



ARISTOCRAT

# ANNUAL REPORT<sup>20</sup><sub>18</sub>

## 2018 ANNUAL REPORT

This 2018 Aristocrat Leisure Limited Annual Report for the financial year ended 30 September 2018 complies with reporting requirements and contains statutory financial statements.

This document is not a concise report prepared under section 314(2) of the Corporations Act. The Aristocrat Group has not prepared a concise report for the 2018 financial year.

## 2019 ANNUAL GENERAL MEETING

The 2019 Annual General Meeting will be held at 11.00am on Thursday, 21 February 2019 at the Marble Room, Radisson Blu Plaza Hotel, 27 O'Connell Street, Sydney, New South Wales, 2000.

Details of the business of the meeting will be contained in the notice of Annual General Meeting, to be sent to shareholders separately.

## 2018 CORPORATE GOVERNANCE STATEMENT

The 2018 Corporate Governance Statement can be found on the Group's website: [www.aristocrat.com](http://www.aristocrat.com).

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## COMPANY PROFILE

Aristocrat Leisure Limited (ASX: ALL) is a leading gaming provider and games publisher, with more than 6,100 employees located in offices around the world. Aristocrat offers a diverse range of products and services including electronic gaming machines, casino management systems and digital social games. The Company's land-based products are approved for use in more than 300 licensed jurisdictions and are available in over 90 countries. For further information visit the Group's website at [www.aristocrat.com](http://www.aristocrat.com).

## KEY DATES\*

### 2018

Record date for Final 2018 Dividend	5 December 2018
Payment date for Final 2018 Dividend	19 December 2018

### 2019

2019 Annual General Meeting	21 February 2019
Interim Results Announcement (6 months ending 31 March 2019)	23 May 2019
Full Year Results Announcement (12 months ending 30 September 2019)	21 November 2019

\* Dates subject to change.

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# MESSAGE FROM THE CHAIRMAN AND CEO



Welcome to Aristocrat's 2018 Annual Report.

Aristocrat reported strong organic and inorganic performance over the 2018 fiscal year, delivering a record profit result and further extending the business' track record of high quality NPATA<sup>1</sup> growth.

Group revenue increased 48% in reported terms and over 46% in constant currency to an all-time high of over \$3.6 billion. Around two-thirds of total Group revenues derived from recurring sources in 2018, representing further progress in the Company's strategy to deliver sustained and sustainable performance over the long term.

This result reflected the positive operational performance delivered across the Group's global portfolio. Notable features of the result included further gains in the Americas and in Australian markets, together with transformational growth in Digital, where sustained organic growth was supported by the performance of our recently acquired businesses Plarium Global and Big Fish Games.

Over the course of the year, Aristocrat also continued to invest in its future with a significant increase in absolute Design & Development (D&D) spend, including around \$100 million of additional investment in Digital. D&D remains Aristocrat's top investment priority, as it is a core growth enabler that helps the Company to defend and expand existing market positions while also ensuring it is positioned to unlock opportunities in priority adjacencies.

A robust balance sheet ensures Aristocrat can continue to promote shareholders' longer-term interests by investing for both organic and inorganic growth, wherever compelling, accretive opportunities are identified.

Aristocrat's operational momentum, strong cash flows and capacity to continue to reduce gearing levels has allowed the Board to deliver another significant increase in earnings per share, consistent with our commitment to grow dividends over time.

The Board's orderly renewal process also continued over the course of the year, with the nomination of Mr Neil Chatfield to succeed Dr Ian Blackburne as Chairman of the Board of Aristocrat Leisure at the Group's Annual General Meeting in February 2019. Neil's nomination reflects his extensive experience as an Executive and Non-Executive Director of a number of large and complex Australian corporates, his particular experience as a Chairman, the significant contribution he has made since joining Aristocrat in 2017 and the esteem of his Board colleagues. We have every confidence that under Neil's leadership, and with the ongoing oversight of the Board, Aristocrat will continue its growth journey with confidence and focus.

In summary, fiscal year 2018 has been another highly successful and rewarding year for Aristocrat and its shareholders.

Thank you for your interest, and support.

Handwritten signatures of Ian Blackburne and Trevor Croker in black ink.

**Ian Blackburne**  
Chairman

**Trevor Croker**  
Chief Executive Officer &  
Managing Director

1. Net Profit After Tax and before Amortisation of Acquired Intangibles

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# DIRECTORS' REPORT

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## For the 12 months ended 30 September 2018

The Directors present their report together with the financial statements of the Company and its subsidiaries (the Group) for the 12 months ended 30 September 2018 (the financial year). The information in this report is current as at 29 November 2018 unless otherwise specified.

This Directors' Report has been prepared in accordance with the requirements of Division 1 of Part 2M.3 of the Corporations Act 2001 (Cth) (the Act).

## Review and results of operations

A review of the operations of the Group for the financial year is set out in the Operating and Financial Review which forms part of this Directors' Report.

## Financial results

The reported result of the Group attributable to shareholders for the 12 months ended 30 September 2018 was a profit of \$542.6 million after tax (2017: profit of \$495.1 million after tax).

Further details regarding the financial results of the Group are set out in the Operating and Financial Review and Financial Statements.

## Dividends

Since the end of the financial year, the Directors have recommended the payment of a final dividend of 27.0 cents (2017: 20.0 cents) per fully-paid ordinary share. Details of the dividends paid and declared during the financial year are set out in Note 1-6 to the Financial Statements.

## Remuneration Report

Details of the remuneration policies in respect of the Group's Key Management Personnel are detailed in the Remuneration Report which forms part of this Directors' Report.

## Sustainability



Further detail on sustainability can be found on the Company's website and forms part of this Directors' Report.  
website [www.aristocrat.com](http://www.aristocrat.com)

# DIRECTORS' REPORT

## Directors' particulars, experience and special responsibilities

### Current Directors

The Directors of the Company throughout the financial year and up to the date of this report are:

CURRENT DIRECTORS		
Director	Experience and other directorships	Special responsibilities
<b>ID Blackburne</b> BSc (Hons), MBA, PhD	Nominated December 2009. Appointed September 2010. <ul style="list-style-type: none"> <li>- Former Chairman, Recall Holdings Limited, CSR Limited and Australian Nuclear Science and Technology Organisation</li> <li>- Former Director, Teekay Corporation (listed on the NYSE), Suncorp-Metway Limited and Symbion Health Limited</li> <li>- Former Managing Director, Caltex Australia Limited</li> </ul>	Non-Executive Chairman  Member of each Board Committee
<b>TJ Croker</b> Advanced Management Program (Wharton School, University of Pennsylvania)	Appointed 1 March 2017. <ul style="list-style-type: none"> <li>- Director of the Australasian Gaming Council and the American Gaming Association</li> <li>- Former Executive Vice President, Global Product &amp; Insights, Aristocrat Leisure Limited</li> <li>- Former Managing Director, ANZ - Aristocrat Leisure Limited</li> <li>- Sales Director - Fosters Australia Ltd</li> </ul>	Managing Director and Chief Executive Officer  Member, Strategic Risk Committee
<b>NG Chatfield</b> M.Bus, FCPA, FAICD	Nominated December 2017. Appointed February 2018. <ul style="list-style-type: none"> <li>- Chairman of Costa Group Holdings Limited and Seek Ltd (retiring effective 31 December 2018)</li> <li>- Director of Transurban Group</li> <li>- Former Chairman Virgin Australia Holdings Ltd</li> <li>- Former Director of Recall Holdings Ltd and Iron Mountain, Inc.</li> <li>- Former Executive Director and Chief Financial Officer, Toll Holdings Ltd</li> </ul>	Member, Strategic Risk Committee (from 21 February 2018)  Member, Regulatory and Compliance Committee (from 21 February 2018)
<b>KM Conlon</b> BEc, MBA	Nominated January 2014. Appointed February 2014. <ul style="list-style-type: none"> <li>- Director of REA Group Limited and Lynas Corporation Limited</li> <li>- Member of Chief Executive Women, Chair of Audit Committee for the Commonwealth Department of Health and Director of the Benevolent Society</li> <li>- Former President of the NSW Council, former Director of CSR Limited and former National Board Member of the Australian Institute of Company Directors</li> <li>- Former Partner and Director, Boston Consulting Group (BCG)</li> </ul>	Chair, Human Resources and Remuneration Committee  Member, Strategic Risk Committee

# DIRECTORS' REPORT

## CURRENT DIRECTORS

Director	Experience and other directorships	Special responsibilities
<b>SW Morro</b> BA, Business Administration	Nominated December 2009. Appointed December 2010.  - Former Chief Operating Officer and President, IGT Gaming Division	Lead US Director  Member, Regulatory and Compliance Committee  Member, Human Resources and Remuneration Committee
<b>PJ Ramsey</b> BA, Economics, MBA	Nominated September 2016. Appointed October 2016.  - Director, VizExplorer - Former Chief Digital Officer, Aristocrat Leisure Limited - Former Director & CEO, Multimedia Games - Various senior roles at Caesars Entertainment (formerly Harrah's)	Chair, Regulatory and Compliance Committee (from 1 March 2018)  Member, Regulatory and Compliance Committee (to 28 February 2018)  Member, Strategic Risk Committee
<b>S Summers Couder</b> Dip Electrical Engineering, Masters in Electrical Engineering and Computer Sciences  Cycle de Perfectionnement Option (Equivalent MBA)	Nominated August 2016. Appointed September 2016.  - Director, Semtech Corporation - Former Director, Alcatel-Lucent SA and Headwaters Inc. - Former Chief Executive Officer of Trident Microsystems Inc.	Chair, Strategic Risk Committee  Member, Audit Committee
<b>AM Tansey</b> BBA, MBA, Juris Doctor	Nominated March 2016. Appointed July 2016.  - Director, Adelaide Brighton Ltd, Primary Health Care Ltd and Lend Lease Investment Management Limited - Member of Chief Executive Women and Fellow of the Australian Institute of Company Directors	Chair, Audit Committee (from 1 December 2017)  Member, Audit Committee (to 30 November 2017)  Member, Strategic Risk Committee

# DIRECTORS' REPORT

## FORMER DIRECTORS

Director	Experience and other directorships	Special responsibilities
<b>DCP Banks</b>	Appointed July 2011. Retired 31 March 2018.	Chair, Audit Committee (to 30 November 2017)
BBus (Mgt)	<ul style="list-style-type: none"> <li>- Former Group Chief Operating Officer of Galaxy Entertainment Group (Macau)</li> <li>- Former Chief Executive (Casinos Division) of Tabcorp Holdings Limited</li> <li>- Former Chief Executive Officer, Star City Holdings Limited</li> <li>- Former President, Australasian Casinos Association</li> <li>- Former Director, Australian Gaming Council</li> </ul>	Member, Regulatory and Compliance Committee (to 31 March 2018)
<b>RV Dubs</b>	Appointed June 2009. Retired 22 February 2018.	Chair, Regulatory and Compliance Committee (to 21 February 2018)
BSc (Hons), Dr ès Sc, FTSE, FAICD	<ul style="list-style-type: none"> <li>- Director, ASC Pty Ltd, ANU Enterprise Pty Ltd, and Astronomy Australia Ltd</li> <li>- Former Chair, Space Industry Innovation Council</li> <li>- Former Deputy Vice-Chancellor (External Relations), University of Technology Sydney</li> <li>- Former VP Operations, Thales ATM SA (France)</li> <li>- Former Director, Structural Monitoring Systems Plc, Thales ATM Pty Limited, Thales ATM Inc (USA) and Thales ATM Navigation GmbH (Germany)</li> <li>- Former Chairman, Thales ATM spA (Italy)</li> </ul>	Member, Human Resources and Remuneration Committee (to 22 February 2018)



# DIRECTORS' REPORT

## Directors' attendance at Board and committee meetings during the financial year

The attendance of members of the Board at Board meetings and attendance of members of committees at committee meetings of which they are voting members is set out below.

*(Meetings attended/held)*

Director	Board	Audit Committee	Human Resources and Remuneration Committee	Regulatory and Compliance Committee	Strategic Risk Committee
<b>Current Directors</b>					
ID Blackburne <sup>1</sup>	16/16	4/4	4/4	6/6	2/2
TJ Croker	16/16	-	-	-	2/2
N Chatfield <sup>1,4</sup>	10/11	-	-	3/3	1/2
KM Conlon <sup>1</sup>	16/16	-	4/4	-	2/2
SW Morro <sup>1</sup>	16/16	-	4/4	6/6	-
PJ Ramsey <sup>1</sup>	16/16	-	-	6/6	2/2
S Summers Couder <sup>1</sup>	16/16	4/4	-	-	2/2
AM Tansey <sup>1</sup>	16/16	4/4	-	-	2/2
<b>Former Directors</b>					
DCP Banks <sup>2</sup>	7/7	2/2	-	3/3	-
RV Dubs <sup>3</sup>	7/7	-	2/2	3/3	-

1. During the FY2018, the Board reviewed each Non-Executive Director's independence and confirms that each Non-Executive Director is independent.
2. Mr Banks retired from the Board on 31 March 2018.
3. Dr Dubs retired from the Board on 22 February 2018.
4. Mr Chatfield was nominated by the Board on 12 December 2017 as a Non-Executive Director, subject to receipt of all relevant regulatory pre-approvals. Pending regulatory approval, Mr Chatfield was a Director (Elect). Necessary regulatory pre-approvals were received and Mr Chatfield's appointment as a Non-Executive Director was confirmed by the Board on 7 February 2018.

## Company Secretary

The Company Secretary is directly accountable to the Board, through the Chairman, for all governance matters that relate to the Board's proper functioning.

During the financial year, the Group had the following Company Secretaries:

### Richard Bell LLB, BComm (Law)

Richard Bell joined Aristocrat in April 2015 and was appointed as Company Secretary in May 2017. Before joining Aristocrat, Mr Bell specialised in Mergers & Acquisitions at Australian law firm Allens Linklaters (previously Allens Arthur Robinson).

### Antonia Korsanos Bachelor of Economics (Major in Accounting & Finance) and Chartered Accountant

Mrs. Korsanos resigned from the position of Company Secretary effective 29 March 2018.

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# DIRECTORS' REPORT

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## Principal activities

The principal activities of the Group during the financial year were the design, development and distribution of gaming content, platforms and systems, including electronic gaming machines, casino management systems and digital social games. The Company's objective is to be the leading global provider of gaming solutions. In October 2017, the Group acquired 100% of Plarium Global Limited (Plarium), a free-to-play, social and web-based game developer. The acquisition significantly expands Aristocrat's Digital addressable market in adjacent gaming segments.

In January 2018, the Group acquired 100% of Big Fish Games, Inc. (Big Fish), a global publisher of free-to-play games that is focused on specific game segments, including social casino, social gaming, and premium paid games. The acquisition provides a platform for growth through existing successful applications and an attractive pipeline of new applications.

## Significant changes in the state of affairs

Except as outlined below and elsewhere in this Directors' Report, there were no significant changes in the state of affairs of the Group during the financial year.

## Events after balance date

In the interval between the end of the financial year and the date of this report, there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial reporting periods.

## 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 Operating and Financial Review which forms part of this Directors' Report.

## Options over share capital

No options over Company shares were granted to executives or Directors during the financial year. There were no unissued shares or interests in the Company subject to options at the date of this Directors' Report and no Company shares or interests issued pursuant to exercised options during or since the end of the financial year.

## 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 and deeds of indemnity for identity theft with each Director and nominated officers of the Company. No amount has been paid pursuant to those indemnities during the financial year to the date of this Directors' 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 does not manufacture gaming machines, it only integrates (assembles) machines and systems in Australia, the USA, Macau, the UK and New Zealand. 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 financial year.

Based on current emission levels, the Company is not required to register and report under the National Greenhouse and Energy Reporting Act 2007 (Cth) (NGER Act). However, the

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# DIRECTORS' REPORT

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Company continues to receive reports and monitors its position to ensure compliance with the NGER Act.

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 Act nor has any application been made in respect of the Company under section 237 of the Act.

## Auditor

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

## Non-audit services provided by the auditor

The Company, with the prior approval of the Chair of the Audit Committee, may decide to employ PricewaterhouseCoopers, the Company's auditor, on assignments additional to its 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 auditor. The Charter also sets out the procedures which are required to be followed prior to the engagement of the Company's auditor for any non-audit related service.

Details of the amounts paid or payable to the Company's auditor, for audit and non-audit services provided during the financial year, are set out in Note 6-3 to the Financial Statements.

The Board of Directors 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 as set out in Note 6-3 to the financial statements is compatible with the general standard of independence for auditors imposed by 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 Directors' 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 ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 as issued by the Australian Securities and Investments Commission. Amounts in the Director's Report and the Financial Statements have been rounded off to the nearest whole number of million dollars and one decimal place representing hundreds of thousands of dollars, or in certain cases, the nearest dollar 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.



