristocrat (Argentina) Pty Limited | (b) | Australia | **100** | 100 |
| AI(Puerto Rico) Pty Limited *(formerly known as Aristocrat (Puerto Rico) Pty Limited)* | (b) | Australia | **100** | 100 |
| Aristocrat (Latin America) Pty Limited | (b) | Australia | **100** | 100 |
| Aristocrat (Asia) Pty Limited | (a) | Australia | **100** | 100 |
| Aristocrat (Macau) Pty Limited | (a) | Australia | **100** | 100 |
| Aristocrat (Philippines) Pty Limited | (b) | Australia | **100** | 100 |
| Aristocrat (Singapore) Pty Limited | (b) | Australia | **100** | 100 |
| Aristocrat (Cambodia) Pty Limited | (b) | Australia | **100** | 100 |
| Aristocrat (Malaysia) Pty Limited | (b) | Australia | **100** | 100 |
| Aristocrat Leisure Technology Development (Beijing) Co Limited | (b) | China | **100** | 100 |
| Aristocrat Technologies Europe (Holdings) Limited | (b) | UK | **100** | 100 |
| Aristocrat Technologies Europe Limited | (b) | UK | **100** | 100 |
| ASSPA (UK) Limited | (b) | UK | **100** | 100 |
| Aristocrat Technologies LLC | (b) | Russia | **100** | 100 |
| Aristocrat Technologies Spain SL | (b) | Spain | **100** | 100 |
| Aristocrat Technologies NZ Limited | (b) | New Zealand | **100** | 100 |
| Aristocrat Technologies Inc | (b) | USA | **100** | 100 |
| Aristocrat Funding Corporation | (c) | USA | **100** | 100 |
| Aristocrat Argentina SA | (c) | Argentina | **100** | 100 |
| Aristocrat Funding Corporation Pty Limited | (c) | Australia | **100** | 100 |
| Aristocrat Technologies Canada Inc | (c) | Canada | **100** | 100 |
| Aristocrat CA | (c) | Venezuela | **100** | 100 |
| Aristocrat Research & Development (Africa) Pty Limited | (c) | South Africa | **72** | n/a |
| Aristocrat Africa (Pty) Limited | (b) | South Africa | **72** | 72 |
| Aristocrat Technologies Africa (Pty) Limited | (b) | South Africa | **72** | 72 |
| Aristocrat Technologies KK | (b) & (c) | Japan | **100** | 100 |
| Aristocrat Hanbai KK | (b) & (c) | Japan | **100** | 100 |
| Other controlled entities | | | | |
| Aristocrat Employee Equity Plan Trust | (d) | Australia | **100** | 100 |
| Aristocrat Funding GP | (b) | USA | **100** | 100 |

(a) These controlled entities have been granted relief from the necessity to prepare accounts in accordance with Class Orders issued by ASIC. For further information, refer to Note 25.

(b) Controlled entities audited by other PricewaterhouseCoopers firms.

(c) Controlled entities for which statutory audits are not required at 31 December 2008 under relevant local legislation.

(d) The Trust is a special purpose entity which is consolidated because it meets the following criteria:

- the activity of the Trust which is to purchase and issue shares for the various the Company employee share plans are being conducted on behalf of the Group according to its specific business needs and the Group obtains benefits from the Trust's operation;
- the Group has the decision making powers to obtain the majority of the benefits of the activities of the Trust; and
- the Group has rights to obtain the majority of the benefits of the Trust and is exposed to the risks incident to ownership of the special purpose entity.

## Note 28. Interest in jointly controlled entity

### Elektrončk

A subsidiary of the Company owns 50% of the issued shares in Elektrončk d.d. (Elektrončk), which manufactures a range of electro-mechanical multi-terminal gaming products.

### (a) Group's share of results of jointly controlled entity

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Revenue from ordinary activities | **28,581** | 38,542 |
| Expenses from ordinary activities | **(28,205)** | (29,040) |
| Profit from ordinary activities before income tax expense | **376** | 9,502 |
| Income tax expense relating to ordinary activities | **119** | (1,627) |
| Profit from ordinary activities after income tax expense | **495** | 7,875 |
| Unrealised profits on related party transactions | **–** | 738 |
| Net profits – accounted for using the equity method | **495** | 8,613 |

### (b) Interest in jointly controlled entity

| | 2008 $'000 | 2007 $'000 |
|---|---|---|
| Carrying amount at the beginning of the year | **71,744** | 74,272 |
| Investment in jointly controlled entity | **–** | (3,776) |
| Share of jointly controlled entity's net profit after tax | **495** | 8,613 |
| Share of jointly controlled entity's reserves | **(113)** | 41 |
| Movement in foreign currency exchange translation reserves | **14,285** | 955 |
| Dividend declared | **–** | (8,361) |
| Carrying amount at the end of the year | **86,411** | 71,744 |
| Share of movement in jointly controlled entity's assets and liabilities: | | |
| Current assets | **4,108** | 3,234 |
| Non-current assets | **3,588** | (760) |
| | **7,696** | 2,474 |
| Current liabilities | **(5,162)** | 6,070 |
| Non-current liabilities | **(631)** | 420 |
| | **(5,793)** | 6,490 |
| Net assets | **1,903** | 8,964 |

## Note 29. Employee benefits

| | Notes | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|---|
| Employee benefits and related on-cost liabilities | | | | | |
| Included in payables – current | | **24,987** | 38,223 | **–** | – |
| Provision for employee benefits – current | 19 | **8,359** | 9,229 | **–** | – |
| Provision for employee benefits – non-current | 19 | **7,941** | 5,385 | **–** | – |
| Aggregate employee benefits and related on-cost liabilities | | **41,287** | 52,837 | **–** | – |

## Note 30. Share-based payments

The Remuneration Report, presented in the Directors' Report, also provides detailed disclosure on share-based payments.

### (a) Performance Share Plan (PSP)

The PSP is a long-term employee share scheme that provides for eligible employees to be offered conditional entitlements to fully paid ordinary shares in the parent entity (Performance Share Rights). Performance Share Rights issued under the PSP are identical in all respects, other than performance conditions and periods, which are detailed below.

As at 31 December 2008, 177 employees (2007: 200) were entitled to 2,713,093 (2007: 3,211,466) Performance Share Rights under this plan.

### Accounting fair value of Performance Share Rights granted

The assessed accounting fair values of Performance Share Rights granted during the financial years ended 31 December 2008 and 31 December 2007 are as follows:

| Performance Share Right series | Performance period start date | Performance period expiry date | Performance condition* | Accounting valuation date | Accounting valuation** $ |
|---|---|---|---|---|---|
| **Issued 2008** | | | | | |
| Series 10A | 1-Jan-08 | 31-Dec-10 | TSR | 1-Jan-08 | 5.01 |
| Series 10B | 1-Jan-08 | 31-Dec-10 | ESPG | 1-Jan-08 | 9.59 |
| Series 11A*** | 1-Jan-08 | 31-Dec-10 | TSR | 29-Apr-08 | 3.70 |
| Series 11B*** | 1-Jan-08 | 31-Dec-10 | ESPG | 29-Apr-08 | 7.09 |
| Issued 2007 | | | | | |
| Series 8A | 1-Jan-07 | 31-Dec-09 | TSR | 1-Jan-07 | 7.79 |
| Series 8B | 1-Jan-07 | 31-Dec-09 | ESPG | 1-Jan-07 | 14.41 |
| Series 9A*** | 1-Jan-07 | 31-Dec-09 | TSR | 2-May-07 | 8.41 |
| Series 9B*** | 1-Jan-07 | 31-Dec-09 | ESPG | 2-May-07 | 15.25 |

* TSR – Total Shareholder Return; EPSG – Earnings Per Share Growth

** In accordance with accounting standards, the accounting valuation, as independently determined by Deloitte Touche Tohmatsu (Deloitte), of a Performance Share Right with a market vesting condition (for example, TSR) incorporates the likelihood that the vesting condition will be met. Whereas, the accounting valuation, as independently determined by Deloitte, of a Performance Share Right with a non-market vesting condition (for example, EPSG) does not take into account the likelihood that the vesting condition will be met. Accordingly, the accounting value of a Performance Share Right with a TSR vesting condition is lower than that with an EPSG vesting condition.

*** In accordance with accounting standards, as these Performance Share Rights were granted to Directors, the accounting valuation as determined by Deloitte, has been performed at the date of approval by shareholders.

The accounting valuation represents the independent valuation of each tranche of Performance Share Rights at their respective grant dates. The valuations have been performed by Deloitte using a Total Shareholder Return (TSR) model and an Earnings Per Share Growth (EPSG) model.

### (i) Total Shareholder Return (TSR) model

Deloitte has developed a Monte-Carlo Simulation-based model which incorporates the impact of performance hurdles and the vesting scale on the value of the share rights. This pricing model takes into account such factors as the Company's share price at the date of grant, volatility of the underlying share price, expected dividend yield, risk-free rate of return and time to maturity.

The accounting valuation of the rights has been allocated equally over the vesting period (either three, four or five years). The model inputs for share rights granted during the year ended 31 December 2008 included:

(a) share rights are granted for no consideration and have a three to five year life;

(b) exercise price: zero consideration;

(c) the grant date and expiry dates: refer to tables below;

(d) share price at grant date:
2008: series 10A – $11.13 and series 11A – $8.10; and
2007: series 8A – $15.79 and series 9A – $16.43.

(e) price volatility of the Company's shares:
2008: series 10A – 28.44% and series 11A – 31.67%; and
2007: series 8A – 29.75% and series 9A – 29.54%.

(f) dividend yield:
2008: series 10A – 5.11% and series 11A – 5.00%; and
2007: series 8A – 3.10% and series 9A – 2.83%.

(g) risk-free interest rate:
2008: series 10A – 7.45% and series 11A – 6.45%; and
2007: series 8A – 6.45% and series 9A – 6.40%.

### (ii) Earnings Per Share Growth (EPSG) model

Deloitte has utilised the Black-Scholes generalised model to determine the fair value of share rights. This pricing model takes into account such factors as the Company's share price at the date of grant, volatility of the underlying share price, expected dividend yield, risk-free rate of return and time to maturity.

The accounting valuation of the rights has been allocated equally over the vesting period (ranging from three to five years). The model inputs for share rights granted during the year ended 31 December 2008 included:

(a) share rights are granted for no consideration and have a three to five year life;

(b) exercise price: zero consideration;

(c) the grant date and expiry dates: refer to tables below;

(d) share price at grant date:
2008: series 10B – $11.13 and series 11B – $8.10; and
2007: series 8B – $15.79 and series 9B – $16.43.

(e) price volatility of the Company's shares:
2008: series 10B – 28.44% and series 11B – 31.67%; and
2007: series 8B – 29.75% and series 9B – 29.54%.

(f) dividend yield:
2008: series 10B – 5.11% and series 11B – 5.00%; and
2007: series 8B – 3.10% and series 9B – 2.83%.

(g) risk-free interest rate:
2008: series 10B – 7.45% and series 11B – 6.45%; and
2007: series 8B – 6.45% and series 9B – 6.40%.

The expected price volatility is based on the annualised historical volatility of the share price of the Company due to the long-term nature of the underlying share rights.

## Note 30. Share-based payments *continued*

### (a) Performance Share Plan (PSP) *continued*

Performance Share Rights are detailed in the tables below:

#### Consolidated and parent entity – 2008

| Right series | Grant date | Performance period expiry date | Rights at start of year Number | Add: new rights issues Number | Less: rights exercised Number | Less: rights lapsed Number | Rights at end of year Number |
|---|---|---|---|---|---|---|---|
| **PSP** | | | | | | | |
| Series 1B | 2–Sep–04 | 31–Dec–07 | 903,074 | – | 884,078 | 18,996 | – |
| Series 3A | 1–Jan–05 | 31–Dec–07 | 23,781 | – | 9,899 | 13,882 | – |
| Series 3B | 1–Jan–05 | 31–Dec–07 | 23,781 | – | 9,899 | 13,882 | – |
| Series 4A | 17–May–05 | 31–Dec–07 | 34,172 | – | 14,224 | 19,948 | – |
| Series 4B | 17–May–05 | 31–Dec–07 | 34,171 | – | 14,223 | 19,948 | – |
| Series 5A | 17–Oct–05 | 31–Dec–09 | 9,433 | – | – | – | 9,433 |
| Series 5B | 17–Oct–05 | 31–Dec–09 | 9,433 | – | – | – | 9,433 |
| Series 5C | 17–Oct–05 | 31–Dec–10 | 9,432 | – | – | – | 9,432 |
| Series 5D | 17–Oct–05 | 31–Dec–10 | 9,432 | – | – | – | 9,432 |
| Series 6A* | 1–Jan–06 | 31–Dec–08 | 423,198 | – | – | 83,613 | 339,585 |
| Series 6B* | 1–Jan–06 | 31–Dec–08 | 423,198 | – | – | 83,613 | 339,585 |
| Series 7A* | 2–May–06 | 31–Dec–08 | 124,124 | – | – | 99,001 | 25,123 |
| Series 7B* | 2–May–06 | 31–Dec–08 | 124,124 | – | – | 99,001 | 25,123 |
| Series 8A | 1–Jan–07 | 31–Dec–09 | 418,569 | – | – | 88,987 | 329,582 |
| Series 8B | 1–Jan–07 | 31–Dec–09 | 418,569 | – | – | 88,987 | 329,582 |
| Series 9A | 1–May–07 | 31–Dec–09 | 111,488 | – | – | 89,859 | 21,629 |
| Series 9B | 1–May–07 | 31–Dec–09 | 111,487 | – | – | 89,859 | 21,628 |
| Series 10A | 1–Jan–08 | 31–Dec–10 | – | 693,445 | – | 109,348 | 584,097 |
| Series 10B | 1–Jan–08 | 31–Dec–10 | – | 693,445 | – | 109,348 | 584,097 |
| Series 11A | 29–Apr–08 | 31–Dec–10 | – | 177,387 | – | 139,721 | 37,666 |
| Series 11B | 29–Apr–08 | 31–Dec–10 | – | 177,387 | – | 139,721 | 37,666 |
| | | | **3,211,466** | **1,741,664** | **932,323** | **1,307,714** | **2,713,093** |