**Dr ID Blackburne**

Chairman

29 November 2018

## OPERATING AND FINANCIAL REVIEW

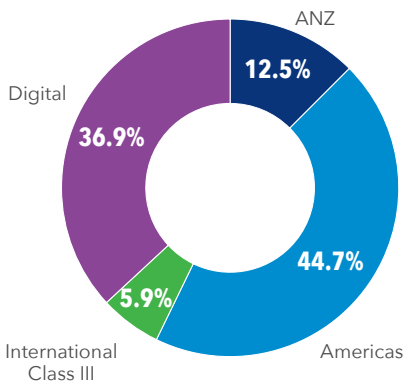
# ARISTOCRAT AT A GLANCE

### REVENUE



# \$3.62 BILLION

Revenue by Segment

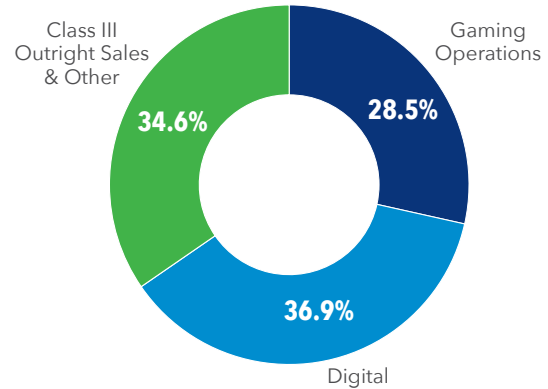


### LICENSED JURISDICTIONS



# 317

Revenue by Strategic Segment



### COUNTRIES

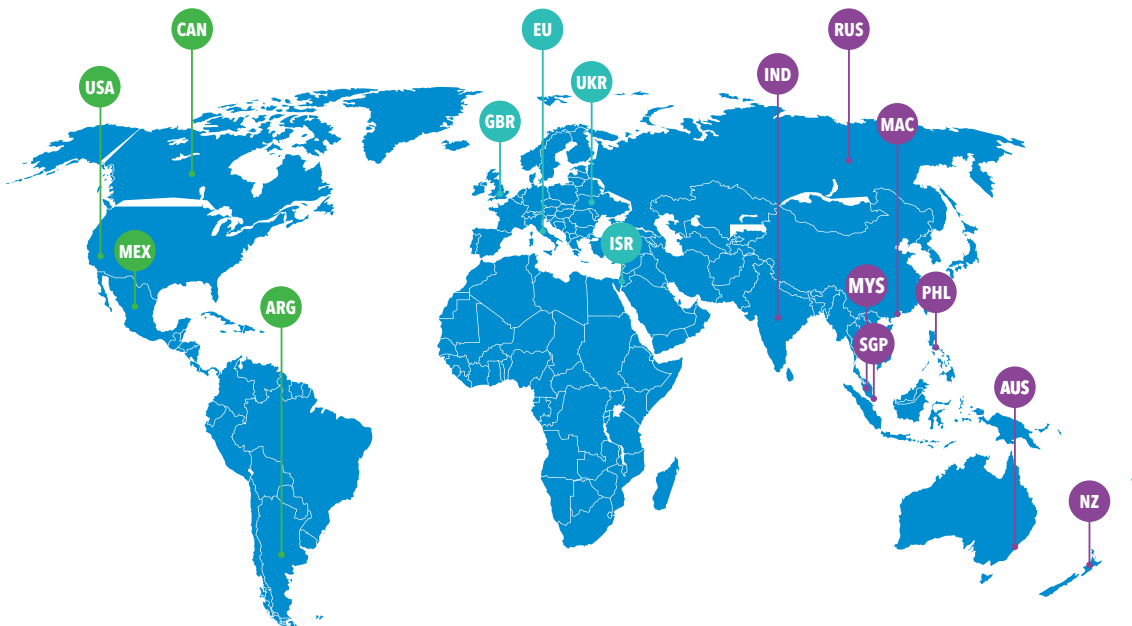


# 99

### EMPLOYEES



# 6,100+



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## OPERATING AND FINANCIAL REVIEW

# BUSINESS STRATEGY

“Aristocrat made further progress in unlocking organic growth opportunities in adjacent markets and segments in addition to investing in the high growth social games market through the acquisitions of Plarium and Big Fish”

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## BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS

Aristocrat's consistent focus has been on delivering high quality, sustainable growth. We've done this by protecting and expanding our core business, and capturing opportunities in new markets and segments, both organically and through disciplined M&A.

Over the course of FY18, Aristocrat continued to grow across its core operations, while positioning to unlock adjacent opportunities. Highlights included:

- Increased share and yield in the land-based North Americas Gaming Operations business, off the back of broadening product portfolios and outstanding performance;
- Held share across key global outright sale markets, in generally flat and competitive conditions, reflecting market-leading game and cabinet portfolios;
- Increased investment in growth, with higher Design & Development (D&D) spend, and increased User Acquisition investment behind a broader range of digital games;
- Product Madness' successful launch and scaling of two new applications – *FaFaFa Gold™* and *Lightning Link™*;
- The introduction of the *RELM XL™* Class III Premium Gaming Operations stepper, and positive customer response;
- Sustained performance in the Class II *Ovation™* video product, with the launch of new hardware configurations (*Arc Single™* and *Helix™ XT* cabinets);
- Launch of a Video Lottery Terminal (VLT) product, with trial commenced and early conversions expected in 2019;
- Development of a competitive offering for the Washington Central Determinant System (CDS) market, with first product shipments made in October 2018.

The acquisitions of Plarium Global Ltd (Plarium), and Big Fish Games, Inc. (Big Fish), completed during the period, also demonstrated Aristocrat's willingness to invest for growth, consistent with our strategy.

Plarium and Big Fish significantly increased Aristocrat's presence in the high-growth social games market. They also immediately expanded our addressable digital opportunity by around 8 times – to approximately US\$22 billion of value – to encompass the Strategy, Role Playing Game (RPG) and Casual Games segments. Big Fish also operates in the Social Casino segment, adding to Aristocrat's existing presence through the Product Madness business.

The acquisitions substantially lift the Digital segment's pro-forma earnings contribution to the Group, and contribute additional diversity, scale and strength to Aristocrat's global operations.

Aristocrat's strong balance sheet and growing recurring revenues give the business broad optionality to continue to consider both organic and inorganic opportunities to sustain our growth momentum and create value for shareholders.

## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## GROUP PERFORMANCE

### EARNINGS SUMMARY

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

A\$ million	Constant currency <sup>2</sup> 2018	2018	2017	Variance vs. 2017	
				Constant currency <sup>2</sup> %	Reported %
<b>Normalised results<sup>1</sup></b>					
Operating revenue	3,583.9	<b>3,624.1</b>	2,453.8	46.1	47.7
EBITDA	1,317.4	<b>1,328.6</b>	1,001.2	31.6	32.7
EBITA	1,120.1	<b>1,129.3</b>	858.1	30.5	31.6
NPAT	611.4	<b>616.9</b>	495.1	23.5	24.6
NPATA	723.7	<b>729.6</b>	543.4	33.2	34.3
Earnings per share (fully diluted)	95.6c	<b>96.5c</b>	77.5c	23.4	24.5
EPS before amortisation of acquired intangibles (fully diluted)	113.2c	<b>114.1c</b>	85.0c	33.2	34.2
Total dividend per share	46.0c	<b>46.0c</b>	34.0c	35.3	35.3
<b>Reported results</b>					
Revenue	3,509.2	<b>3,549.8</b>	2,453.8	43.0	44.7
Profit after tax	537.4	<b>542.6</b>	495.1	8.5	9.6
NPATA	649.6	<b>655.3</b>	543.4	19.5	20.6
<b>Balance sheet and cash flow</b>					
Net working capital/revenue	1.7%	<b>1.7%</b>	7.1%	(5.4)pts	(5.4)pts
Operating cash flow	925.9	<b>933.8</b>	799.1	15.9	16.9
Normalised operating cash flow <sup>1</sup>	979.6	<b>987.9</b>	799.1	22.6	23.6
Normalised operating cash flow conversion <sup>1</sup>	135.3%	<b>135.4%</b>	147.1%	(11.8)pts	(11.7)pts
Closing net debt/(cash)	2,276.6	<b>2,453.0</b>	652.3	(249.0)	(276.1)
Gearing (net debt/consolidated EBITDA <sup>3</sup> )	n/a	<b>1.7x</b>	0.6x	n/a	(1.1x)

1. Normalised results and operating cash flow are statutory profit (before and after tax) and operating cash flow, excluding the impact of certain significant items and adjustments. Significant items and adjustments are items which are either individually or in aggregate, material to Aristocrat and are either outside the ordinary course of business or part of the ordinary activities of the business but unusual due to their size and nature as detailed on page 18. The operating revenue and results reflect the ongoing revenue recognition principles for the acquired businesses since the date of acquisition, and corresponds to the revenue and results that would have been recognised under Accounting Standards had the businesses not been acquired to explain the underlying performance of the entity and the drivers of its profit.

2. Results for 12 months to 30 September 2018 adjusted for translational exchange rates using rates applying in 2017 as referenced in the table on page 22.

3. Consolidated EBITDA as defined by the Credit Agreement.

The information presented in this Review of Operations has not been audited in accordance with the Australian Auditing Standards.

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## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## GROUP PERFORMANCE

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### OPERATIONAL HIGHLIGHTS

Key operational highlights for the period are set out below:

Increased share and yield in the land-based **North Americas Gaming Operations** business:

- Class III Premium Gaming Operations grew 25% to 20,114 units, with continued penetration of leading hardware configurations and high-performing game titles.
- Class II grew 8.1% to 24,264 units, driven by the success of the Class II video product *Ovation*<sup>TM</sup>.
- Average fee per day increased 2.2% to US\$51.81, demonstrating strengthened product performance in the period.

Held share in land-based **outright sales** segment:

- North America - achieved stable ship share in an increasingly competitive market.
- ANZ - sustained market-leading ship share in a flat market.
- International Class III - transitioning from a strategy focused on openings to floor optimisation.

In addition, Aristocrat's land-based business improved its customer focus during the year with the introduction of a best-in-class CRM system in key markets.

Transformation of the **Digital** business:

- Significant increase in revenue and profit driven by growth in Product Madness, together with the acquisitions of Plarium and Big Fish.
- Total Daily Active Users (DAU) increased almost five-fold to 8.1 million.
- Product Madness ending DAU exceeded 2 million, reflecting growth in *Cashman Casino*<sup>TM</sup> and the launch of *Lightning Link*<sup>TM</sup> and *FaFaFa Gold*<sup>TM</sup> in line with the successful multi-app strategy.
- Completion and integration of two major digital acquisitions, which closed on 19 October 2017 and 10 January 2018, respectively.

Investment in **talent and technology**:

- During the reporting period, Aristocrat invested strongly in talent and technology in order to drive core growth, attack land-based adjacencies, execute on our multi-app strategy and integrate new Digital businesses.
- Aristocrat's Design & Development (D&D) team now represents almost half of the global employee base. The business has continued to lift investment in D&D in both absolute terms and as a percentage of revenue.

Strong **financial metrics**:

- Strong EBITDA margin maintained at 37%, with expansion in land-based margins absorbing some of the impact from expected lower margin digital acquisitions.
- Growth funded within the balance sheet and borrowings preserving the strength of the business.
- Gearing (Net Debt/EBITDA) decreased to 1.7x pro-forma leverage - from 2.2x pro-forma at 30 September 2017.
- US\$2.2 billion debt successfully repriced in May 2018 and maturity of all debt extended to 7 years (maximum under the TLB facility).
- Cash generating fundamentals remain strong, demonstrated by US\$165 million paydown of TLB.
- Capital expenditure increased 26% to \$269 million supporting further growth in Americas Gaming Operations installed base.

## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## GROUP PERFORMANCE

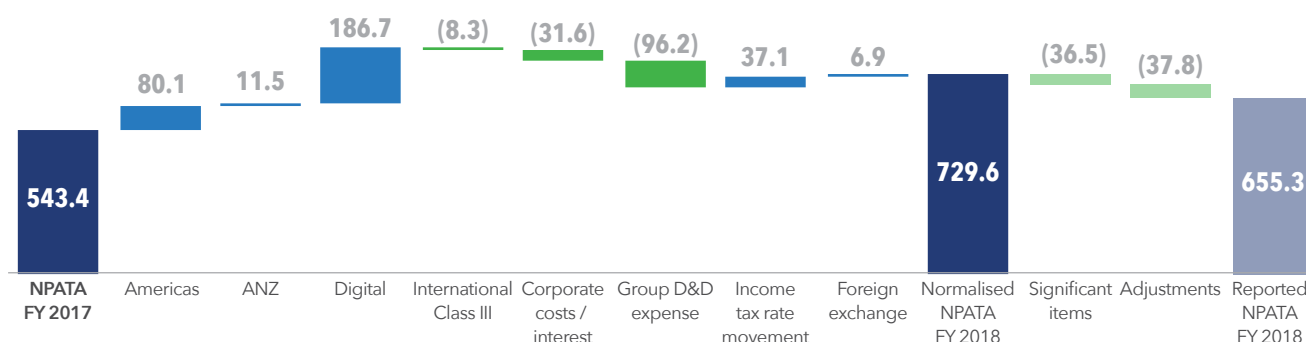
### PERFORMANCE SUMMARY

Normalised profit after tax and before amortisation of acquired intangibles (NPATA) of \$729.6 million for the period represented a 34% increase (33% in constant currency) compared to \$543.4 million in the prior corresponding period. Revenue increased by more than 47% (46% in constant currency) driven by growth in Americas and ANZ, and in Digital with organic growth

in Product Madness along with two significant digital acquisitions. Normalised fully diluted earnings per share before amortisation of acquired intangibles of 114.1c represents a 34% increase on the prior year.

Net gearing increased to 1.7x from 0.6x in the prior corresponding period, due to the acquisitions of Plarium and Big Fish, funded via cash and incremental Term Loan B debt facility.

#### NPATA movement FY17 to FY18 (A\$ million)



- Strong growth in the **Americas** business drove an \$80 million improvement in post-tax profit compared to the prior corresponding period. This growth was driven by a 25% expansion in the Class III Premium Gaming Operations footprint, together with further expansion in the Class II Gaming Operations footprint and average fee per day (FPD).
- The **ANZ** business delivered \$11.5 million in incremental post-tax profit, driven by the top performing *Helix™* cabinet and further penetration of the *Dragon Link™* and *Dragon Cash™* product families.
- **Digital** delivered strong post-tax earnings growth of \$186.7 million due to the scaling of *Cashman Casino™*, the continued success of *Heart of Vegas™* and the launch of two new applications in the period, *FaFaFa Gold™* and *Lightning Link™*. Digital performance was also significantly enhanced by the acquisitions of Plarium and Big Fish in the period.
- **International Class III** post-tax profit declined \$8.3 million as the business cycled over a concentration of openings in this segment in the prior corresponding period.
- **Corporate costs and interest** increased by \$31.6 million taking into account the incremental funding of acquisitions, partially offset by lower one-off consulting costs.
- The Group's **strategic investments** in talent and technology, represented in higher D&D spend at 11.4% of revenue, is delivering competitive product across an expanded range of markets and segments in line with the Group's growth strategy.
- The decrease in the Group's **effective tax rate (ETR)** from 32% to 29%, reflecting recent US tax reform combined with the change in geographic business mix following the acquisitions, resulted in a \$37.1 million benefit.
- **Foreign exchange** impacted the business performance by \$6.9 million.
- **Significant items and adjustments** relate to the acquisitions of Plarium and Big Fish and are explained on page 18.



## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## GROUP PERFORMANCE

### GROUP PROFIT OR LOSS

Results in the current period and prior corresponding period are in reported currency and normalised for significant items and adjustments as outlined on page 18. Segment profit is stated before amortisation of acquired intangibles.

A\$ million	2018	2017	Variance %
<b>Segment revenue</b>			
Australia and New Zealand	454.5	431.6	5.3
Americas	1,620.2	1,424.5	13.7
International Class III	210.5	214.7	(2.0)
Digital	1,338.9	383.0	249.6
<b>Total segment revenue</b>	<b>3,624.1</b>	<b>2,453.8</b>	<b>47.7</b>
<b>Segment profit</b>			
Australia and New Zealand	207.1	190.5	8.7
Americas	859.2	736.4	16.7
International Class III	103.4	112.5	(8.1)
Digital	438.2	158.9	175.8
<b>Total segment profit</b>	<b>1,607.9</b>	<b>1,198.3</b>	<b>34.2</b>
<b>Unallocated expenses</b>			
Group D&D expense	(413.6)	(268.4)	(54.1)
Foreign exchange	(3.4)	(4.9)	30.6
Corporate	(61.6)	(66.9)	7.9
<b>Total unallocated expenses</b>	<b>(478.6)</b>	<b>(340.2)</b>	<b>(40.7)</b>
<b>EBIT before amortisation of acquired intangibles (EBITA)</b>	<b>1,129.3</b>	<b>858.1</b>	<b>31.6</b>
Amortisation of acquired intangibles	(156.3)	(76.9)	(103.3)
<b>EBIT</b>	<b>973.0</b>	<b>781.2</b>	<b>24.6</b>
Interest	(105.4)	(53.1)	(98.5)
<b>Profit before tax</b>	<b>867.6</b>	<b>728.1</b>	<b>19.2</b>
Income tax	(250.7)	(233.0)	(7.6)
<b>Profit after tax (NPAT)</b>	<b>616.9</b>	<b>495.1</b>	<b>24.6</b>
Amortisation of acquired intangibles after tax	112.7	48.3	133.3
<b>Profit after tax and before amortisation of acquired intangibles (NPATA)</b>	<b>729.6</b>	<b>543.4</b>	<b>34.3</b>

## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## GROUP PERFORMANCE

### REVENUE

Segment revenue increased \$1,170 million or 48% in reported currency (46% in constant currency), principally driven by growth in Gaming Operations and Digital.

In Gaming Operations, the Premium Class III installed base grew 25% and the Class II footprint grew 8%, while overall average fee per day increased 2%. Performance was fuelled by continued penetration of the high-performing products *Lightning Link™*, *5 Dragons Grand™* and *Buffalo Grand™* including the successful launches of *Dragon Link™* and *RELM XL™* and further penetration of *Ovation™*.