* On 24 February 2009, the Board determined that the PSRs under Series 6A, 6B, 7A and 7B had not met the required performance criteria and therefore lapsed.

### Consolidated and parent entity – 2007

| Right series | Grant date | Performance period expiry date | Rights at start of year Number | Add: new rights issues Number | Less: rights exercised Number | Less: rights lapsed Number | Rights at end of year Number |
|---|---|---|---|---|---|---|---|
| **PSP** | | | | | | | |
| Series 1A | 2-Sep-04 | 31-Dec-06 | 1,055,172 | – | 1,055,172 | – | – |
| Series 1B | 2-Sep-04 | 31-Dec-07 | 1,055,172 | – | 18,652 | 133,446 | 903,074 |
| Series 2 | 21-Dec-04 | 31-Dec-06 | 380,000 | – | 380,000 | – | – |
| Series 3A | 1-Jan-05 | 31-Dec-07 | 23,781 | – | – | – | 23,781 |
| Series 3B | 1-Jan-05 | 31-Dec-07 | 23,781 | – | – | – | 23,781 |
| Series 4A | 17-May-05 | 31-Dec-07 | 34,172 | – | – | – | 34,172 |
| Series 4B | 17-May-05 | 31-Dec-07 | 34,171 | – | – | – | 34,171 |
| Series 5A | 17-Oct-05 | 31-Dec-09 | 14,149 | – | – | 4,716 | 9,433 |
| Series 5B | 17-Oct-05 | 31-Dec-09 | 14,149 | – | – | 4,716 | 9,433 |
| Series 5C | 17-Oct-05 | 31-Dec-10 | 14,149 | – | – | 4,717 | 9,432 |
| Series 5D | 17-Oct-05 | 31-Dec-10 | 14,148 | – | – | 4,716 | 9,432 |
| Series 6A | 1-Jan-06 | 31-Dec-08 | 498,997 | – | – | 75,799 | 423,198 |
| Series 6B | 1-Jan-06 | 31-Dec-08 | 498,997 | – | – | 75,799 | 423,198 |
| Series 7A | 2-May-06 | 31-Dec-08 | 124,124 | – | – | – | 124,124 |
| Series 7B | 2-May-06 | 31-Dec-08 | 124,124 | – | – | – | 124,124 |
| Series 8A | 1-Jan-07 | 31-Dec-09 | – | 440,845 | – | 22,276 | 418,569 |
| Series 8B | 1-Jan-07 | 31-Dec-09 | – | 440,845 | – | 22,276 | 418,569 |
| Series 9A | 1-May-07 | 31-Dec-09 | – | 111,488 | – | – | 111,488 |
| Series 9B | 1-May-07 | 31-Dec-09 | – | 111,487 | – | – | 111,487 |
| | | | **3,909,086** | **1,104,665** | **1,453,824** | **348,461** | **3,211,466** |

## (b) General Employee Share Plan (GESP)

The General Employee Share Plan (GESP) is designed to provide employees with shares in the parent entity under the provisions of section 139CD of the *Australian Income Tax Assessment Act*.

During the year, the Company issued 168,461 shares (2007: 80,040) to 1,073 employees (2007: 1,160) in Australia under the GESP. Due to tax complexities, certain eligible staff located overseas were issued either a deferred bonus of A$1,000 cash or a contingent allocation of an equivalent number of shares (120,733 shares to 769 employees; 2007: 51,681 shares to 749 employees) in lieu of a share allocation under the GESP, subject to their continued employment for a period of three years.

The number of shares issued to participants in the GESP is the offer amount divided by the weighted average price at which the Company's shares are traded on the ASX during the five days immediately before the date of the offer.

| | Weighted average market price $ | Consolidated 2008 Number | Consolidated 2007 Number | Parent entity 2008 Number | Parent entity 2007 Number |
|---|---|---|---|---|---|
| Shares issued under the GESP to participating employees on: | | | | | |
| 30-Jun-08* | 6.35 | **168,461** | – | **–** | – |
| 30-Jun-07* | 14.47 | **–** | 80,040 | **–** | – |
| | | **168,461** | 80,040 | **–** | – |

* Issued from the Aristocrat Employee Equity Plan Trust.

## Note 30. Share-based payments *continued*

### (c) Long-term Performance Option Plan (POP)

The Long-term Performance Option Plan (POP), an executive incentive scheme to drive the continuing improvement in the Company's performance, was approved at the AGM of the Company in May 2005. The POP provides for eligible employees to be offered conditional entitlements to options over fully paid ordinary shares in the Company, such that shares may, on exercise of such options, be allocated to eligible employees, subject to meeting performance criteria specified by the Board within a set performance period.

Performance options will have an exercise price based on the value of the underlying fully paid shares at grant with vesting to the eligible employee dependent on the satisfaction of performance criteria and within a performance period specified by the Board of Directors (the 'Performance Criteria' and 'Performance Period', respectively).

If the Performance Criteria are satisfied at the end of the Performance Period, the POP provides for shares to be allocated and registered in the name of the eligible employee on exercise of the option and payment of the exercise price, subject to disposal restrictions, until the eligible employee is entitled to have the disposal restrictions lifted, in accordance with the rules of the POP. Shares allocated under the POP may be forfeited by the Company, but only in limited circumstances such as where eligible employees act fraudulently or dishonestly.

The POP rules permit the Company, in its discretion, to issue or acquire on-market shares which are then registered in the name of the eligible employee or in the name of an agent or trustee on behalf of the eligible employee prior to the eligible employee becoming entitled to be allocated the shares, that is, prior to Performance Criteria being satisfied and the option being exercised. These are called unallocated shares. Rights to unallocated shares (and the associated options) will expire and they will be forfeited and sold if the Performance Criteria are not satisfied.