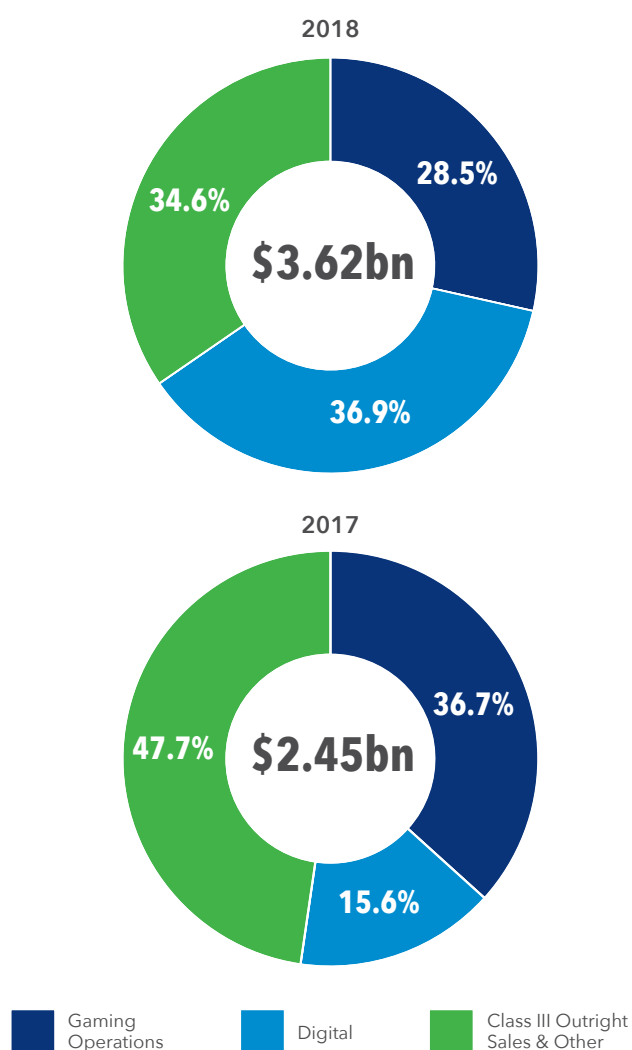
Digital revenue grew 245% to US\$1,009 million. The Plarium and Big Fish acquisitions delivered US\$614 million in additional revenue compared to the prior corresponding period. The scaling of *Cashman Casino™* and the launches of *FaFaFa Gold™* and *Lightning Link™* in Product Madness drove US\$113.5 million of incremental growth in the period.

In North America Class III Outright Sales, revenue increased 4.7% with ship share remaining broadly in line with the prior year in an increasingly competitive environment. Continued strength in average sales price (ASP) reflected Aristocrat's portfolio depth, the performance of *Helix™* and *Arc™* cabinets and the introduction of both the *Helix™ XT* cabinet and new linked progressive content.

Australia & New Zealand Class III revenue grew 5.3% to \$455 million in reported currency, reflecting sustained market-leading ship share.

In International Class III, revenue decreased 2% to \$211 million in reported currency as the business cycled over a concentration of openings in the prior corresponding period.

Revenue by Strategic Segment



## OPERATING AND FINANCIAL REVIEW

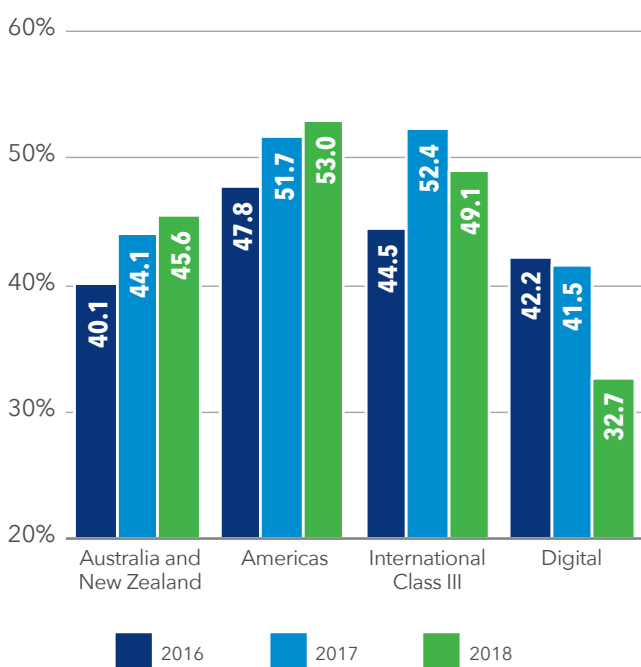
# REVIEW OF OPERATIONS

## GROUP PERFORMANCE

### EARNINGS

Segment profit increased \$410 million in reported currency, up 34% compared with the prior corresponding period. Margin expansion was achieved in both the Americas and ANZ due to product mix. Following the acquisitions of Plarium and Big Fish, which introduced the lower margin Social Games business to our Digital portfolio, the overall Digital margin moderated from 41.5% to 32.7%, in line with expectations.

#### Segment Profit Margin % of Revenue



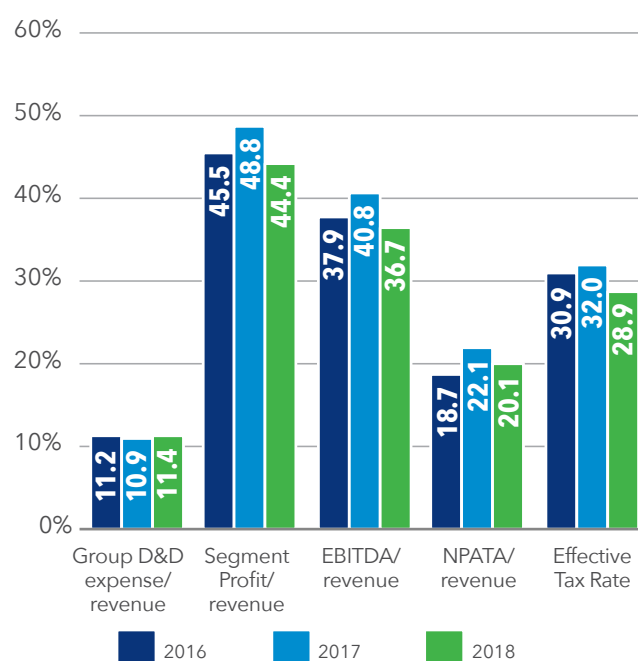
The Group continued to invest significantly in talent and technology to deliver competitive product across a broader range of land-based and digital segments. The Group's investment in D&D, as a percentage of revenue, was 11.4% during the period compared to 10.9% in the prior financial year. Total reported spend increased \$145 million or 54% (53% in constant currency) including the D&D spend associated with the Plarium and Big Fish acquisitions.

Corporate costs decreased by \$5 million compared to the prior corresponding period mainly driven by lower one-off consulting costs. Corporate costs as a percentage of revenue decreased to 1.7%.

Net interest expense increased \$52.3 million to \$105.4 million, reflecting increased debt levels to support the acquisitions in the period.

The effective tax rate (ETR) for the reporting period was 29% compared to 32% in the prior corresponding period. This was largely attributable to the changes driven by US tax reform that came into effect from 1 January 2018, including a one-off gain from revaluation of Aristocrat's deferred tax liability.

#### Other Key Margins % of Revenue and ETR



## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## GROUP PERFORMANCE

### Reconciliation of statutory revenue to operating revenue

A\$ million	2018	2017
Statutory revenue as reported in the financial statements	3,549.8	2,453.8
Add back fair value adjustments relating to the acquisitions	74.3	-
<b>Operating revenue</b>	<b>3,624.1</b>	<b>2,453.8</b>

### Reconciliation of statutory profit to NPATA

A\$ million	2018	2017
Statutory profit as reported in the financial statements	542.6	495.1
Amortisation of acquired intangibles (tax effected)	112.7	48.3
Reported profit after tax before amortisation of acquired intangibles (Reported NPATA)	655.3	543.4
Add back net loss from significant items and adjustments after tax	74.3	-
<b>Normalised Profit After Tax before amortisation of acquired intangibles (Normalised NPATA)</b>	<b>729.6</b>	<b>543.4</b>

### Significant items & adjustments

A\$ million	30 Sep 2018	
	Before tax	After tax
Contingent retention arrangements relating to Plarium	(14.8)	(10.5)
Acquisition related transaction, integration and restructuring costs of Plarium and Big Fish	(36.5)	(26.0)
<b>Net loss from significant items</b>	<b>(51.3)</b>	<b>(36.5)</b>
Fair value adjustments relating to the acquisitions	(53.2)	(37.8)
<b>Net loss from adjustments</b>	<b>(53.2)</b>	<b>(37.8)</b>
<b>Net loss from significant items &amp; adjustments</b>	<b>(104.5)</b>	<b>(74.3)</b>

#### Significant Items & Adjustments:

**Contingent retention arrangement related to the acquisition of Plarium:** The Group's reported result after tax for the period includes an expense of \$10.5 million relating to the contingent retention arrangement for the acquisition of Plarium.

**Acquisition related transaction, integration and restructuring costs:** The Group's reported result after tax for the period includes an expense of \$26.0 million relating to the acquisitions of Plarium and Big Fish. Costs incurred primarily represent transaction fees payable on completion to advisors, in addition to legal, consulting and restructuring costs connected to the acquisitions.

#### Adjustments:

**Fair value adjustments:** The Group's normalised results after tax for the period include an adjustment relating to the fair value of deferred revenue of Plarium and Big Fish on acquisition. In accordance with Accounting Standards, these pre-acquisition balances were not carried forward in the statutory earnings. They have been included in the presentation of normalised earnings to explain the underlying performance of the Group and the drivers of its profit.

## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## GROUP PERFORMANCE

### BALANCE SHEET

The balance sheet can be summarised as follows:

A\$ million	30 Sep 2018	31 Mar 2018	30 Sep 2017	Variance %
Cash and cash equivalents	428.1	357.6	547.1	(21.8)
Property, plant and equipment	389.3	321.5	241.3	61.3
Intangible assets	3,898.8	3,749.4	1,687.7	131.0
Other assets	1,130.6	1,114.5	816.8	38.4
<b>Total assets</b>	<b>5,846.8</b>	<b>5,543.0</b>	<b>3,292.9</b>	<b>77.6</b>
Current borrowings	-	12.9	0.1	(100.0)
Non-current borrowings	2,881.1	2,902.6	1,199.3	140.2
Payables, provisions and other liabilities	1,233.2	1,114.1	747.9	64.9
<b>Total equity</b>	<b>1,732.5</b>	<b>1,513.4</b>	<b>1,345.6</b>	<b>28.8</b>
<b>Total liabilities and equity</b>	<b>5,846.8</b>	<b>5,543.0</b>	<b>3,292.9</b>	<b>77.6</b>
Net working capital	62.0	171.3	174.2	(64.4)
Net working capital % revenue	1.7	6.0	7.1	(5.4)pts
Net debt / (cash)	2,453.0	2,557.9	652.3	(276.1)

Balance sheet movements largely reflect the acquisitions of Plarium and Big Fish on 19 October 2017 and 10 January 2018, respectively.

#### Significant balance sheet movements from 30 September 2017 are:

**Net working capital:** The decrease was driven by the acquisitions of the two Digital businesses which have low working capital requirements, combined with a continued focus on cash management.

**Intangible assets:** The increase reflects the intangible assets of acquired businesses during the period - predominantly goodwill.

**Non-current borrowings:** The increase relates to the acquisitions of Plarium and Big Fish, largely funded by the Term Loan B debt facility.

**Total equity:** The change in total equity reflects the result for the period, changes in reserves due to currency movements, net of dividends paid during the period.

## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## GROUP PERFORMANCE

### STATEMENT OF CASH FLOWS

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

#### Operating cash flow

A\$ million	2018	2017	Change %
EBITDA	1,328.6	1,001.2	32.7
Change in net working capital	69.1	(51.9)	n/a
Subtotal	1,397.7	949.3	47.2
Interest and tax	(313.0)	(171.0)	(83.0)
Acquisition related items (cash and non-cash)	(107.3)	-	n/a
Other cash and non-cash movements	(43.6)	20.8	n/a
<b>Operating cash flow</b>	<b>933.8</b>	<b>799.1</b>	<b>16.9</b>
One-off and significant items	54.1	-	n/a
<b>Operating cash flow (normalised)</b>	<b>987.9</b>	<b>799.1</b>	<b>23.6</b>
<b>Operating cash flow (normalised) less capex</b>	<b>718.9</b>	<b>585.6</b>	<b>22.8</b>

#### Consolidated cash flow

A\$ million	2018	2017	Change %
<b>Operating cash flow</b>	<b>933.8</b>	<b>799.1</b>	<b>16.9</b>
Capex	(269.0)	(213.5)	(26.0)
Acquisitions and divestments	(1,938.6)	(23.0)	(8,328.7)
<b>Investing cash flow</b>	<b>(2,207.6)</b>	<b>(236.5)</b>	<b>(833.4)</b>
Proceeds from borrowings	1,660.0	-	n/a
Repayment of borrowings	(225.8)	(65.5)	(244.7)
Dividends and share payments	(299.0)	(231.1)	(29.4)
<b>Financing cash flow</b>	<b>1,135.2</b>	<b>(296.6)</b>	<b>n/a</b>
<b>Net (decrease)/increase in cash</b>	<b>(138.6)</b>	<b>266.0</b>	<b>n/a</b>

Normalised operating cash flow increased 23.6% to \$988 million compared to the prior corresponding period, reflecting strong performance across the businesses with a higher mix of recurring revenues, partly driven by the digital acquisitions, as well as effective cash management.

Interest and tax increased significantly due to funding the acquisitions and increased tax payments in Australia following a period of utilisation of historic tax losses.

Acquisition related items of \$107 million included the non-cash fair value adjustments relating to deferred revenue, transaction costs, retention payments and other related costs.

Capital expenditure relates primarily to investment in hardware to support continued strong growth in Americas Gaming Operations installed base.

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

## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## GROUP PERFORMANCE

### FUNDING AND LIQUIDITY

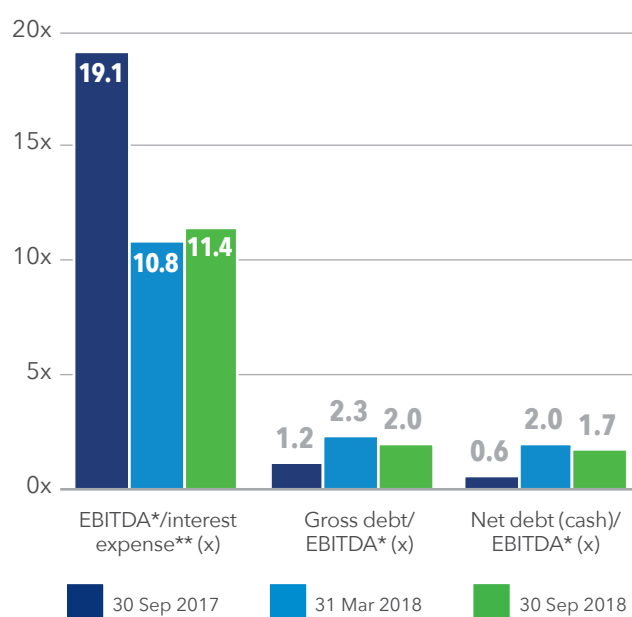
The Group had committed loan facilities of \$3.0 billion as at 30 September 2018, comprising total Term Loan B facilities of US\$2.1 billion and a \$100 million revolving facility. During the period new incremental drawings of US\$425 million and US\$890 million were made under the accordion feature of the Group's Term Loan B facility arrangements, which mature in October 2024. These incremental tranches were used to fund the acquisitions of Plarium and Big Fish. Additionally, during the period, Aristocrat successfully extended the maturity of the existing US\$950 million Term Loan B tranche by a further 3 years from October 2021 to October 2024, reflecting the longest term available for a TLB facility. The \$100 million revolving facility is currently undrawn and matures in October 2019.

The Group repaid US\$165 million of the Term Loan B facility during the period, reflecting Aristocrat's strong cash balance and liquidity position providing the business with flexibility to repay debt.

The Group's facilities are summarised as follows:

Facility	Drawn as at 30 Sep 2018		Limit	Maturity date
Term Loan B facility	US\$2,100.2m	US\$2,100.2m		Oct 2024
Revolving facility	A\$0.0m	A\$100.0m		Oct 2019
Overdraft facilities	A\$0.0m	A\$7.8m		Annual Review

The Group's interest and debt coverage ratios are as follows (x):



\* EBITDA refers to Consolidated EBITDA for the Group as defined in Aristocrat's Syndicated Facility Agreement (also referred to as Bank EBITDA).

\*\* Interest expense shown above includes ongoing finance fees relating to bank debt facility arrangements, such as line fees.

On 30 November 2017, Aristocrat announced the acquisition of Big Fish, together with a calculation of the Group's leverage ratio (net debt / EBITDA) on a pro-forma basis of 2.2x. This included the impact of funding for the acquisition of Plarium which was also completed during the period.

The Group's pro-forma leverage reduced over the reporting period, from 2.2x at 30 September 2017 to 1.7x at 30 September 2018 reflecting both earnings growth and free cash flow generation across the Group.

### CREDIT RATINGS

The Group maintains credit ratings from both Moody's Investor Services and Standard & Poor's to support our Term Loan B facility arrangements.

As at 30 September 2018, Aristocrat holds credit ratings of BB+ from Standard & Poor's and Ba1 from Moody's.

## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## GROUP PERFORMANCE

### DIVIDENDS

The Directors have authorised a final dividend in respect of the full year to 30 September 2018 of 27.0 cents per share (\$172.4 million). Total dividends in respect of the 2018 year amount to 46.0 cents per share (\$293.7 million) and represent an increase of 35% (or 12.0 cents), reflective of growth in performance, strength of cash flows and improvement in gearing levels.

The dividend is expected to be declared and paid on 19 December 2018 to shareholders on the register at 5.00pm on 5 December 2018. The dividend will be fully franked.

### 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.

In the 12 months to 30 September 2018, the Australian dollar was, on average, weaker against the US dollar when compared to the prior corresponding period. The impact of

translating foreign currency (translational impact) increased revenue by \$40.2 million, while increasing normalised profit after tax and before amortisation of acquired intangibles by \$5.9 million on a weighted average basis when compared with rates prevailing in the respective months in the prior corresponding period. In addition, as at 30 September 2018, the cumulative effect of the retranslation of the net assets of foreign controlled entities (recognised through the foreign currency translation reserve) was a credit balance of \$51.9 million (compared to a debit balance of \$38.0 million as at 30 September 2017).

Based on the Group's 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 US\$:A\$ exchange rate results in an estimated \$9 million translational impact on the Group's annual profit after tax and before amortisation of acquired intangibles. This impact will vary as the magnitude and mix of overseas profits change.

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

A\$:	30 Sep 2018	31 Mar 2018	30 Sep 2017	2018 Average <sup>1</sup>	2017 Average <sup>1</sup>
USD	0.7224	0.7683	0.7842	0.7573	0.7624
NZD	1.0902	1.0605	1.0860	1.0892	1.0649
EUR	0.6223	0.6236	0.6639	0.6362	0.6870
GBP	0.5541	0.5475	0.5850	0.5621	0.5983
ZAR	10.2183	9.0840	10.6324	9.9573	10.2028
ARS	29.8258	15.4690	13.5804	18.3765	12.3371

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



## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## REGIONAL SEGMENT REVIEW

Normalised segment profit represents earnings before interest and tax, and before significant items and adjustments, charges for D&D expenditure, amortisation of acquired intangibles and corporate costs. The total amount of these items is disclosed in the Group's statement of profit or loss. Constant currency amounts refer to 2018 results restated using exchange rates applying in 2017.

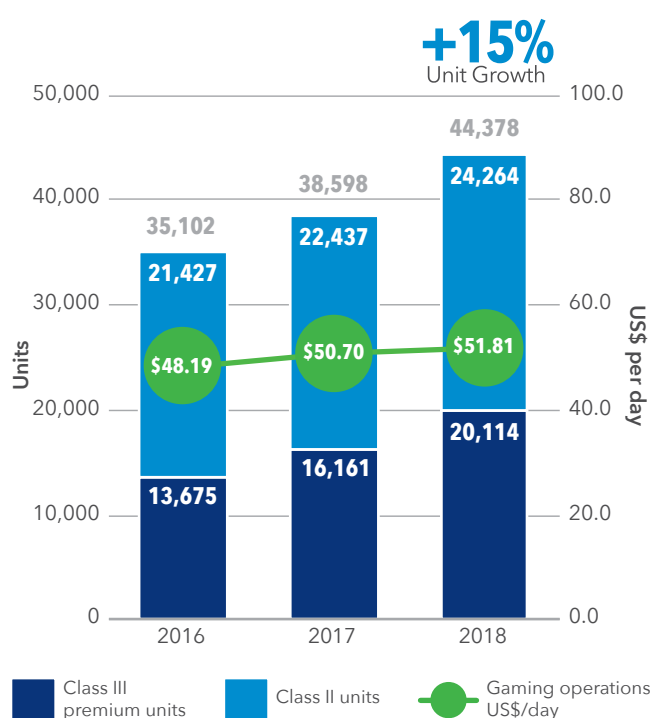
### AMERICAS

#### Summary Profit or Loss

US\$ million	2018	2017	Variance %
Revenue	1,224.2	1,084.7	12.9
Profit	649.9	560.3	16.0
Margin	53.1%	51.7%	1.4 pts

In local currency, Americas profits increased by 16%, or US\$90 million to US\$650 million, representing 140 basis points (bps) of margin expansion. This was driven by strong growth in the Gaming Operations segment and sustained momentum across the balance of the business.

#### North America Gaming Operations units



The Class III Premium Gaming Operations installed base grew 25% fuelled by continued penetration of leading hardware configurations including the *Arc Single™*, *Arc Double™* and *Helix™* cabinets together with high-performing titles such as *Buffalo Grand™*, *5 Dragons Grand™*, *Timberwolf Grand™*, *Dragon Link™* and *Lightning Link™*. In addition, the Class III Premium Gaming Operations business successfully launched the *Flame55™* cabinet with *Game of Thrones: Fire & Blood™* (named Global Gaming Business Game of the Year) and *RELM XL™* Stepper with the popular *Liberty Link™*.

In Class II Gaming Operations placements increased by 8.1% due to the ongoing success of *Ovation™* with increased penetration outside of the core Oklahoma market.

Average fee per day across Class II and Class III markets increased 2.2%, driven by game performance across the portfolio.

## OPERATING AND FINANCIAL REVIEW

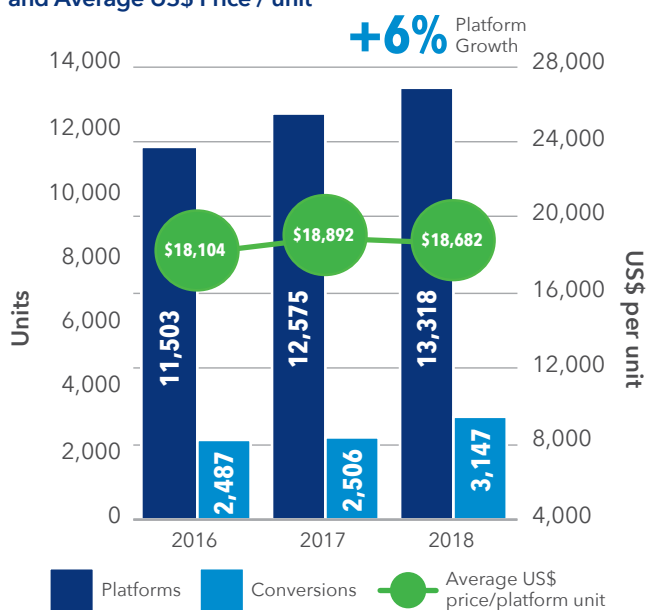
# REVIEW OF OPERATIONS

## REGIONAL SEGMENT REVIEW

Class III Premium Gaming Operations will continue to be supported with a strong product portfolio across a diverse range of product segments. At G2E 2018, Aristocrat unveiled two titles on the *Flame55™* cabinet; *Buffalo Diamond™* and *Westworld™* and will commercialise the *Edge X™* cabinet with its launch title based on the pop icon *Madonna™*. Aristocrat's core segment is also expected to benefit with further growth in *Dragon Link™* through *Dragon Link Dens™* and the rollout of *RELM XL™* content across all denominations, including *Buffalo™* and *Liberty Link™* titles.

The Class II Gaming Operations installed base will continue to be supported by the launch of additional games under the licensed product *Professional Bull Riders™*, together with a portfolio of new games developed for *Ovation™* and additional hardware configurations on *Arc Single™* and *Helix™ XT* cabinets.

### North America Outright Sales units and Average US\$ Price / unit



Class III Outright Sales revenue increased by 4.7% compared to the prior corresponding period with ship share broadly consistent with the prior corresponding period, in a highly competitive market.

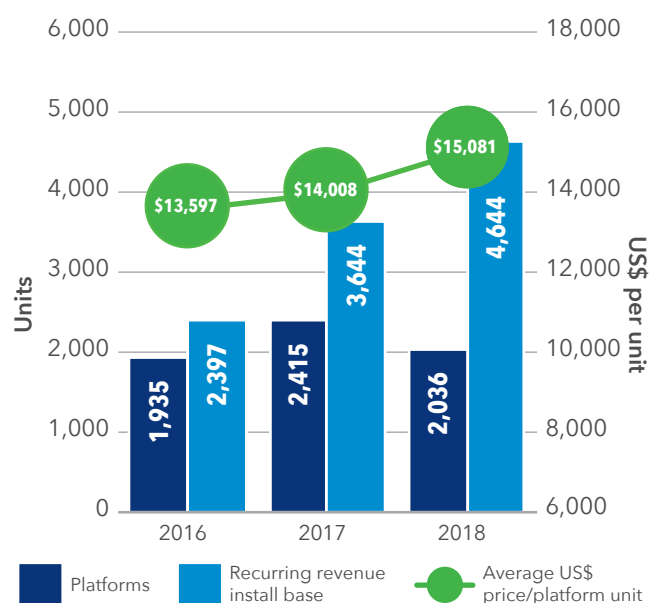
The Class III Outright Sales portfolio delivered market-leading game performance, with the introduction of two

new cabinets; *Helix™ XT* and *Helix™ Tower*, coupled with continued investment in linked progressive content. Aristocrat achieved strong game performance during the period with innovative titles including the linked progressive *Gold Stacks 88™* game, *Dancing Foo™* and a new *Wonder 4™* extension *Wonder 4 Boost™*.

Aristocrat will continue to support all cabinets with content on *Helix™ +* and *Arc™*, including *Mighty Cash™* and the *Wonder 4™* series. *RELM™* Stepper investment continues to be robust with over 20 titles approved and strong performance evident in high denomination variants including the virtual wheel products *Diamond Jewel™* and *Cherry Riches™*, and our *Triple 7 Wildfire™* series.

Class III Outright Sales will continue to grow as Aristocrat expands into adjacent markets including the VLT segment in Canada, Washington CDS and the Bartop / Multi-Game segment.

### Latin America Outright Sales units, Average US\$ Price / unit and Recurring Revenue install base



Latin America revenue increased 22.4% compared to the prior corresponding period driven by growth in the Class III Gaming Operations segment with strong *Lightning Link™* performance.

## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## REGIONAL SEGMENT REVIEW

### AUSTRALIA AND NEW ZEALAND

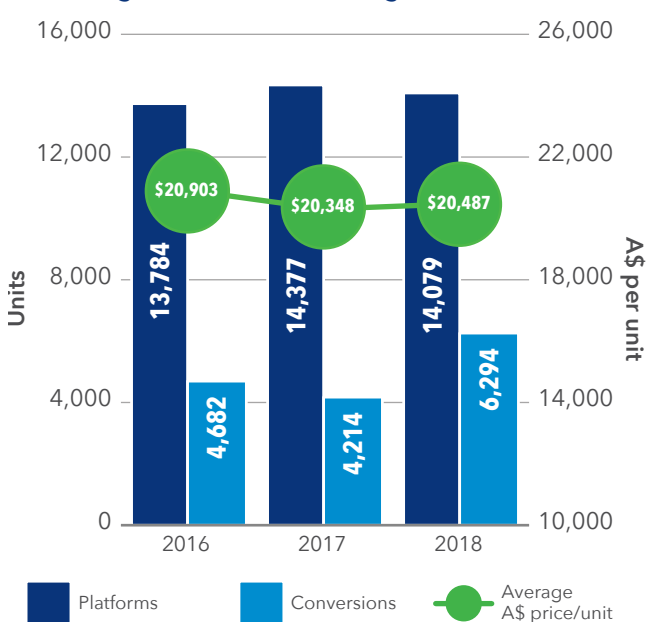
#### Summary Profit or Loss

A\$ million	Constant currency 2018	2017	Variance %
Revenue	455.2	431.6	5.5
<b>Profit</b>	<b>207.4</b>	190.5	8.9
Margin	45.6%	44.1%	1.5 pts

ANZ revenue increased by 5.5% to \$455.2 million in constant currency compared to the prior corresponding period, while overall profit increased by 8.9% to \$207.4 million.

ANZ margin expanded by 150 bps to 45.6%. This growth was achieved, despite a 2% decline in unit sales, as a result of a continued shift in revenue mix towards the ACCESS fee per day product. This commercial model provides customer choice and availability to utilise the full range of game content on a subscription basis.

#### ANZ Outright Sales units and Average A\$ Price / unit



The average cabinet selling price increased to \$20,487 driven by product mix with further penetration of the *Helix*™

product family.

The ANZ business also sustained strong ship share across the market, driven by the top performing game family *Dragon Cash*™ and *Dragon Link*™ with the successful introduction of an expanded game library during the year.

The *Helix*™ + cabinet continues to be the cabinet of choice in ANZ, with the *Helix*™ XT gaining traction during the year with the benefit of an expanded game portfolio.

### INTERNATIONAL CLASS III

#### Summary Profit or Loss

A\$ million	Constant currency 2018	2017	Variance %
Revenue	202.3	214.7	(5.8)
<b>Profit</b>	<b>100.2</b>	112.5	(10.9)
Margin	49.5%	52.4%	(2.9) pts
Class III Platforms	6,018	7,125	(15.5)

International Class III revenue and profit decreased 5.8% and 10.9% respectively to \$202 million and \$100 million compared to the prior corresponding period as the business cycled over a concentration of openings.

Underlying performance remained strong, with continued penetration of *Lightning Link*™ across the Asia Pacific region delivering market-leading performance and enabling a transition to a strategic focus on floor optimisation rather than new openings.

*Mighty Cash*™, the innovative Linked Progressive product, was launched in the region during the period with strong initial performance.

The EMEA business launched *Helix*™ + into South Africa during the reporting period, which drove further expansion of Premium Gaming Operations footprint, primarily driven by *Lightning Link*™.

## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## REGIONAL SEGMENT REVIEW

### DIGITAL

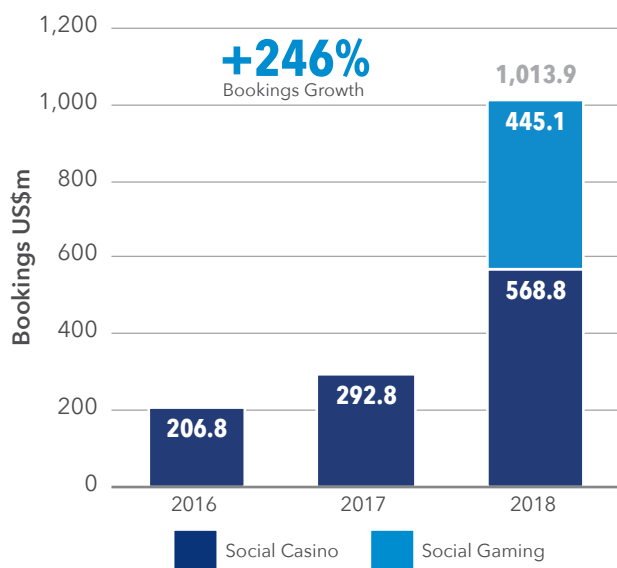
#### Summary Profit or Loss

US\$ million	2018	2017	Variance %
Bookings	1,013.9	292.8	246.3
Revenue	1,009.2	292.8	244.7
Profit	330.8	121.4	172.5
Margin	32.8%	41.5%	(8.7) pts

The Digital business grew significantly compared to the prior corresponding period, supported by strong growth in Product Madness as well as the acquisitions of Plarium and Big Fish.

Segment margin moderated to 32.8%, in line with expectations, due to a more diverse portfolio and significant marketing investment during the period behind new product launches including *FaFaFa Gold*<sup>™</sup>, *Family Zoo*<sup>™</sup>, *Lightning Link*<sup>™</sup> and the growth of *Cashman Casino*<sup>™</sup>, *Vikings*<sup>™</sup> and *Cooking Craze*<sup>™</sup>.

#### Bookings<sup>1</sup> by Type



1. Bookings are an operational metric reflecting the amount of virtual currency, virtual goods and premium games the consumer has purchased. Reported revenue comprises bookings adjusted for deferred revenue.

#### Social Casino

*Cashman Casino*<sup>™</sup>, *Heart of Vegas*<sup>™</sup>, *FaFaFa Gold*<sup>™</sup> and the newly launched *Lightning Link*<sup>™</sup> app contributed US\$395 million in bookings during the period, an increase of 35% over the prior corresponding period, reflecting the success of Product Madness' multi-app strategy.

Performance was further enhanced by the inclusion of *Big Fish Casino*<sup>™</sup> and *Jackpot Magic Slots*<sup>™</sup> in the Digital portfolio from 10 January 2018, the date of acquisition of Big Fish.

#### Social Gaming

Social Gaming combines the social games of both Plarium and Big Fish and the legacy PC business of Big Fish.

Within Big Fish, *Cooking Craze*<sup>™</sup> scaled over the reporting period, delivering strong performance that was partially offset by the maturity of the *Gummy Drop*<sup>™</sup> and *Fairway Solitaire*<sup>™</sup> titles.

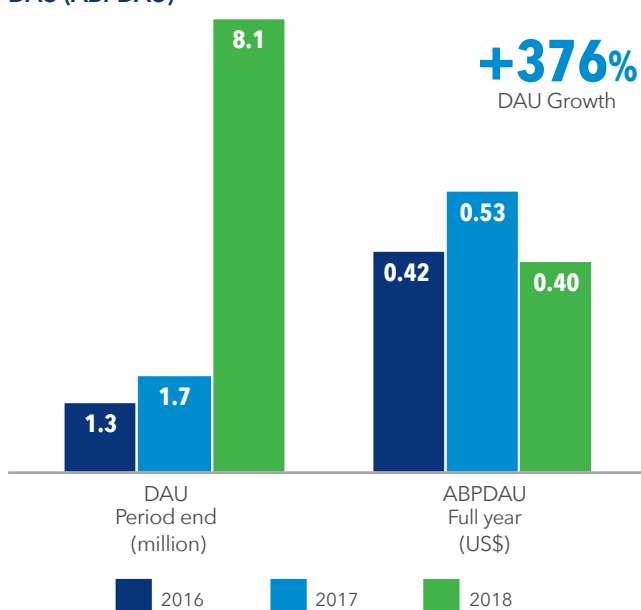
*Vikings*<sup>™</sup> and *Family Zoo*<sup>™</sup> remain key contributors in this segment for Plarium, along with the recently launched *Lost Island*<sup>™</sup>.

## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## REGIONAL SEGMENT REVIEW

Daily Active Users (DAU) and Average US\$ bookings per DAU (ABPDAU)



The acquisitions of Plarium and Big Fish significantly impacted Daily Active Users (DAU), driving an increase of 6.1 million DAU in the period.

Growth in *Cashman Casino*<sup>™</sup> and the launch of *FaFaFa Gold*<sup>™</sup> and *Lightning Link*<sup>™</sup> in the period contributed an additional 0.3 million DAU compared to the prior corresponding period with Product Madness apps reaching more than 2 million DAU at the period end.

Plarium and Big Fish have introduced a new, diverse portfolio of customers and products that monetise differently to Aristocrat's established Digital business. This, along with the launch of new games in the period, impacted ABPDAU compared to prior corresponding periods. The Digital business remains focussed on great content, customer acquisition and retention.