There have been no invitations issued to participate in this Plan.

### (d) Employee Share Option Plan (ESOP)

The Employee Share Option Plan (ESOP) was established to issue options over ordinary shares in the parent entity to employees of the Group.

As at 31 December 2008, one employee (2007: 5) was entitled to 250,000 (2007: 537,500) options under the ESOP.

The ESOP was discontinued in 2004. Options issued pursuant to the plan are exercisable subject to the ESOP rules.

Options are detailed in the tables below:

### Consolidated and parent entity – 2008

| Option series | Notes | Grant date | Expiry date | Exercise price $* | Options at start of year Number | Add: new issues Number | Less: options exercised Number | Less: options lapsed Number | Options at end of year Number |
|---|---|---|---|---|---|---|---|---|---|
| **ESOP** | | | | | | | | | |
| Series 28 | (a) | 26-Aug-03 | 26-Aug-08 | 1.3497 | 112,500 | – | 112,500 | – | – |
| Series 29D | (a) | 1-Sep-03 | 1-Sep-08 | 2.9503 | 125,000 | – | 125,000 | – | – |
| Series 30 | (a) | 3-Nov-03 | 3-Nov-08 | 2.2177 | 50,000 | – | 50,000 | – | – |
| Series 31C | (b) | 1-Sep-04 | 1-Sep-09 | 7.7016 | 125,000 | – | – | – | 125,000 |
| Series 31D | (b) | 1-Sep-04 | 1-Sep-09 | 8.2016 | 125,000 | – | – | – | 125,000 |
| | | | | | 537,500 | – | 287,500 | – | 250,000 |

* The option exercise price has been adjusted for the $0.21 per share capital return paid in July 2005.

| | | | |
|---|---|---|---|
| Weighted average exercise price | $4.87 | $2.20 | $7.95 |

The weighted average share price at the date of exercise of those options exercised during the year ended 31 December 2008 was $9.55.

The weighted average remaining contractual life of options outstanding as at 31 December 2008 was 0.67 years.

No options were forfeited during the year ended 31 December 2008.

**Notes:**

(a) Options are exercisable in four equal tranches at intervals of 18 months, 30 months, 42 months and 54 months after grant date.

(b) Options under Tranche C are exercisable 42 months after grant date.
Options under Tranche D are exercisable 54 months after grant date.

## Consolidated and parent entity – 2007

| Option series | Notes | Grant date | Expiry date | Exercise price* $ | Options at start of year Number | Less: options exercised Number | Less: options lapsed Number | Options at end of year Number |
|---|---|---|---|---|---|---|---|---|
| **ESOP** | | | | | | | | |
| Series 26 | (a) | 7-Mar-02 | 7-Mar-07 | 5.7431 | 85,000 | 85,000 | – | – |
| Series 27 | (a) | 2-Jul-02 | 2-Jul-07 | 5.2002 | 45,000 | 45,000 | – | – |
| Series 28 | (a) | 26-Aug-03 | 26-Aug-08 | 1.3497 | 225,000 | 112,500 | – | 112,500 |
| Series 29C | (b) | 1-Sep-03 | 1-Sep-08 | 2.4503 | 125,000 | 125,000 | – | – |
| Series 29D | (b) | 1-Sep-03 | 1-Sep-08 | 2.9503 | 125,000 | – | – | 125,000 |
| Series 30 | (a) | 3-Nov-03 | 3-Nov-08 | 2.2177 | 100,000 | 50,000 | – | 50,000 |
| Series 31A | (b) | 1-Sep-04 | 1-Sep-09 | 6.7016 | 125,000 | 125,000 | – | – |
| Series 31B | (b) | 1-Sep-04 | 1-Sep-09 | 7.2016 | 125,000 | 125,000 | – | – |
| Series 31C | (b) | 1-Sep-04 | 1-Sep-09 | 7.7016 | 125,000 | – | – | 125,000 |
| Series 31D | (b) | 1-Sep-04 | 1-Sep-09 | 8.2016 | 125,000 | – | – | 125,000 |
| | | | | | 1,205,000 | 667,500 | – | 537,500 |

* The option exercise price has been adjusted for the $0.21 per share capital return paid in July 2005.

| | | | | |
|---|---|---|---|---|
| Weighted average exercise price | $4.69 | $4.54 | – | $4.87 |

The weighted average share price at the date of exercise of those options exercised during the year ended 31 December 2007 was $16.44.

The weighted average remaining contractual life of options outstanding as at 31 December 2007 was 1.15 years.

No options were forfeited during the year ended 31 December 2007.

**Notes:**

(a) Options are exercisable in four equal tranches at intervals of 18 months, 30 months, 42 months and 54 months after grant date.

(b) Options under Tranche A are exercisable 18 months after grant date.
Options under Tranche B are exercisable 30 months after grant date.
Options under Tranche C are exercisable 42 months after grant date.
Options under Tranche D are exercisable 54 months after grant date.

## Note 30. Share-based payments *continued*

### (d) Employee Share Option Plan (ESOP) *continued*

Options exercised during the financial year and number of shares issued to employees on the exercise of options are detailed below:

### Consolidated and parent entity

| Exercise date | Value of shares at issue date* $ | 2008 Number | Exercise date | Value of shares at issue date* $ | 2007 Number |
|---|---|---|---|---|---|
| **ESOP** | | | **ESOP** | | |
| 27-Feb-08 | **9.47** | **50,000** | 12-Feb-07 | 10.50 | 7,500 |
| 29-Feb-08 | **9.10** | **50,000** | 26-Feb-07 | 11.63 | 15,000 |
| 1-Mar-08 | **7.50** | **125,000** | 26-Feb-07 | 11.68 | 5,000 |
| 20-Mar-08 | **8.19** | **12,500** | 26-Feb-07 | 11.68 | 2,500 |
| 18-Jun-08 | **4.29** | **50,000** | 26-Feb-07 | 12.22 | 20,000 |
| | | | 1-Mar-07 | 11.01 | 15,000 |
| | | | 2-Mar-07 | 13.28 | 125,000 |
| | | | 2-Mar-07 | 9.03 | 125,000 |
| | | | 2-Mar-07 | 14.38 | 50,000 |
| | | | 2-Mar-07 | 9.99 | 40,000 |
| | | | 7-Mar-07 | 15.00 | 50,000 |
| | | | 7-Mar-07 | 11.15 | 25,000 |
| | | | 21-Mar-07 | 15.20 | 12,500 |
| | | | 29-May-07 | 13.23 | 50,000 |
| | | | 28-Aug-07 | 5.76 | 125,000 |
| | | **287,500** | | | 667,500 |

* The value reflected above is the intrinsic value of the option, which is calculated as the market price less the exercise price on the date of exercise of the option.