Reconciliation of Revenue to Bookings (US\$ millions)

US\$ million	2018	2017	2016
Revenue	1,009.2	292.8	206.8
Deferred revenue	4.7	-	-
Bookings	1,013.9	292.8	206.8

Plarium disclosures including pro-forma values for the prior corresponding period

Plarium	2018	2017	Variance %
Bookings (US\$ million)	272.0	277.8	(2.1)
DAU period end (million)	2.5	2.7	(7.4)

Strong performance in the year across *Vikings*<sup>™</sup>, and the new casual games *Family Zoo*<sup>™</sup> and *Lost Island*<sup>™</sup> which was partially offset by the performance of online and mobile legacy games, driving a reduction in bookings of 2.1% compared to the prior corresponding period.

New game releases launched during the period reflect the strategy of entering multiple genres and reducing the business' focus on strategy legacy games.

Growth in Mobile was achieved with higher quality DAU. As a result of the decrease in Facebook and legacy Mobile games, total DAU declined by 7.4% compared to the prior corresponding period.

Plarium has a strong pipeline of games in development across multiple genres to support future growth.

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## OPERATING AND FINANCIAL REVIEW

# REVIEW OF OPERATIONS

## REGIONAL SEGMENT REVIEW

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Big Fish disclosures including pro-forma values for the prior corresponding period

Big Fish	2018	2017	Variance %
Bookings (US\$ million)	494.6	458.4	7.9
DAU period end (million)	3.6	4.0	(10.0)

Big Fish bookings increased 8% to US\$495 million driven by the continued focus on Social Casino (both *Big Fish Casino*<sup>™</sup> and *Jackpot Magic Slots*<sup>™</sup>), and also the scaling of new Social Gaming titles including *Cooking Craze*<sup>™</sup>.

Social Casino bookings grew 21% in the year, reflecting the delivery of new meta features and live ops events. The Social Gaming business grew 4% on prior year, with *Cooking Craze*<sup>™</sup> quickly scaling to over 1 million DAU.

DAU at 3.6 million was 10% lower than pro-forma, with the scaling of *Cooking Craze*<sup>™</sup> more than offset by declines in older legacy titles *Gummy Drop*<sup>™</sup> and *Fairway Solitaire*<sup>™</sup>.

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## OPERATING AND FINANCIAL REVIEW

# PRINCIPAL RISKS

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### **Material business risks to strategy and financial performance in future periods**

Identifying and managing risks which may affect the success of our strategy and financial prospects for future years is an essential part of our governance framework. While the Group has a strong track record of managing a multitude of risks, some inherent risks remain, many of which are not directly within the control of the Group.

Our risk management approach involves the ongoing assessment, monitoring and reporting of risks which could impede our progress in delivering our strategic priorities.

As the business continues to grow both organically and inorganically the material business risk profile continues to evolve.

The key risks affecting the Group are set out below. The Group may also face a range of other risks from time to time in conducting its business activities.

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

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

A decline in economic conditions and the difficulty or inability of our land-based customers to obtain adequate levels of capital to finance their ongoing operations might reduce the resources available to purchase products and services, which could affect Group revenues.

To address this we continue working to diversify our product offerings and geographic spread of our business.

### **Geopolitical environment**

We are exposed to regulatory, legal, political and macroeconomic risks in the international markets in which we operate.

Some of our operations and development partners are located in geographic regions of the world that continue to experience military and insurgency conflicts, and political

turmoil and unrest. Any of these factors could impact the ability of these operations or our development partners to create and deliver content in a timely fashion or at all.

We mitigate these risks by keeping abreast of international issues, economic and political indicators and changes in legislation, maintaining strong relationships with key stakeholders in these markets and by enhancing our business continuity, resilience and redundancy measures.

### **Litigation and contingent liabilities**

From time to time, the Group may be subject to material litigation, regulatory actions, legal or arbitration proceedings and other contingent liabilities which, if they crystallise, may adversely affect the Group's results.

### **Increasing competition and ability to manage and frequently introduce innovative products on a timely basis**

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

Mobile gaming is characterised by frequent product introductions and rapidly emerging platforms and technologies. We compete with other game developers and content providers for the leisure time, attention, and discretionary spending of our players.

The Group's success is dependent on its ability to develop and sell new products that are attractive to operators and players. We continue to invest in key skills and talent and have also strengthened our insights function to enhance our ability to produce innovative new product portfolios to drive entry into new markets and support share growth.

### **Third Party Development Partners**

In addition to the games we develop internally, we acquire or license games from third party development partners located around the world. Our success depends in part on our ability to attract and retain talented and reliable development partners to source new content and update existing content. Our agreements with these development partners are in some instances not exclusive to us and will expire at various times.

# PRINCIPAL RISKS

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To mitigate these risks, we have a team dedicated to sourcing new third party developer partner relationships and maintaining and strengthening existing third party developer partner relationships; we are also constantly monitoring game pipeline timing and flow, and reviewing developer terms.

### Government gaming regulation

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

- (a) licences and/or permits;
- (b) findings of suitability;
- (c) documentation of qualifications, including evidence of financial stability; and
- (d) individual suitability of officers, directors, major shareholders and key employees.

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

A material breach of internal processes may result in violation of existing regulations which could also impact our ability to maintain required licenses or approvals.

Gaming laws and regulations serve to protect the public and ensure that gaming related activity is conducted honestly, competitively, and free of corruption. A change in government (or governmental policy towards gaming) may also impact our operations. This political risk increases in jurisdictions where there is significant anti-gaming opposition or vocal minority interests.

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

### Social gaming regulation

With respect to our Social Gaming business, although largely unregulated at this time, there are movements in some jurisdictions to review social gaming and possibly implement social gaming regulations.

We continue to monitor the latest developments, proposals and rules enacted from time to time by regulatory bodies and digital platform providers. We are also examining how best to proactively address the issues, including how to effectively engage in the global discourse, influence the conversation and educate legislators and the public.

### Cyber risk and privacy regulation

Our information technology systems and the data stored on those systems may be subject to cyber-attacks, security breaches or computer hacking. Hackers and data thieves are increasingly sophisticated and operate large-scale and complex automated attacks.

There are local and international laws regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other data. Any failure or perceived failure by us to comply with our privacy-related legal obligations, or any compromise of security that results in the unauthorised release or transfer of personally identifiable information or other player data, may result in governmental enforcement actions, litigation or public statements against us which could have an adverse impact on our business.

To minimise the impact of these risks we continue to invest in enhancing our cyber security measures and data management practices and procedures, including preventative, detective and responsive capabilities, to respond to the ever-changing threat landscape, changes in laws and community expectations.

### Tax

The risk that changes in tax law (including goods and services taxes and stamp duties), or changes in the way tax laws are interpreted in the various jurisdictions in which the Group operates, may impact the tax liabilities of the Group and the assets in which it holds an interest. The Group seeks to manage this risk by monitoring changes in legislation, utilising external tax and legal advisors and employing



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## OPERATING AND FINANCIAL REVIEW

# PRINCIPAL RISKS

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highly experienced qualified accounting and tax experts who regularly monitor the taxation relevant to the Group's operations. Aristocrat has implemented a Tax Governance Framework which sets out the Company's approach to tax risk management and governance, tax strategy and dealing with revenue authorities. In addition Aristocrat has chosen to adopt the Board of Taxation's Voluntary Tax Transparency Code of 2016 and prepares a Voluntary Tax Transparency Code Report. In accordance with that code, Aristocrat discloses details such as corporate income taxes paid by and effective tax rates of, Aristocrat. This report is posted on the Aristocrat website. The report can also be viewed at the Voluntary Tax Transparency Code central website, administered by the ATO.

### **Fluctuations in foreign exchange rates and interest rates**

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

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The 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.

Debt issued used to partly fund recent acquisitions resulted in an increase in the Group's total debt and also resulted in debt which is exposed to a floating rate of interest. The Group is therefore exposed to movements in interest rates. The Group seeks to mitigate this risk with a capital management strategy which examines periodic debt pay down and with the implementation, and continued assessment, of an interest rate hedging strategy.

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# REMUNERATION REPORT

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This Remuneration Report for the 12 months ended 30 September 2018 (Reporting Period or FY2018) forms part of the Directors' Report and has been audited as required by section 308(3C) of the Corporations Act 2001 (Cth) (the Act).

## SECTION 1 MAINTAINING SUSTAINABLE PERFORMANCE

Aristocrat's remuneration strategy and framework is based on a 'pay for performance' philosophy. The Board is confident the current remuneration framework has supported and driven its business strategy and Group out-performance.

Aristocrat is one of a small group of ASX listed companies that derives the majority of its revenues from overseas markets and is genuinely global in its structure and operations. Aristocrat's senior leadership is predominantly US based, and the business must increasingly attract and retain leaders in the US market with technology and global management skillsets which is driving an evolution in Aristocrat's approach to remuneration. US market practice (in particular) places a greater emphasis on at-risk opportunity, and significant equity grants are commonly and broadly used for talent attraction and retention.

The Board will continue to review the structure of Aristocrat's incentive schemes to ensure they are globally competitive and effective in helping the business to retain, attract and motivate the leadership and talent it needs to drive business strategy and financial performance in the interests of shareholders.

Any changes will continue to reflect Aristocrat's 'pay for performance' philosophy and drive shareholder value.

### STI outcome

Senior Executives received on average 132% of their STI target award, supported by NPATA increasing by 34.3% to \$729.6 million (in reported currency) from the prior corresponding period.

This strong NPATA growth was driven by sustained growth across all key segments and through continued share gains across broadly flat markets. Another highlight of the reporting period was the successful completion and integration of two major acquisitions, Plarium Global Limited on 19 October 2017 and Big Fish Games, Inc. on 10 January 2018.

Strong FCF Conversion of 123% of target.

### LTI outcome

Based on sustained long term performance over the three year period to 30 September 2018, 100% of PSRs awarded under the 2016 LTI Grant vested following testing against the Relative TSR and Relevant EPS performance measures in November 2018, and converted into shares.

The Relative TSR component (30% of total grant) vested as Aristocrat's annual compounded TSR of 282.57%, with Aristocrat 2nd in its Peer Comparator Group and ranked at the 98.9th percentile.

The Relevant EPS component (30% of total grant) vested at 100% based on the delivery of a three-year EPS CAGR of 45.4%.

# REMUNERATION REPORT

## SECTION 2 REMUNERATION REPORT OVERVIEW

This Remuneration Report has been prepared in accordance with section 300A of the Corporations Act 2001 (Cth) (the Act) for Aristocrat Leisure Limited and its controlled entities (Group) for the year ended 30 September 2018.

In light of the increasing scale and diversity of Aristocrat's global business, we conduct a review annually of our list of Executive KMPs and, as a result of this review, have increased the number of our Executive KMPs to 6.

Table 1 below outlines the KMP and their movements during FY2018

KMP	Position	Location	Term as KMP
<b>Non-Executive Directors</b>			
ID Blackburne	Chair; Director	Australia	Full financial year
DCP Banks	Director	Australia	Retired on 31 March 2018
NG Chatfield	Director <sup>1</sup>	Australia	Nominated on 12 December 2017
KM Conlon	Director	Australia	Full financial year
RV Dubs	Director	Australia	Retired on 22 February 2018
SW Morro	Lead US Director <sup>2</sup>	United States	Full financial year
PJ Ramsey	Director	United States	Full financial year
AM Tansey	Director	Australia	Full financial year
S Summers Couder	Director	United States	Full financial year
<b>Executive KMP</b>			
T Croker	CEO and Managing Director	United States	Full financial year
J Cameron-Doe	CFO <sup>3</sup>	United States	Commenced as CFO on 31 January 2018
M Wilson	Managing Director, Americas	United States	Full financial year
M Bowen	Managing Director, ANZ & International	Australia	Full financial year
J Sevigny	President, Video Gaming Technologies	United States	Full financial year
J Goldstein	Chief Digital Officer <sup>4</sup>	United States	Full financial year
A Korsanos	CFO, Global Services and Company Secretary	Australia	Ceased to be employed on 31 March 2018

1. Mr Chatfield was nominated by the Board on 12 December 2017 as a Non-Executive Director, subject to receipt of all relevant regulatory pre-approvals. Pending regulatory approval, Mr Chatfield was a Director (Elect). Necessary regulatory pre-approvals were received and Mr Chatfield's appointment as a Non- Executive Director was confirmed by the Board on 7 February 2018.

2. One Non-Executive Director acts as the Lead US Director. The Lead US Director assists the Board with review and oversight of Aristocrat's North American business, which accounts for approximately 70% of the Group's land-based business.

3. Mrs Cameron-Doe was appointed as CFO (Elect) on 13 December 2017, pending regulatory approval. Necessary regulatory pre-approvals were received, and Mrs Cameron-Doe formally assumed the role of CFO on 31 January 2018.

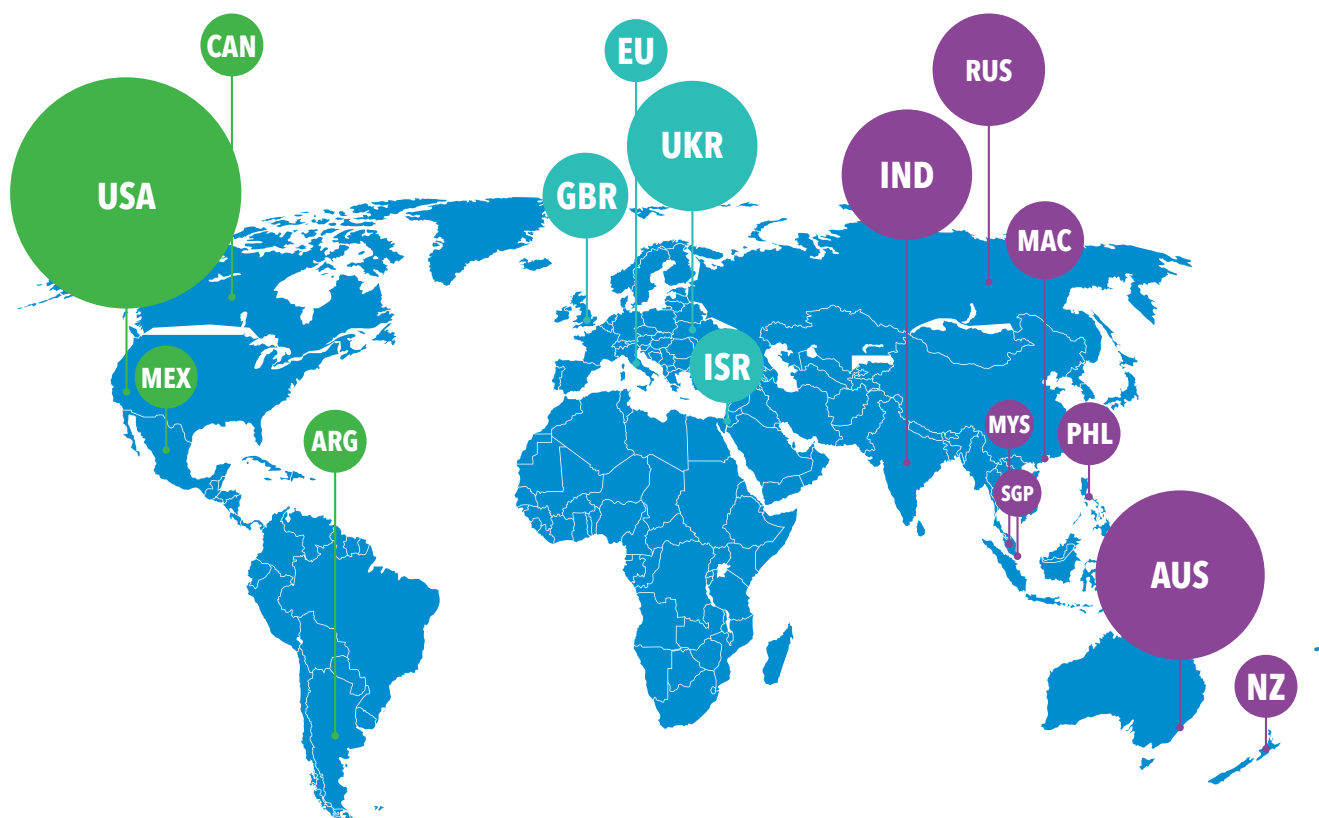
4. Mr Goldstein ceased to be employed by the Company on 4 October 2018.

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# REMUNERATION REPORT

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Although Aristocrat is listed on the Australian Securities Exchange, it has offices in approximately 21 global locations, with the senior leaders based in the United States, Australia, the United Kingdom and Israel, and over 6,100 employees based globally across 99 countries. Aristocrat's global nature is further reflected in the fact that it is licensed in 317 jurisdictions.



The world map above displays the global location of Aristocrat's employees, with the size of each circle being proportionate to the number of employees based in that country.

# REMUNERATION REPORT

## SECTION 3 SENIOR EXECUTIVE<sup>1</sup> REMUNERATION PHILOSOPHY AND FRAMEWORK

### 3.1 Core principles

The following three core principles guide Aristocrat's Senior Executive remuneration strategy and 'pay for performance' framework:

#### Alignment to shareholder interests and value creation

Provide a common interest between Senior Executives and shareholders by aligning the rewards that accrue to management to Aristocrat's performance and, ultimately, the creation of sustainable shareholder returns.

#### Market competitive

As a global organisation, be competitive in the markets in which Aristocrat operates to attract, motivate and retain high calibre people. Aristocrat's senior leadership is predominantly US based, and the business must increasingly attract and retain leaders in the US market with technology and global management skills sets that is increasingly requiring an evolution in Aristocrat's approach to remuneration.

#### Performance-based

Support the short, medium and long-term financial targets and business strategies of the Group as set out in the strategic business plans endorsed by the Board.