There have been no options exercised since the end of the financial year.

## (d) Employee Share Option Plan (ESOP) *continued*

| | Consolidated 2008 Number | Consolidated 2007 Number | Parent entity 2008 Number | Parent entity 2007 Number |
|---|---|---|---|---|
| Options vested and exercisable at the reporting date | **125,000** | 130,000 | **125,000** | 130,000 |

| | Consolidated 2008 $ | Consolidated 2007 $ | Parent entity 2008 $ | Parent entity 2007 $ |
|---|---|---|---|---|
| Aggregate proceeds received from employees on the exercise of options and recognised in reserves | **631,514** | 3,029,086 | **631,514** | 3,029,086 |
| Value of shares issued to employees on the exercise of options as at their issue date | **2,182,986** | 7,257,389 | **2,182,986** | 7,257,389 |

## (e) Share-based payments expense

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent entity 2008 $'000 | Parent entity 2007 $'000 |
|---|---|---|---|---|
| Total expenses arising from share-based payment transactions recognised during the period as part of employee benefits expense were as follows: | | | | |
| Share rights issued under PSP | **2,714** | 8,000 | **–** | – |
| Shares issued under GESP | **1,384** | 1,158 | **–** | – |
| Options issued under ESOP | **84** | 240 | **–** | – |
| | **4,182** | 9,398 | **–** | – |

# Note 31. Key management personnel disclosures

### Remuneration

The Company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the Remuneration Report, presented in the Directors' Report.

### Key management personnel (KMP) compensation

Key management personnel (KMP) includes all Non-Executive Directors, Executive Directors and executives who were responsible for the overall planning, directing and controlling of activities of the Group.

| | Consolidated 2008 $ | Consolidated 2007 $ | Parent Entity 2008 $ | Parent Entity 2007 $ |
|---|---|---|---|---|
| Short-term employee benefits | **5,425,312** | 7,959,452 | **–** | – |
| Post-employment benefits | **220,429** | 247,035 | **–** | – |
| Long-term benefits | **239,731** | 11,698 | **–** | – |
| Termination benefits | **884,931** | – | **–** | – |
| Share-based payments | **(631,654)** | 3,254,742 | **–** | – |
| | **6,138,749** | 11,472,927 | **–** | – |

### PSP rights provided as remuneration and rights holdings

Details of PSP in the Company held during the financial year by any KMP of the Group can be found in the Remuneration Report.

## Note 31. Key management personnel disclosures *continued*

### Options provided as remuneration and option holdings

Details of options over ordinary shares in the Company provided as remuneration to any KMP of the Group can be found in the Remuneration Report.

### GESP provided as remuneration

The numbers of shares held under the GESP during the financial year by any of the KMP of the Group, including their personally related entities, can be found in the Remuneration Report.

### Shareholdings

The numbers of shares (excluding those unvested under the GESP and the PSP) in the Company held during the financial year by each KMP of the Group, including their personally related entities, can be found in the Remuneration Report.

### Loans to KMP

No KMP held any loans with the Company during the financial year.

### Other transactions with KMP

Refer to Note 33 for details of other transactions with KMP.

## Note 32. Remuneration of auditors

During the year, the following fees were paid to the auditor of the parent entity and its related practices:

| | | Consolidated | | Parent Entity |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **$** | $ | **$** | $ |
| Assurance services | | | | |
| **Audit services** | | | | |
| Fees paid to PricewaterhouseCoopers Australian firm: | | | | |
| Audit and review of financial reports and other audit work under the *Corporations Act 2001* (Cth) | **469,333** | 428,339 | **–** | – |
| Fees paid to related practices of PricewaterhouseCoopers Australian firm | **706,203** | 730,044 | **–** | – |
| Total remuneration for audit services | **1,175,536** | 1,158,383 | **–** | – |
| **Other assurance services** | | | | |
| Fees paid to PricewaterhouseCoopers Australian firm | **–** | 87,985 | **–** | – |
| Fees paid to related practices of PricewaterhouseCoopers Australian firm | **137,131** | 98,037 | **–** | – |
| Total remuneration for other assurance services | **137,131** | 186,022 | **–** | – |
| Total remuneration for assurance services | **1,312,667** | 1,344,405 | **–** | – |
| **Advisory services** | | | | |
| Fees paid to PricewaterhouseCoopers Australian firm: | | | | |
| Legal and compliance | **–** | 13,318 | **–** | – |
| Fees paid to related practices of PricewaterhouseCoopers Australian firm | **12,968** | – | **–** | – |
| Total remuneration for advisory services | **12,968** | 13,318 | **–** | – |

Audit fees for the parent entity were paid by a subsidiary.

## Note 33. Related parties

### (a) Other transactions with KMP

There were no transactions with Directors and other KMP during the year ended 31 December 2008.

### (b) Wholly-owned group

The wholly-owned group consists of the parent entity and its wholly-owned controlled entities set out in Note 27.

All transactions between entities within the wholly-owned group during the years ended 31 December 2008 and 31 December 2007 have been eliminated on consolidation.

Transactions between the Company and other entities in the wholly-owned group during the years ended 31 December 2008 and 31 December 2007 consisted of:

(i) the payment of dividends to the Company;

(ii) a tax sharing and funding agreement.

| | Parent entity | |
|---|---|---|
| | **2008 $** | 2007 $ |
| **Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly-owned group** | | |
| Dividend revenue | **275,474,246** | 198,468,716 |
| **Aggregate net amount (payable)/receivable from entities in the wholly-owned group at balance date** | | |
| **Current** | | |
| Tax related amounts (payable)/receivable from wholly-owned entities | **(1,763,500)** | 22,684,866 |
| **Non-current** | | |
| (Payable)/receivable from wholly-owned entities | **(46,925,575)** | 64,160,889 |

## Note 33. Related parties *continued*

### (c) Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated 2008 $ | Consolidated 2007 $ | Parent Entity 2008 $ | Parent Entity 2007 $ |
|---|---|---|---|---|
| **Jointly controlled legal entity** | | | | |
| **Revenue** | | | | |
| Service fee | **173,943** | 175,030 | **–** | – |
| Expense recharges | **13,385** | – | **–** | – |
| Other revenue | **12,627** | – | | |
| **Purchase of goods and services** | | | | |
| Purchase of gaming equipment | **2,050,046** | 4,406,711 | **–** | – |
| Current receivables (service fee) | **–** | 171,046 | **–** | – |
| Other receivables (dividend receivable from Elektronček) | **8,389,292** | 8,361,204 | **–** | – |
| **Net amount receivable from minority interest as at balance date** | | | | |
| **Current** | | | | |
| Receivable from related entity – interest | **1,408,683** | 1,121,585 | **–** | – |
| Receivable from related entity – loan | **833,394** | 1,499,892 | **–** | – |
| **Non-current** | | | | |
| Receivable from related entity – loan | **4,054,988** | 4,358,737 | **–** | – |

On 31 May 2006, Aristocrat International Pty Limited, a wholly-owned entity, advanced to Yabohle Investments (Pty) Limited, the minority shareholder of the Group's South African operations, a seven year loan of ZAR43,400,000.

The loan is secured over the shares of the South African legal entity and the shareholder's dividends are redirected as repayments against the loan balance.

The annual interest rate payable is at 1% less than the prime bank overdraft rate charged by an approved bank of the Republic of South Africa.

## Note 34. Earnings per share

| | 2008 Cents | Consolidated 2007 Cents |
|---|---|---|
| Basic earnings per share | **22.0** | 53.0 |
| Diluted earnings per share | **22.0** | 52.8 |

| | 2008 Number | Consolidated 2007 Number |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **459,640,457** | 466,587,598 |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **459,640,457** | 466,587,598 |
| Effect of options | **42,912** | 574,427 |
| Effect of Performance Share Rights | **447,261** | 1,207,988 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | **460,130,630** | 468,370,013 |

| | 2008 $'000 | Consolidated 2007 $'000 |
|---|---|---|
| **Reconciliation of earnings used in calculating diluted earnings per share** | | |
| Net profit attributable to members of Aristocrat Leisure Limited | **101,207** | 247,172 |
| Earnings used in calculating diluted earnings per share | **101,207** | 247,172 |

### Information concerning the classification of securities

### (a) Options

Options granted to employees under the ESOP are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details of options in relation to the year ended 31 December 2008 are set out in Note 30.

Included within the weighted average number of potential ordinary shares related to options, there were nil (2007: nil) options that had lapsed during the year, and 42,912 (2007: 125,790) options that had been exercised during the year.

### (b) Performance Share Rights

Rights granted to employees under the PSP are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The rights have not been included in the determination of basic earnings per share. Details relating to the rights are set out in Note 30.

Included within the weighted average number of potential ordinary shares related to Performance Share Rights are 184,541 (2007: 50,322) Performance Share Rights that had lapsed during the year.

### (c) Share-based payments Trust

Shares purchased on-market through the Aristocrat Employee Equity Plan Trust have been treated as shares bought back and cancelled for the purpose of the calculation of the weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.

Shares issued through the Aristocrat Employee Equity Plan Trust on the exercise of options have been treated as shares issued from contributed equity capital for the purpose of the calculation of the weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.

## Note 35. Reconciliation of profit from ordinary activities after income tax to net cash flow from operating activities

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|
| Profit from ordinary activities after income tax | **101,927** | 247,936 | **244,556** | 200,454 |
| Depreciation and amortisation | **40,231** | 36,435 | **–** | – |
| Dividends | **–** | – | **(275,474)** | (198,469) |
| Equity-settled share-based payments | **4,182** | 9,398 | **–** | – |
| Non-cash interest expense | **(798)** | (934) | **–** | – |
| Net gains on sale of property, plant and equipment | **(21,399)** | (2,666) | **–** | – |
| Share of net profits of jointly controlled entity | **(495)** | (8,613) | **–** | – |
| Impairment of available-for-sale equity securities | **19,877** | – | **–** | – |
| Net foreign currency exchange differences | **31,127** | (6,333) | **–** | – |
| Change in operating assets and liabilities: | | | | |
| – Decrease/(increase) in receivables and deferred revenue | **(56,653)** | (21,057) | **25,817** | 37,792 |
| – Decrease/(increase) in inventories | **(30,168)** | 8,341 | **–** | – |
| – Increase in other operating assets | **(9,677)** | (2,808) | **–** | – |
| – Decrease in tax balances | **(32,919)** | (23,712) | **(46,073)** | (39,681) |
| – (Decrease)/increase in payables | **61,819** | (13,186) | **–** | – |
| – (Decrease)/increase in other provisions | **9,355** | (644) | **–** | – |
| Net cash inflow from operating activities | **116,409** | 222,157 | **(51,174)** | 96 |

## Note 36. Deed of cross guarantee

The Company, Aristocrat International Pty Limited and Aristocrat Technologies Australia Pty Limited were parties to a deed of cross guarantee in 2005 that has been lodged with and approved by ASIC. Aristocrat (Holdings) Pty Limited joined the deed on 27 October 2008 and Aristocrat (Asia) Pty Limited and Aristocrat (Macau) Pty Limited joined the deed on 22 December 2006. Under the deed, each of the abovenamed companies guarantees the debts of the other named companies. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' Report under Class Order 98/1418 (as amended by Class Orders 98/2017, 00/0321, 01/1087, 02/0248 and 02/1017) issued by ASIC.

The abovenamed companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the deed that are controlled by the Company, they also represent the 'Extended Closed Group'.

Set out below is a condensed consolidated income statement of the Closed Group:

| | **2008 $'000** | 2007 $'000 |
|---|---|---|
| Profit before income tax | **40,548** | 309,240 |
| Income tax expense | **(2,378)** | (75,026) |
| **Profit for the year** | **38,170** | 234,214 |

Set out below is a summary of movements in consolidated retained earnings of the Closed Group:

| | | |
|---|---|---|
| Retained earnings at the beginning of the financial year | **342,456** | 329,428 |
| Profit for the year | **38,170** | 234,214 |
| Dividends paid | **(234,426)** | (221,186) |
| **Retained earnings at the end of the financial year** | **146,200** | 342,456 |

Set out below is a consolidated balance sheet of the Closed Group:

| | | |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | **37,185** | 44,719 |
| Receivables | **68,614** | 262,769 |
| Inventories | **17,100** | 17,289 |
| Tax assets | **26,385** | – |
| **Total current assets** | **149,284** | 324,777 |
| Non-current assets | | |
| Receivables | **–** | 28,371 |
| Financial assets | **252,432** | 107,841 |
| Property, plant and equipment | **48,286** | 50,380 |
| Deferred tax assets | **31,873** | 20,241 |
| Intangible assets | **1,693** | 2,393 |
| **Total non-current assets** | **334,284** | 209,226 |
| **Total assets** | **483,568** | 534,003 |