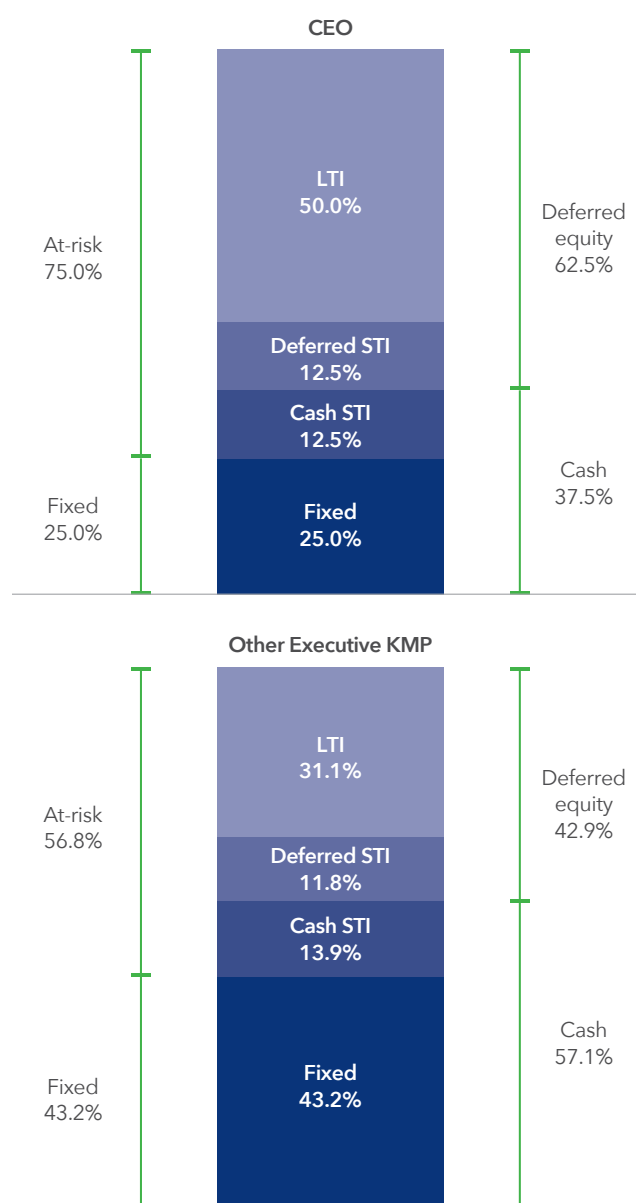
### 3.2 Executive remuneration mix

Total remuneration includes both a fixed component and an at-risk or performance-related component (governing both short-term and long-term incentives).

The Board views the at-risk component as an essential driver of a high performance culture and superior shareholder returns.

The following illustration shows the remuneration mix for the Executive KMP in FY2018. It has been modelled on the average of the Executive KMP's target opportunity (but excluding any contractual severance entitlements).

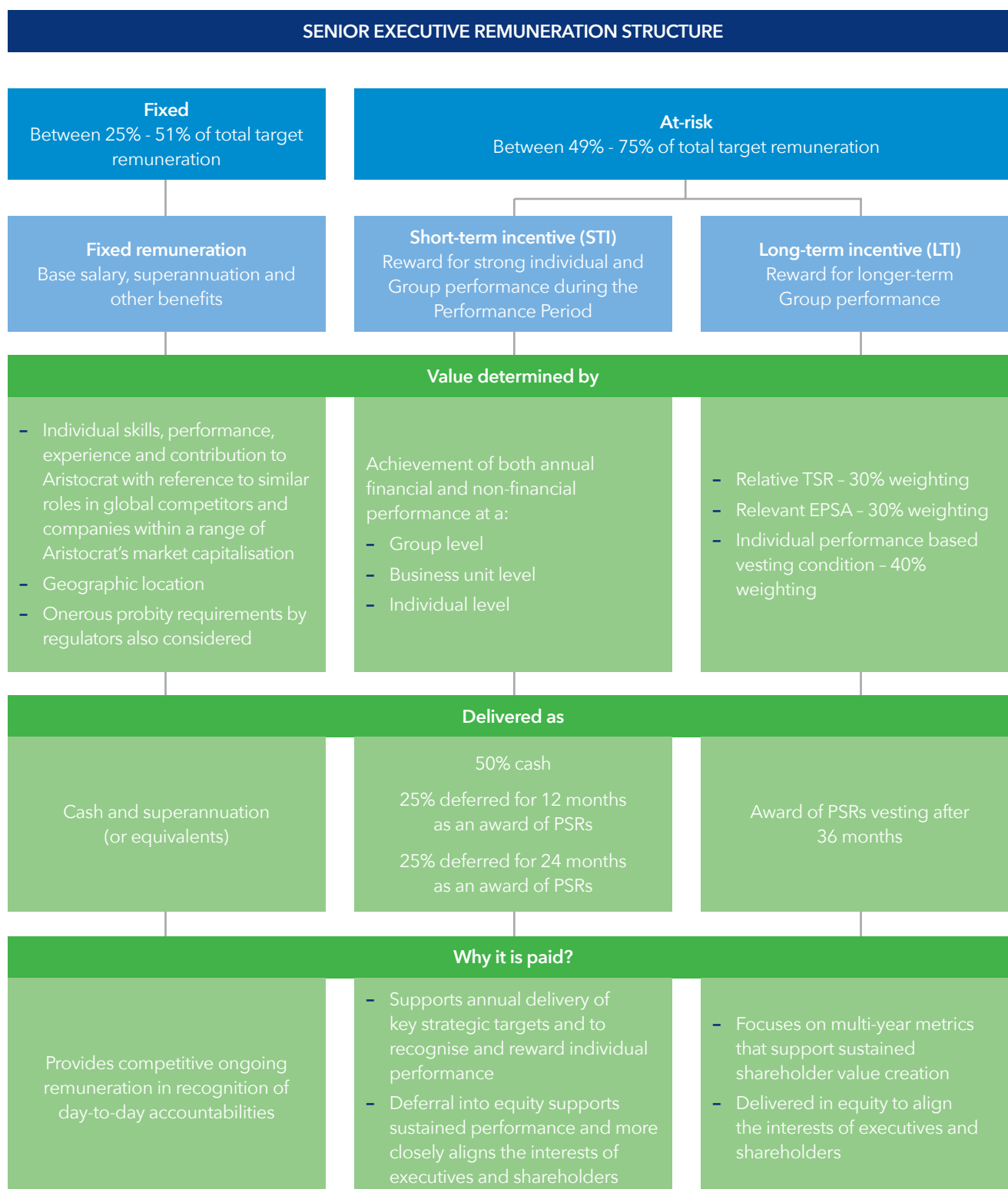
The Board aims to achieve a balance between fixed and performance-related components of remuneration. The actual remuneration mix for the Executive KMP will vary depending on the level of performance achieved at a Group, business unit and individual level.



1. Senior Executives comprise Executive KMP as well as other members of Aristocrat's Executive Steering Committee (details of which can be found on [www.aristocrat.com](http://www.aristocrat.com)).

# REMUNERATION REPORT

Table 2 Senior Executive Remuneration structure and framework



# REMUNERATION REPORT

## 3.3 Elements of executive remuneration

### 3.3.1 Fixed remuneration

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

Senior Executives have the choice to have a combination of benefits including additional superannuation contributions and the provision of a vehicle provided from their fixed remuneration. Senior Executives also (in certain instances) receive other benefits, including salary continuance, trauma, death and disability insurance. Senior Executives are able to maintain memberships to appropriate professional associations. As appropriate, expatriate executives receive additional support including accommodation allowances, travel and ad hoc taxation advice.

Senior Executives do not receive retirement benefits other than those disclosed in Table 7.

### 3.3.2 STI Plan

#### What is the STI Plan?

Senior Executives have the opportunity to earn an annual incentive award which is delivered in cash and deferred equity awards (in the form of PSRs). The STI Plan recognises and rewards short-term performance.

#### How much can Senior Executives earn?

A target opportunity is set for each Senior Executive, which is earned if Group and individual performance is on target. For certain Senior Executives, in a region or business unit, a target opportunity is set which is earned if regional performance and individual performance is on target.

Senior Executives (other than the CEO) have a target STI of between 47% and 71% of fixed remuneration, and a maximum STI opportunity of between 71% and 106% of fixed remuneration. The CEO has a target STI of 100% of fixed remuneration.

Participants have the opportunity to earn up to 200% of their target STI opportunity for achieving stretch performance.

#### What are the financial performance conditions?

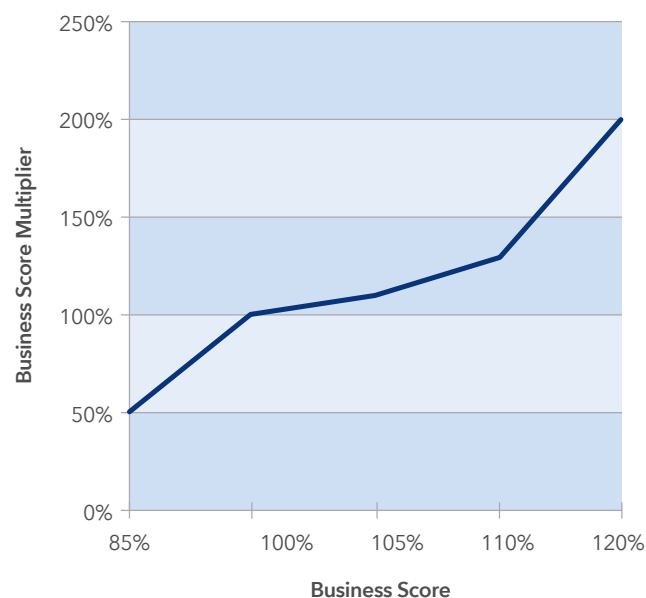
No payment is made unless the STI gateway of the Business Score Threshold (being 85% of the Business Score Goals) is met.

For employees whose role is multi-regional or global in nature - including all Executive KMP - their 'Business Score Goal' is the result that is based on the actual financial performance of

Aristocrat in a financial year, calculated by reference to NPATA and FCF Conversion as follows:

- NPATA - 70% weighting
- FCF Conversion - 30% weighting

The Business Score is converted into the Business Score Multiplier according to the following chart:



#### What are the non-financial performance conditions?

A ratings scale of "Exceeds Requirements", "Meets Requirements", "Meets Most Requirements" and "Underperforms" is used to assess individual performance. No payment is made unless the relevant Senior Executive achieves an Individual Performance Rating of "Meets Most Requirements" or better.

Senior Executives are assessed on delivery against (non-financial) objective KPOs of the Group such as product quality, product innovation, great game content and driving a high-performing culture through development, retention and succession planning.

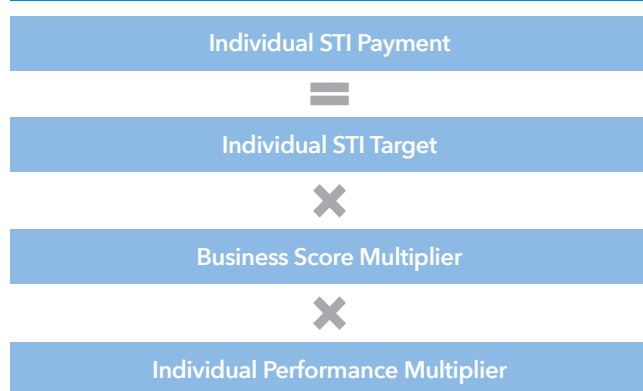
Individual Performance Rating is converted into an Individual Performance Multiplier according to the following ranges:

Rating	Outcome
Underperforms	0%
Meets Most Requirements	60% - 90%
Meets Requirements	80% - 120%
Exceeds Requirements	120% - 150%

# REMUNERATION REPORT

The Individual Performance Multiplier is then used to determine the quantum of STI payment the Senior Executive will receive.

Once the Business Score Multiplier and Individual Performance Multiplier are determined, an individual's STI award is calculated as follows:



## Why were these performance conditions chosen?

The Board considers these performance measures to be appropriate as they are aligned with Aristocrat's objectives of delivering sustainable growth and sustainable superior returns to shareholders. In the case of FCF Conversion, this measure was chosen as it ensures cash flow discipline, which in turn allows Aristocrat to fund growth initiatives. In addition, Senior Executives have a clear line of sight to the targets and are able to affect results through their actions.

Performance measures and conditions are reviewed annually and are subject to change as considered appropriate. The Board has discretion to review and amend the Business Score Goals during the performance period (up or down) where significant unforeseen events have occurred which are outside of the control of management.

## Who assesses performance and when?

The Board assesses performance of the CEO and Managing Director against the performance conditions with the benefit of advice from the HR and Remuneration Committee.

The CEO and Managing Director assesses the other Executive KMP's performance against the performance conditions and makes recommendations to the HR and Remuneration Committee which advises the Board in relation to the CEO and Managing Director's recommendations and the review process.

Special mitigating circumstances may be accepted, determined or approved on a case-by-case basis by the CEO

and Managing Director, and subject to approval by the HR and Remuneration Committee and the Board.

## Are there deferral terms?

Yes - if the STI award is between 50% and 100% of target STI, then 50% of the target STI is delivered in cash and a minimum of 50% of the award is deferred as an equity award of PSRs, with half of these PSRs vesting after 12 months and the remaining half vesting 24 months after the end of the performance period. Any individual who is internally promoted to a Senior Executive role is only subject to a deferral of 25% of their STI outcome (as opposed to 50%) in his/her first year. The Board has discretion to determine the percentage which will be deferred as an equity award if the award is less or greater than target.

No additional performance conditions apply to vesting of the PSRs to the Senior Executive, with the exception of the continued employment by the relevant Senior Executive.

The number of PSRs is calculated using the volume-weighted average price (VWAP) over the five trading days immediately prior to and including the last day of the performance period (for awards under the 2018 STI Plan, this was 30 September 2018).

## Are Senior Executives eligible for dividends?

An amount (based upon dividends paid by Aristocrat during the deferral period) accrues on the PSRs and is paid in cash at the end of the deferral period to the extent that the PSRs vest.

## What happens if a Senior Executive leaves?

Unvested PSRs will be forfeited if the Senior Executive ceases to be employed, although the Board has discretion to determine otherwise for reasons such as death, redundancy or if the participant is a 'good leaver'.

As a general rule, a Senior Executive will not be deemed to be a 'good leaver' to the extent they are terminated for cause or underperformance, breach their terms of employment contract or they resign from Aristocrat.

## Is there a clawback?

Yes - in the event of a material misstatement of performance, or other factors deemed by the Board to be materially significant, the Board has the discretion to clawback STI payments from deferred amounts and (if necessary) future earnings of the Senior Executive.

## No transfer or hedging

PSRs granted under the plan are not transferable and participants are prohibited from entering into hedging arrangements in respect of unvested PSRs.



# REMUNERATION REPORT

### 3.3.3 LTI Plan

This section summarises the terms of LTI grants made in FY2018.

#### What is the LTI Plan and who participates?

Under the LTI Plan, annual grants of PSRs are made to eligible participants to align remuneration with the creation of shareholder value over the long term.

Executive KMP as well as any employee of the Group who is invited by the Board is eligible to participate.

Non-Executive Directors are not eligible to participate in the LTI Plan.

#### How is the LTI award calculated?

The actual number of PSRs to be granted to a Senior Executive will be determined by calculating the Face Value of Aristocrat's shares and dividing the LTI Opportunity by the Face Value and rounding to the nearest whole figure. In determining the 'LTI Opportunity', the Board will take into account the nature of the position, the context of the current market, the function and purpose of the long-term component and other relevant information.

#### What are the vesting conditions?

Three vesting conditions apply to LTI grants made during FY2018:

- Relative TSR
- Relevant EPSA
- Individual performance-based vesting condition

#### Relative TSR - 30% weighting

Relative TSR performance is assessed over a three-year period which will commence at the start of the financial year during which the PSRs are granted.

For any PSRs to vest pursuant to the Relative TSR vesting condition, Aristocrat's compound TSR must be equal to or greater than the median ranking of constituents of the Peer Comparator Group. The Peer Comparator Group, being constituents of the S&P/ ASX100 Index, is defined at the commencement of the performance period.

The percentage of PSRs that may vest is determined based on the following vesting schedule:

Aristocrat's TSR ranking relative to Peer Comparator Group	PSRs subject to Relative TSR vesting condition that vest (%)
Below the median ranking	0%
At the median ranking	50%
Above the median ranking but below the 75th percentile	Between 50% and 100%, increasing on a straight-line basis
At or above the 75th percentile	100%

The Board may adjust the TSR vesting conditions to ensure that an executive is neither advantaged nor disadvantaged by matters outside of management's control that affect achievement of the vesting conditions.

#### Relevant EPSA - 30% weighting

The Relevant EPSA vesting condition is measured by comparing Aristocrat's compound annual EPSA growth rate (CAGR) over a three-year performance period (1 October 2017 to 30 September 2020 in respect of LTI grants in FY2018) against the 'minimum' EPSA growth and the 'maximum' EPSA growth thresholds, as set by the Board at the beginning of this performance period.

Relevant EPSA performance will be measured using the most recent financial year-end prior to the award as the base year, and the final financial year in the three-year performance period as the end year.

The percentage of PSRs that may vest is determined based on the following vesting schedule:

Aristocrat's EPSA performance	% of vesting of PSRs
Less than the minimum EPSA growth threshold	0%
Equal to the minimum EPSA growth threshold	50%
Greater than the minimum EPSA growth threshold, up to the maximum EPSA growth threshold	Between 50% and 100%, increasing on a straight line basis
Greater than the maximum EPSA growth threshold	100%

The Board may adjust the Relevant EPSA vesting conditions to ensure that an executive is neither advantaged nor disadvantaged by matters outside of management's control that affect achievement of the vesting conditions.

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# REMUNERATION REPORT

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As is our practice, the EPSA growth thresholds set by the Board for the performance period are disclosed in the Remuneration Report published in respect of the year in which the PSR vesting is tested.

## Individual performance based vesting condition - 40% weighting

The individual performance-based element of the LTI Plan will vest subject to the participant having achieved or exceeded against objective-balanced scorecard KPOs over the entire course of the three-year performance period (Individual Performance Based Condition).