## Note 36. Deed of cross guarantee *continued*

| | **2008 $'000** | 2007 $'000 |
|---|---|---|
| Current liabilities | | |
| Payables | **60,714** | 88,807 |
| Borrowings | **150,000** | 45,000 |
| Current tax liabilities | **–** | 18,265 |
| Provisions | **19,513** | 52,215 |
| Other liabilities | **5,263** | 12,707 |
| **Total current liabilities** | **235,490** | 216,994 |
| Non-current liabilities | | |
| Payables | **37,638** | – |
| Interest bearing liabilities | **145,000** | – |
| Provisions | **5,587** | 3,510 |
| Other liabilities | **6,095** | 10,388 |
| **Total non-current liabilities** | **194,320** | 13,898 |
| **Total liabilities** | **429,810** | 230,892 |
| **Net assets** | **53,758** | 303,111 |
| Equity | | |
| Contributed equity | **(67,358)** | 1,231 |
| Reserves | **(25,084)** | (40,576) |
| Retained earnings | **146,200** | 342,456 |
| **Total equity** | **53,758** | 303,111 |

# Directors' Declaration

## for the year ended 31 December 2008

In the Directors' opinion:

(a) the financial statements and notes set out on pages 62 to 128 are in accordance with the *Corporations Act 2001* (Cth) including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2008 and of their performance, for the financial year ended on that date;

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 36 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 36.

The Directors have been given declarations by the Executive Chairman and Chief Financial Officer required by section 295A of the *Corporations Act 2001* (Cth).

This declaration is made in accordance with a resolution of the Directors.

**DJ Simpson**
Chairman

Sydney
24 February 2009

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers**
**ABN 52 780 433 757**

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## Independent auditor's report to the members of Aristocrat Leisure Limited

### Report on the financial report

We have audited the accompanying financial report of Aristocrat Leisure Limited (the company), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Aristocrat Leisure Limited and the Aristocrat Leisure Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

***Directors' responsibility for the financial report***

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

## Independent auditor's report to the members of Aristocrat Leisure Limited (continued)

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Independence***

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

***Auditor's opinion***

In our opinion:

(a) the financial report of Aristocrat Leisure Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report and also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 26 to 49 of the directors' report for the year ended 31 December 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

***Auditor's opinion***

In our opinion, the Remuneration Report of Aristocrat Leisure Limited for the year ended 31 December 2008, complies with section 300A of the *Corporations Act 2001*.

***Matters relating to the electronic presentation of the audited financial report***

This auditor's report relates to the financial report and remuneration report of Aristocrat Leisure Limited (the company) for the year ended 31 December 2008 included on Aristocrat Leisure Limited web site. The company's directors are responsible for the integrity of the Aristocrat Leisure Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

R L Gavin
Partner

Sydney
24 February 2009

# Shareholder Information

## Distribution of equity securities as at 24 February 2009[1]

| Size of holding | Option holders[2] | Holders of Performance Share Rights[3] | Shareholders | Number of shares[4] | % of issued capital |
|---|---|---|---|---|---|
| 1 - 1,000 | – | 782 | 7,101 | 3,317,280 | 0.729 |
| 1,001 - 5,000 | – | 54 | 5,517 | 12,807,340 | 2.813 |
| 5,001 - 10,000 | – | 49 | 804 | 5,830,553 | 1.281 |
| 10,001 - 100,000 | – | 70 | 528 | 12,601,073 | 2.767 |
| 100,001 - over | 1 | 3 | 93 | 420,773,404 | 92.411 |
| **Total** | **1** | **958** | **14,043** | **455,329,650** | **100.000** |
| Less than a marketable parcel of $500.00 | – | – | 1,154 | 71,540 | 0.016 |

1. The Company has issued a notice of redemption in relation to the US$130 million Convertible Bonds which are not listed. Refer to Note 21 in the financial statements.
2. All options issued under the Executive Option Share Plans (Plan) to take up ordinary shares in the capital of the Company subject to the rules of the Plan are unquoted and non-transferable.
3. All share rights allocated under the 'Three Plus' Performance Plan (3+ Plan) to take up ordinary shares in the capital of the Company subject to the rules of the 3+ Plan are unquoted and non-transferable.
4. Fully paid ordinary shares (excludes unexercised options and unvested Performance Share Rights that have not been converted into shares).

## Substantial shareholders as at 24 February 2009

The Capital Group Companies Inc advised that, as at 9 July 2008, it and its associates had a relevant interest in 33,389,671 shares, which represented 7.218% of the Company's total issued capital.

Maple-Brown Abbott Limited advised that, as at 27 November 2008, it and its associates had a relevant interest in 40,126,516 shares, which represented 8.810% of the Company's total issued capital.

Lazard Asset Management Pacific Co advised that, as at 8 December 2008, it and its associates had a relevant interest in 38,801,436 shares, which represented 8.520% of the Company's total issued capital.

National Australia Bank Limited advised that, as at 10 December 2008, it and its associates had a relevant interest in 37,654,551 shares, which represented 8.270% of the Company's total issued capital.

## Twenty largest shareholders as at 24 February 2009

| Name | Number of ordinary shares held | % Issued Capital |
|---|---|---|
| National Nominees Limited | 79,838,641 | 17.53% |
| J P Morgan Nominees Australia Limited | 64,406,620 | 14.15% |
| HSBC Custody Nominees (Australia) Limited | 49,444,954 | 10.86% |
| Writeman Pty Limited | 30,828,027 | 6.77% |
| Serioso Pty Limited | 30,525,772 | 6.70% |
| Thunderbirds Are Go Pty Limited | 26,696,788 | 5.86% |
| Citicorp Nominees Pty Limited | 23,753,789 | 5.22% |
| Arminella Pty Limited | 17,692,200 | 3.89% |
| Maaku Pty Limited | 16,973,432 | 3.73% |
| Cogent Nominees Pty Limited | 14,764,941 | 3.24% |
| ANZ Nominees Limited | 9,557,977 | 2.10% |
| ECA 1 Pty Limited | 8,596,098 | 1.89% |
| CJHA Pty Limited | 7,600,000 | 1.67% |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 7,114,750 | 1.56% |
| Tasman Asset Management Limited | 6,852,145 | 1.51% |
| Australian Reward Investment Alliance 1 | 4,906,851 | 1.08% |
| Argo Investments Limited | 2,311,000 | 0.51% |
| Pacific Custodians Pty Limited | 2,241,854 | 0.49% |
| Neweconomy com au Nominees Pty Limited | 2,112,836 | 0.46% |
| BT (Queensland) Pty Limited | 2,000,904 | 0.44% |

## Voting rights

The voting rights attaching to ordinary shares are that on a show of hands every member present in person or by proxy has one vote and upon a poll, each share has one vote. Option holders, performance share right holders and convertible bond holders* have no voting rights.

* The Company has issued a notice of redemption in relation to the US$130 million Convertible Bonds which are not listed. Refer to Note 21 in the financial statements.

## Unquoted equity securities

As at 24 February 2009, 250,000 unlisted non-transferable options which were issued under the Company's Executive Share Option Plans remain unexercised. These options were issued to an executive of the Company.

## Regulatory considerations affecting shareholders

The Company and its subsidiaries could be subject to disciplinary action by gaming authorities in some jurisdictions if, after receiving notice that a person is unsuitable to be a shareholder, that person continues to be a shareholder. Because of the importance of licensing to the Company and its subsidiaries, the Constitution contains provisions that may require members to provide information and also gives the Company powers to divest or require divestiture of shares, suspend voting rights and withhold payments of certain amounts to shareholders or other persons who may be unsuitable.

# Shareholder Information

## Shareholder enquiries

You can access information about the Company and your holdings via the internet. The Company's website, www.aristocratgaming.com, has the latest information on Company announcements, presentations and reports. Shareholders may also communicate with the Company via its website. In addition, there is a link to the ASX to provide current share prices. The share registry manages all the shareholding details. Visit www.registries.com.au and access a wide variety of holding information, make changes to your holding record and download forms. You can access this information via a security login using your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as well and your InvestorServe PIN.

## Dividends

### Electronic Funds Transfer

In 2007, the Company introduced a mandatory direct payment of dividends program for shareholders resident in Australia who were requested to complete and submit a *Direct Credit of Dividends Form* (available from the Company's website) and return it to the Company's share registrar. Shareholders who have not completed and returned this form will receive a notice from the Company's share registrar advising that:

(i) the relevant dividend amount is being held as direct credit instructions have not been received;

(ii) the relevant dividend will be credited to the nominated bank account as soon as possible on receipt of direct credit instructions; and

(iii) no interest is payable on the dividend being withheld.

Such notices are sent to shareholders who have not completed and submitted a *Direct Credit of Dividends Form* on the payment date of the relevant dividend.

### Dividend cheques

Dividend cheques (shareholders resident outside Australia) should be banked as soon as conveniently possible.

### Dividend Reinvestment Plan

The Directors consider whether the Company's Dividend Reinvestment Plan (DRP) should operate each time a dividend is declared.

In relation to the final dividend for 2008, the Directors determined that the DRP operated on the basis that: (i) shares are issued as new securities and not purchased on-market; (ii) no minimum or maximum shareholding apply in order to be eligible to participate; (iii) the pricing period for the purchase of DRP shares comprises a period of 15 trading days commencing on 9 March 2009 (the next trading day after the Record Date); (iv) on the basis that a 2.5% discount is to apply; (v) (a) ASSPA Pty Limited, (b) the Aristocrat Employee Equity Trust, (c) shareholders resident in all foreign countries, other than New Zealand, and (d) shareholders resident in all foreign countries, other than New Zealand, who hold shares through custodians, nominees or trustees (who hold the legal interest are resident in Australia) are not permitted to participate; (vi) the number of shares allocated will be rounded up to the nearest share; and (vi) no brokerage costs are payable.

The Record Date for the final dividend was the close of business on 6 March 2009 and the Payment Date is 30 March 2009.

Shares will be allocated to DRP participants in reference to the 2008 final dividend at a 2.5% discount to a share price calculated by reference to the average of the daily Volume Weighted Average Price over a period of 15 days from 9 March 2009.

Shareholders should note that: (i) shareholders who elect to participate in the DRP and who do not revoke their elections will automatically participate on the next occasion the DRP is activated; (ii) the fact that the DRP operated in respect of the 2008 final dividend does not necessarily mean that the DRP will operate in respect of any further dividends (a separate decision is made for each dividend); and (iii) when the DRP does operate, the DRP rules provide that the number of shares that DRP participants will receive will not be determinable on the Record Date.

The DRP rules and the *Dividend Reinvestment Plan Application or Variation Form* are available from the Company's website www.aristocratgaming.com (under Investor Information/Investor Tools/Dividend Information). Shareholders should return the completed form to the Company's share registrar, Registries Limited by fax 61 2 9279 0664 or email registries@registries.com.au.

# Corporate Directory

## DIRECTORS

DJ Simpson
Chairman

SCM Kelly
Chief Financial Officer and Finance Director

WM Baker
Non-Executive Director

RA Davis
Non-Executive Director

P Morris
Non-Executive Director

SAM Pitkin
Non-Executive Director

## DIRECTORS ELECT

RV Dubs
Non-Executive Director Elect

JR Odell
Chief Executive Officer and
Managing Director Elect

## SECRETARY

SCM Kelly

## GLOBAL AND AUSTRALIAN HEADQUARTERS

Aristocrat Leisure Limited
Building A, Pinnacle Office Park
85 Epping Road, North Ryde NSW 2113
Australia

Telephone: + 61 2 9013 6000
Facsimile: + 61 2 9013 6200

## INTERNET SITE

www.aristocratgaming.com

## AUSTRALIA

### MANUFACTURING

Aristocrat Technologies Australia Pty Limited
2-4 Butu Wargun Drive, Pemulwuy NSW 2145
Australia

Telephone: +61 2 9849 3608
Facsimile: +61 2 9849 3601

## INTERNATIONAL

### THE AMERICAS

#### North America

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Facsimile: + 1 702 270 1001

#### South America

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Argentina, South America

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# Corporate Directory

## ASIA

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Singapore 417943

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## EUROPE

### Great Britain

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Facsimile: + 44 1895 618 501

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## JAPAN

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Facsimile: + 813 5835 0523

## NEW ZEALAND

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Facsimile: + 649 259 2001

## SOUTH AFRICA

Aristocrat Technologies Africa (Pty) Limited
Corner Saturn Crescent and Milk Way
Linbro Business Park
Frankenwald Extension 31
South Africa 2090

Telephone: + 27 11 579 2900
Facsimile: + 27 11 608 0030

## INVESTOR CONTACTS

### SHARE REGISTRY

Registries Limited
Level 7, 207 Kent Street
Sydney NSW 2000 Australia

Telephone: + 61 2 9290 9682
Fax: + 61 2 9279 0664

Email: registries@registries.com.au
Website: www.registries.com.au

### AUDITOR

PricewaterhouseCoopers
201 Sussex Street
Sydney NSW 1171 Australia

### STOCK EXCHANGE LISTING

Aristocrat Leisure Limited
Ordinary shares are listed on the Australian Securities Exchange

CODE: ALL

### INVESTOR EMAIL ADDRESS

Investors may send email queries to:
investor.relations@ali.com.au