### Why were these vesting conditions chosen?

#### Relative TSR

- Ensures alignment between comparative shareholder return and reward for the executive
- Provides relative, objective, external, market-based performance measure against those companies with which Aristocrat competes for capital, customers and talent
- Is widely understood and accepted by key stakeholders

#### Relevant EPSA

- Is a relevant indicator of increases in shareholder value
- Neutralises the tax effected amortisation expense of acquired intangibles, which is a non-cash charge and not representative of underlying performance of the business and cash flow generation
- Is a target that provides a suitable line of sight to encourage executive performance

#### Individual Performance Based

- Aristocrat is one of a small group of ASX listed companies that derives the majority of its revenues from overseas markets and is genuinely global in its structure and operations. Aristocrat's senior leadership is predominantly US based, and the business must increasingly attract and retain leaders in the US market with technology and global management skillsets
- This hurdle supports our LTI Plan being competitive to global and US peers who have elements of service-based vesting (restricted stock)
- Importantly, this is a performance-based hurdle requiring that an Executive KMP meets or exceeds against objective-balanced scorecard KPOs
- These KPOs are aligned to supporting Aristocrat's longer-term strategy and driving continued sustainable growth

### Who assesses performance and when?

Relative TSR and Relevant EPSA results are calculated by Aristocrat and the external remuneration advisor tests these TSR results as soon as practicable after the end of the relevant performance period. The calculations are considered by the Board to determine vesting outcomes.

The vesting conditions are therefore tested only at the end of the performance period. There is no re-testing of vesting conditions.

### Vesting

If PSRs vest, the Board has discretion to either issue new shares or to acquire shares on-market to satisfy the vestings.

Shares allocated on vesting of the PSRs are subject to the terms of Aristocrat's Share Trading Policy, and carry full dividend and voting rights upon allocation.

### Are PSRs eligible for dividends?

Holders of LTI PSRs are not entitled to dividends until the PSRs have vested and converted into shares.

### What happens if a Senior Executive leaves?

If a participant ceases employment during the first 12 months of the performance period then, regardless of the reason, any unvested PSRs lapse.

If a participant ceases employment after the first 12 months of the performance period, the Board has the express discretion to determine that some or all PSRs vest or lapse.

Where a participant acts fraudulently, dishonestly, joins a competitor or, in the Board's opinion, is in breach of obligations owed to Aristocrat, then any unvested PSRs will lapse and unallocated shares are forfeited.

### What happens in the event of a change of control?

There is no automatic vesting of PSRs on a change of control. The Board will (in its discretion) determine the appropriate treatment regarding PSRs in the event of a change of control. Where the Board does not exercise this discretion, there will be a pro rata vesting of PSRs based on the proportion of the performance period that has passed at the time of the change of control event.

### No transfer or hedging

PSRs granted under the plan are not transferable and participants are prohibited from entering into hedging arrangements in respect of unvested PSRs.

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# REMUNERATION REPORT

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## SECTION 4 REMUNERATION OUTCOMES IN FY2018 AND LINK TO BUSINESS STRATEGY AND GROUP PERFORMANCE

### 4.1 Senior Executive remuneration

Senior Executive remuneration outcomes disclosed in this Remuneration Report are linked and aligned to delivery of shareholder value over the short and longer term, rewarding the strong results delivered across the relevant STI and LTI performance periods (including in FY2018).

#### **Remuneration strategy and link to business strategy and Group performance in connection with FY2018 remuneration outcomes**

This Remuneration Report discloses the outcome of awards made under the 2016 LTI Grant, under which the following three vesting conditions apply:

- a Relative TSR vesting condition (30% weighting);
- a Relevant EPSA vesting condition (30% weighting); and
- Individual Performance Based vesting condition (40% weighting).

Table 3 below discloses remuneration outcomes in FY2018 and alignment to business strategy and Group performance

Business strategy and objectives...	Are reflected in LTI and STI performance measures...	So, Aristocrat's actual performance...	Directly affects remuneration outcomes
Financial performance	<p><b>STI performance measure of NPATA</b> Measures profitability across the Group</p> <p><b>STI performance measure of FCF Conversion</b> Measures free cash flow generated by the Group</p> <p><b>LTI performance measure of Relative TSR</b> Measures the benefit delivered to shareholders over three years, including dividend payments and movement in the share price over and above a market benchmark</p> <p><b>LTI performance measure of Relevant EPS</b> Measures profitability across the Group on a per share basis</p>	<p><b>EXCEEDED</b></p> <p>NPATA increasing by 34.3% to \$729.6 million (in reported currency) significantly exceeded STI target</p> <p>Achieved strong FCF Conversion of 123% of target</p> <p>Aristocrat achieved a TSR of 282.57% over the 2016 LTI grant performance period, 2nd in its Peer Comparator Group and ranked at the 98.9th percentile</p> <p>Compounded EPS growth rate of 45.4% exceeded set targets</p> <p>Revenue increased by more than 47% in broadly flat markets to a new record level of above \$3.6bn</p>	Total LTI vesting outcome in FY2018 = 100% of target based on TSR and EPSA performance measures
Grow recurring revenue base and successful integration of new acquisitions	<p><b>STI Individual performance rating</b> Measures include sustainable growth in US Gaming Operations and successful integration of new acquisitions</p>	<p><b>EXCEEDED</b></p> <p>In excess of 65% of Group revenues now derive from recurring sources</p> <p>Digital revenues increased by 250% to over \$1.3bn (in reported currency)</p> <p>Successful completion and integration of two major acquisitions, Plarium Global Limited and Big Fish Games, Inc., which significantly expands Aristocrat's digital portfolio and addressable digital opportunity and the proportion of Aristocrat's revenues that derive from recurring sources</p> <p>In the Digital business, two new applications - <i>FaFaFa Gold™</i> and <i>Lightning Link™</i> - were successfully launched and scaled during the period in line with our multi-app strategy</p>	
Market share - continue momentum	<p><b>STI Individual performance rating</b> Measures include sustainability of strong market position in Australia and growth in North American market share</p>	<p><b>EXCEEDED</b></p> <p>Market leading share maintained in ANZ and Asia Pacific with continued growth</p> <p>Continued strong growth in North American segment driven by significant expansion in premium gaming operations footprint</p> <p>Continued share gains were achieved across broadly flat key markets and segments</p>	
Cost efficiencies	<p><b>STI Individual performance rating</b> Measures include managing and improving cost efficiency as a proportion of revenue</p>	<p><b>MET</b></p> <p>Continue to achieve significant ROI in both D&amp;D and corporate expenses, and meaningful operating leverage achieved across land-based businesses</p>	CEO STI outcome in FY2018 = 109% of target
Product quality, product innovation, great game content and customer satisfaction	<p><b>STI Individual performance rating</b> Measures include product quality and delivery, product innovation, great game content and customer satisfaction</p> <p>Measures also include attracting, developing and retaining gaming design talent</p>	<p><b>EXCEEDED</b></p> <p>For the 3rd year running, Product Madness was awarded the prestigious 'Social Operator' of the year award 2018 at the eGaming Review Awards in London</p> <p>EILERS Slot Survey Q2 2018 (July 2018):</p> <ul style="list-style-type: none"> <li>- top three performing premium leased games - <i>Lightning Link™</i>, <i>Dragon Link™</i> and <i>Buffalo Grand™</i></li> <li>- top performing casino owned game - <i>Buffalo Gold™</i></li> <li>- two of top three most anticipated games - <i>Game of Thrones</i> and <i>Dragon Link™</i></li> <li>- Aristocrat now the #1 supplier of outright sale games</li> </ul> <p>Winner at the Global Gaming Awards for Land-Based Product and Slot of the Year for <i>Lightning Link™</i> and <i>Game of Thrones</i>, respectively</p> <p>Continued focus on the customer experience with the introduction of Salesforce CRM in key land-based markets</p> <p>Development of multi-year quality road map and focus on 3 strategic goals on quality: embed a culture of quality, develop core quality capabilities and striving to be #1 in industry leading quality</p>	Average STI outcome in FY2018 for other Executive KMP = 139% of target
High performing People and Culture	<p><b>STI Individual performance rating</b> Measures include development, retention and succession planning across all management levels and for creative talent</p>	<p><b>MET</b></p> <p>Strong investment in culture-building across the business, with the goal to inspire and motivate, as well as attracting, recruiting and retaining the highest level of talent</p> <p>Global culture assessment, with results highlighting that Aristocrat has a fun and friendly working environment and that employees are proud of working for Aristocrat</p> <p>Increased level of talent and capability across the Group, with focus on critical talent retention</p> <p>Our D&amp;D team now represents almost half of our employee base and we have continued to lift our investment in both absolute terms and as a percentage of revenue</p>	

## 4.2 Performance and remuneration outcomes in FY2018

### STI grant outcomes

130% of Group target STI was awarded in FY2018.

STI gateway (Business Score Threshold) achieved	
Business Score was in excess of the Business Score Threshold	
	Threshold 85% Target 100% Stretch 120%
NPATA (weighting = 70%)	% of plan awarded = 104%
FCF Conversion (weighting = 30%)	% of plan awarded = 123%

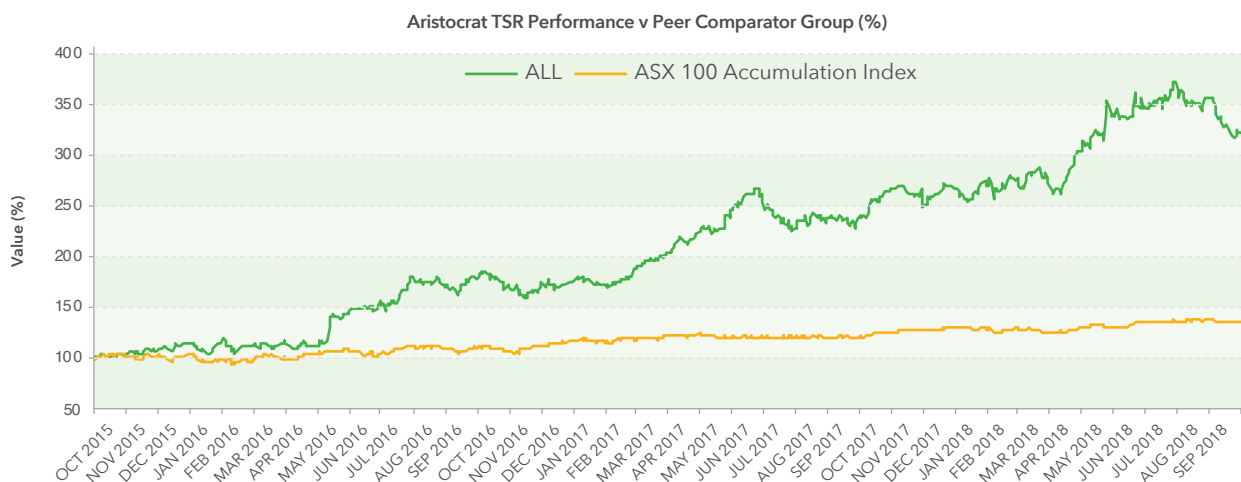
### 2016 LTI Grant vesting outcomes

This Remuneration Report discloses the outcome of the 2016 LTI Grant (tested over the three-year performance period ended 30 September 2018).

#### 30 September 2018: Three-year performance period ends for 2016 LTI Grants. Performance is tested in November 2018 for Relative TSR and Relevant EPSA

##### Relative TSR (30% weighting)

Aristocrat's TSR performance versus that of the Peer Comparator Group over the 2016 LTI Grant performance period 1 October 2015 to 30 September 2018:



With a TSR performance of 282.57%, Aristocrat was the 2nd top performer (equivalent to 98.9th percentile) of its Peer Comparator Group.

**100% of the PSRs linked to the Relative TSR measure vested**



##### Relevant EPSA (30% weighting)

100% of the Relevant EPS component vested given that Aristocrat's actual EPSA CAGR across the consecutive three-year performance period was 45.4%. This growth was delivered through gain of market share achieved across broadly flat key markets and segments.

Relevant EPSA				
1 Oct 2015 to 30 Sept 2018	Threshold EPS Target	Maximum EPS Target	Actual Outcome	Relevant EPS Achievement
3 year CAGR	7.5%	12.5%	45.4%	100%

**100% of the PSRs linked to the Relevant EPSA measure vested**



**Individual Performance-Based Condition (40% weighting): Executive KMP:** 100% of PSRs linked to the individual performance based condition vested for those who remained employed over the entire three-year performance period and achieved or exceeded the required performance rating based on calibration against a set of objective balanced scorecard KPOs. These KPOs are aligned to supporting Aristocrat's longer term strategy and driving continued sustainable growth.



**100% vesting of the total 2016 LTI Grant awards**

# REMUNERATION REPORT

## 4.3 Outcome of testing of former CEO's 2016 LTI grant

As disclosed in last year's remuneration report, given Mr Odell ceased to be employed in February 2017 (before expiry of the 2016 LTI Grant performance period, which ended on 30 September 2018), he remains eligible for a pro rata portion of his unvested 2016 LTI Grant (subject to testing in the normal course of Aristocrat's incentive process).

At the time of grant, the Board set three defined categories of Strategic Objectives for the then CEO: (i) strategy and growth, (ii) people and succession planning, and (iii) improving business efficiency. At the end of the 2016 LTI Grant performance period the Board measured achievement of the Strategic Objectives condition based on a qualitative assessment of performance against these objectives over the course of the three-year LTI grant performance period.

47% of the Strategic Objectives component was eligible for testing given that Mr Odell ceased to be employed in February 2017 (before expiry of the 2016 LTI Grant performance period). 85% of the amount of the Strategic Objectives component that was eligible for testing vested given continued strong performance across all three of the abovementioned defined categories of Strategic Objectives.

## 4.4 Alignment between remuneration and Group performance

Numerous elements of Aristocrat's remuneration strategy and framework are directly linked to Group performance.

The table below sets out information about movements in shareholder wealth for the financial years ended 30 September 2014 to 30 September 2018, highlighting alignment between Aristocrat's remuneration strategy and framework and Group performance over the past 5 years.

Further details about the Group's performance over this period can be found in the Five Year Summary contained in this Annual Report.

**Table 4 Summary of movement in shareholder wealth**

	12 months to 30 Sep 2018	12 months to 30 Sep 2017	12 months to 30 Sep 2016	12 months to 30 Sep 2015	12 months to 30 Sep 2014
Share price as at financial year-end (A\$)	28.44	21.00	15.81	8.61	5.84
Total dividends (cps)	46.0	34.0	25.0	17.0	16.0
EPS (fully diluted)/EPSA (fully diluted) (cps) <sup>1</sup>	96.5/114.1	77.5/85.0	54.9/62.4	30.1/37.1	22.8/23.1
TSR (%)	38%	35%	87%	50%	30%
Short-term cash incentives (% of Group target)	130%	172%	176%	170%	110%
LTI (% vesting) based on Relative TSR and Relevant EPSA performance measures	100%	100%	100%	94%	30%

1. Excluding the effect of significant items which are not representative of the underlying operational performance of the Group.

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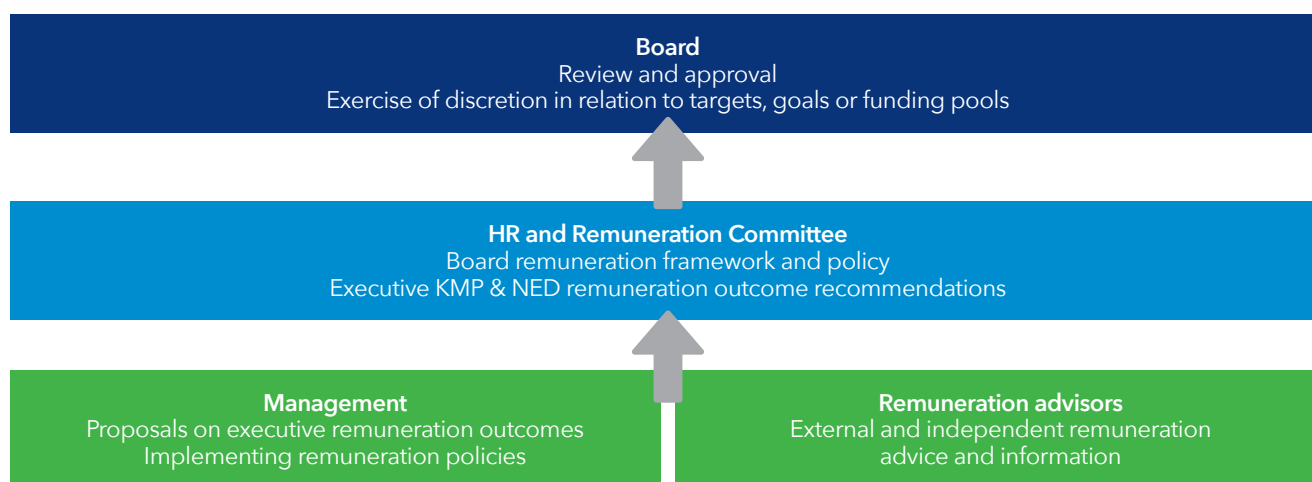
# REMUNERATION REPORT

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## SECTION 5 REMUNERATION GOVERNANCE

### 5.1 Overview

The following diagram represents Aristocrat's remuneration decision-making structure.



Details of the composition and responsibilities of the Human Resources (HR) and Remuneration Committee are set out in the Corporate Governance Statement (and can be found at [www.aristocrat.com](http://www.aristocrat.com)).

### 5.2 Use of remuneration advisors

In making recommendations to the Board, the HR and Remuneration Committee seeks advice from external advisors from time to time to assist in its deliberations. The HR and Remuneration Committee appointed Ernst & Young (EY) as Aristocrat's 'Remuneration Consultant' for the purposes of the Corporations Act.

Remuneration advisors are engaged by the Chairperson of the HR and Remuneration Committee with an agreed set of protocols that determine the way in which remuneration recommendations would be developed and provided to the Board. This process is intended to ensure there can be no undue influence by Executive KMP to whom any recommendations may relate.

No remuneration recommendations, as defined by the Act, were made by the remuneration advisors during the Reporting Period.

# REMUNERATION REPORT

## 5.3 Service agreements

The remuneration and other terms of employment for the Executive KMP are formalised in service agreements, which have no specified term. Each of these agreements provide for performance-related bonuses under the STI program, and participation, where eligible, in the Group's LTI program. Other major provisions of the service agreements of the Executive KMP are as follows:

**Table 5 Service agreements**

	Notice to be given by Executive	Notice to be given by Group <sup>1</sup>	Termination payment	Post-employment restraint
<b>CEO and Managing Director</b>				
T Croker	6 months	12 months	12 months (fixed remuneration)	12 months
<b>Other Executive KMP</b>				
J Cameron-Doe	6 months	6 months	12 months (fixed remuneration)	12 months
M Bowen	3 months	3 months	6 months (base salary)	12 months
M Wilson	3 months	-	6 months (base salary)	12 months
J Sevigny	2 months	-	12 months (base salary)	12 months
J Goldstein	3 months	-	6 months (base salary)	12 months

1. Payments may be made in lieu of notice period.

The key terms of Mrs Korsanos' service agreement have been outlined in previous years' Remuneration Reports and are not restated here given her departure from the position of CFO, Global Services and Company Secretary.

## 5.4 Disclosures under Listing Rule 4.10.22

A total of 1,662,694 securities were acquired on-market by the Aristocrat Employee Equity Trust during the Reporting Period (at an average price per security of \$30.0704) to satisfy Aristocrat's obligations under various equity and related plans.

## 5.5 Share trading policy

Aristocrat's share trading policy prohibits the use of Derivatives (as defined in the policy) in relation to unvested equity instruments, including PSRs and vested securities which are subject to disposal restrictions. Derivatives may be used in relation to vested positions which are not subject to disposal restrictions, subject to compliance with the other provisions of the share trading policy.

Senior Executives are strictly prohibited from entering into a margin loan or similar funding arrangement to acquire Aristocrat's securities and from using Aristocrat securities as security for a margin loan or similar funding arrangements.

Breaches of Aristocrat's share trading policy are regarded very seriously and may lead to disciplinary action being taken (including termination of employment).



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# REMUNERATION REPORT

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## SECTION 6 NON-EXECUTIVE DIRECTOR REMUNERATION

Details of the Non-Executive Directors of Aristocrat during the Reporting Period are provided in the Directors' Report.

### 6.1 Overview of policy

The remuneration of the Non-Executive Directors is not linked to the performance of the Group in order to maintain their independence and impartiality.

In setting fee levels, the HR and Remuneration Committee, which makes recommendations to the Board, obtains advice from an independent remuneration advisor and takes into account the demands and responsibilities associated with the Directors' roles and the global scope and highly regulated environment in which the Group operates. The Board will continue to review its approach to Non-Executive Director remuneration to ensure it remains in line with high standards of corporate governance.

### 6.2 Components and details of Non-Executive Director remuneration

Non-Executive Directors receive a fixed fee (inclusive of superannuation and committee memberships) for services to the Board. The Chair of each committee receives an additional fee for that service.

A review of Non-Executive Directors' fees was conducted during the reporting period by the Board. The focus of the review was to consider if:

- Fees are in line with ASX market and direct industry peers.
- Fee levels remain competitive across Aristocrat's two major jurisdictions (the US and Australia).
- Fees are appropriate in light of increased workloads and expectations in connection with Aristocrat's global and highly regulated business.
- A Committee fee should be introduced for Committee membership given increased Committee workloads and expectations.

As a result of the review and taking into consideration the current and future expectations associated with an Aristocrat Non-Executive Director role, Board fees were increased and a Committee fee was introduced during the Reporting Period (as outlined in Table 6 below), with the increases taking effect on 1 April 2018.

The fee increases will ensure that fee levels are competitive, including for US-based Directors. This has been a particular area of focus for the Board due to its ongoing commitment to an orderly renewal and succession planning process.

Aristocrat has increasingly transformed into a truly global business with extensive scale, complexity and diversity, which has in turn significantly increased both Board and Committee workloads and overseas travel expectations. In addition, recent developments in the corporate governance landscape are leading to increased expectations and demands of Non-Executive Directors on ASX boards.

Fees also reflect the regulatory requirements of the environment in which Aristocrat operates, which imposes considerable demands on the Non-Executive Directors and their families who are required to disclose detailed personal and financial information and submit to interviews, including in foreign jurisdictions.

Certain global companies pay a supplemental travel payment to non-resident Directors who are required to attend Board meetings away from their principal residential domicile, which Aristocrat does not do. Non-Executive Directors are entitled to be reimbursed for all reasonable business-related expenses, including travel, as may be incurred in the discharge of their duties.

Aristocrat does not make sign-on payments to new Non-Executive Directors and the Board does not provide for retirement allowances for Non-Executive Directors.

### 6.3 Aggregate fee pool approved by shareholders

Non-Executive Directors' fees (including committee fees) are set by the Board within the maximum aggregate amount of A\$3,200,000 per annum approved by shareholders at the AGM in February 2018.

# REMUNERATION REPORT

Table 6 Non-Executive Director fees payable during the Reporting Period

From 1 April 2018

Board fees per annum	Amount (inclusive of all statutory superannuation obligations)
Chairman	A\$625,000
Non-Executive Director	A\$250,000 / US\$220,000
Lead US Director	Additional US\$40,000
Committee Chair (Audit, HR & Remuneration)	Additional A\$45,000 / US\$35,000
Committee Chair (Strategic, Regulatory & Compliance)	Additional A\$35,000 / US\$30,000
Committee member (per committee, capped at two committees per person)	Additional A\$15,000 / US\$10,000

From 1 October 2017 to 31 March 2018

Board fees per annum <sup>1</sup>	Amount (inclusive of all statutory superannuation obligations and committee service)
Chairman	A\$460,000
Non-Executive Director	A\$215,000
Lead US Director	Additional A\$40,000
Committee Chair	Additional A\$25,000

1. Fees paid to Australian-based Non-Executive Directors are paid in AUD. Fees paid to US-based Non-Executive Directors are paid in USD converted at a rate of A\$1 to US\$1. Inclusive of statutory superannuation obligations made on behalf of Australian-based Non-Executive Directors.

# REMUNERATION REPORT

## SECTION 7 STATUTORY REMUNERATION TABLES AND DATA

### 7.1 Details of Executive KMP remuneration

The following table reflects the accounting value of remuneration attributable to Executive KMP, derived from the various components of their remuneration. This does not necessarily reflect actual amounts paid to Executive KMP due to the conditional nature (for example, performance criteria) of some of these accrued amounts.

As required by the Accounting Standards, the table includes credits for PSRs which were forfeited during the year and the amortised value of PSRs that may vest or best available estimates attributable to PSRs which may be lapsed or forfeited in future reporting periods.

Mr Croker's FY2017 remuneration in the table below reflects 7 month's remuneration in his role as CEO & Managing Director and 5 month's remuneration in his previous role of Executive VP - Global Products & Insights.

The Non-Monetary Benefits for Mr Croker and Mrs Cameron-Doe relate to their approved relocation costs as part of the relocation of the CEO and CFO roles, respectively, from Australia to the US.

**Table 7 Statutory Executive KMP remuneration table**

Executive	Year	Short-term benefits (\$)			Post-employment benefits (\$)		Long-Term Benefits (\$)	Share-based payments <sup>6</sup> (\$)		Total \$	% of Share Based remuneration (LTI PSRs)
		Cash Salary <sup>1</sup>	Cash Bonuses <sup>2</sup>	Non-Monetary Benefits <sup>3</sup>	Superannuation	Termination <sup>4</sup>	Long Service Leave <sup>5</sup>	STI PSRs <sup>7</sup>	LTI PSRs <sup>8</sup>		
<b>CEO &amp; Managing Director</b>											
T Croker <sup>9</sup>	2018	1,457,094	804,590	220,526	2,083	-	-	512,859	1,541,831	4,538,983	34.0%
	2017	857,917	414,375	23,686	28,333	-	78,090	365,156	577,821	2,345,378	24.6%
<b>Executive KMP</b>											
J Cameron-Doe <sup>10</sup>	2018	444,240	290,506	119,845	4,563	-	19,556	87,468	112,762	1,078,940	10.5%
	2017	-	-	-	-	-	-	-	-	-	-
M Wilson <sup>11</sup>	2018	599,259	306,710	30,712	15,405	-	2,694	368,493	222,656	1,545,929	14.4%
	2017	-	-	-	-	-	-	-	-	-	-
M Bowen <sup>11</sup>	2018	466,250	216,974	18,065	25,000	-	15,379	218,906	191,541	1,152,115	16.6%
	2017	-	-	-	-	-	-	-	-	-	-
J Sevigny	2018	748,288	313,614	-	-	782,115	-	68,781	11,360	1,924,158	0.6%
	2017	742,185	288,956	-	-	-	-	372,178	413,454	1,816,773	22.8%
J Goldstein <sup>11</sup>	2018	754,910	225,802	-	-	380,000	-	-	-	1,360,712	0.0%
	2017	-	-	-	-	-	-	-	-	-	-
A Korsanos <sup>12</sup>	2018	414,976	252,356	4,029	10,024	(31,123)	6,855	489,114	124,944	1,271,175	9.8%
	2017	797,740	572,000	7,797	19,760	800,000	33,769	700,583	381,511	3,313,160	11.5%
<b>Total</b>	<b>2018</b>	<b>4,885,017</b>	<b>2,410,552</b>	<b>393,177</b>	<b>57,075</b>	<b>1,130,992</b>	<b>44,484</b>	<b>1,745,621</b>	<b>2,205,094</b>	<b>12,872,012</b>	<b>17.1%</b>
<b>Total</b>	<b>2017</b>	<b>2,397,842</b>	<b>1,275,331</b>	<b>31,483</b>	<b>48,093</b>	<b>800,000</b>	<b>111,859</b>	<b>1,437,917</b>	<b>1,372,786</b>	<b>7,475,311</b>	<b>18.4%</b>

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 Fringe Benefits Tax (FBT), the above amount includes FBT.

2. Amounts reflect the non-deferred cash component of the 2018 STI incentives.

3. Non-monetary benefits include insurance and travel costs, relocation costs, expatriate related costs and associated FBT.

4. Amounts reflect accruals in connection with the termination of employment (inclusive of any accruals for payments in lieu of notice).

5. The amounts provided for by the Group during the financial year in relation to accruals for long service leave.

6. In accordance with the requirements of the Australian 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 Executive KMP 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 PSRs, Deloitte has used a TSR model and an EPSA model. These models are described below:

**TSR model** - Deloitte uses the Monte-Carlo simulation-based model which incorporates the impact of performance hurdles and the vesting scale on the value of the PSRs. 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.

# REMUNERATION REPORT

**EPSA and individual performance model** – The Black-Scholes-Merton model was used to determine the fair value of PSRs. This pricing model takes into account factors such as the Company's share price at the date of grant, 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 expected level of vesting over the performance period. For the purposes of remuneration packaging, the 'face value' (volume-weighted average price for the 5 trading days up to and including the day before the start 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 earnings per share growth and share-based remuneration requiring shareholder approval, results in accounting expense and disclosures differing from the value allocated for the purposes of remuneration packaging.

- A component of STI awards payable to Executive KMP will be satisfied by the grant of deferred share rights. Half will vest after one year, with the remainder vesting after two years, both subject to relevant forfeiture conditions. Any individual who is internally promoted to a Senior Executive role is only subject to a deferral of 25% of their STI outcome (as opposed to 50%) in his/her first year. The accounting expense for STI share rights represents the expense attributable to the service period that has been completed for each deferred award. Therefore, the amounts reflected for the 12 months to 30 September 2018 include the accounting accruals attributable to deferred share rights pursuant to the 2016, 2017 and 2018 STI awards.
- The share-based payments expense includes the impact of PSRs that were granted in previous years that are being expensed for accounting purposes over the vesting period, as well as the PSRs that were granted in the reporting period. Also includes best available estimates attributable to PSRs which may be lapsed or forfeited in future reporting periods.
- T Croker's remuneration arrangements were adjusted effective 1 October 2017 to reflect the completion of Mr Croker's relocation to the USA, together with the results of remuneration benchmarking for several US based senior executive positions. The adjustments also align with US market practice, particularly the higher weighting of at-risk components of compensation. Mr Croker's remuneration arrangements were adjusted from Fixed Remuneration of A\$1,100,000, STI (at target) of A\$600,000 and LTI (at target) of A\$1,000,000 to Fixed Remuneration of US\$1,100,000, STI (at target) of US\$1,100,000 and LTI (at target) of US\$2,200,000.
- J Cameron-Doe was appointed CFO from 31 January 2018. Mrs Cameron-Doe was not an Executive KMP during FY2017 nor prior to her appointment as CFO.
- M Wilson, M Bowen and J Goldstein were not Executive KMP during FY2017.
- T Korsanos left the Company on 31 March 2018.

**Table 8 Details of 2018 short-term awards paid and deferred**

For the 12 months ended 30 September 2018	Total award <sup>1</sup> \$	Cash payment <sup>2</sup> \$	Deferred component <sup>3</sup> \$	No. Share Rights vesting 1 Oct 2019 <sup>3</sup>	No. Share Rights vesting 1 Oct 2020 <sup>3</sup>	Total award as % of target STI	% of total award deferred
T Croker	1,584,576	792,288	792,288	13,967	13,967	109%	50%
<b>Other Executive KMP</b>							
J Cameron-Doe	387,341	290,506	96,835	1,707	1,707	157%	25%
M Wilson	594,216	297,108	297,108	5,238	5,238	180%	50%
M Bowen	422,000	211,000	211,000	3,720	3,720	180%	50%
J Sevigny	627,228	313,614	313,614	5,529	5,529	140%	50%
J Goldstein	225,802	225,802	-	-	-	50%	0
<b>Former Executive KMP</b>							
A Korsanos	468,562	234,281	234,281	4,130	4,130	130%	50%

- Amounts reflect the value of the total 2018 awards. See footnotes 2 and 3 for an explanation of the cash and deferred components of the total award.
- Amounts reflect the cash component of the 2018 awards paid to participants. Amounts in USD are translated at the average rate for the year.
- Amounts reflect the value of 2018 awards deferred into PSRs. Part of the deferred component of awards will vest on 1 October 2019 and the remainder on 1 October 2020. The number of PSRs is determined using the five day VWAP up to and including 30 September 2018, being \$28.36. Amounts in USD are translated at the FX rate on the grant date.

**Table 9 Details of LTI PSRs granted to Executive KMP, including their related parties, during the Reporting Period**

Performance rights with a three-year performance period were granted during the Reporting Period as follows:

	Rights granted <sup>1</sup>	Value of grant <sup>2</sup> (\$)
T Croker	136,383	3,283,426
J Cameron-Doe	21,077	507,429
M Wilson	18,597	447,723
M Bowen	13,125	315,987
J Sevigny	24,796	596,964
J Goldstein	35,335	850,693
A Korsanos	-	-

- The number of rights granted calculated based on the Face Value, as further explained in Section 3.3.3. The rights that were vested or forfeited during the Reporting Period are set out in Table 10.
- The fair value of the rights that were granted on 27 April 2018 are \$20.22 for rights with a total shareholder return condition and \$25.73 for rights with an individual performance based condition and EPSA condition. The values shown in the above table represent the maximum value of the grants made. The minimum value is zero. The performance conditions for the grants are set out in Section 3.3.3.

# REMUNERATION REPORT

Table 10 Details of the movement in numbers of LTI PSRs during the Reporting Period

	Balance at 1 October 2017	Granted during the year <sup>1</sup>	Vested <sup>2,3</sup>	Lapsed/ forfeited	Balance at 30 September 2018
T Croker	167,315	136,383	(61,853)	-	241,845
J Cameron-Doe	-	21,077	-	-	21,077
M Wilson	14,351	18,597	-	-	32,948
M Bowen	21,829	13,125	-	-	34,954
J Sevigny	129,114	24,796	(41,251)	-	112,659
J Goldstein <sup>4</sup>	-	35,335	-	-	35,335
A Korsanos	227,254	-	(108,303)	(67,973)	50,978

1. The value of the PSRs granted to Executive KMP during the year (including the aggregate value of PSRs granted) is set out in Table 9. No options were granted during the year to any Executive KMP.
2. The value of each PSR on the date of vesting is the closing price of the Company's shares on the ASX on the preceding trading day.
3. As shares are immediately allocated upon the vesting of PSRs, there will be no instances where PSRs are vested and exercisable, or vested but not yet exercisable.
4. Mr Goldstein's PSRs were lapsed/forfeited after the Reporting Period.

## 7.2 Details of Non-Executive Director remuneration

Table 11 Details of Non-Executive Director remuneration for the Reporting Period

Directors	Year	Short-term benefits (\$)		Post-employment benefits (\$)		Share-based payments (\$)	Total
		Cash salary and fees <sup>1</sup>	Fees for extra services <sup>2</sup>	Superannuation <sup>3</sup>	Retirement benefits <sup>4</sup>	Options and PSRs	\$
ID Blackburne	2018	517,500	15,000	25,000	-	-	557,500
	2017	428,334	15,000	31,666	-	-	475,000
NG Chatfield	2018	187,513	-	17,814	-	-	205,327
	2017	-	-	-	-	-	-
SW Morro	2018	347,373	15,000	-	-	-	362,373
	2017	334,742	15,000	-	-	-	349,742
KM Conlon	2018	252,089	15,000	23,257	-	-	290,346
	2017	219,178	15,000	20,822	-	-	255,000
AM Tansey	2018	248,284	15,000	22,895	-	-	286,179
	2017	196,347	15,000	18,653	-	-	230,000
S Summers Couder	2018	330,930	15,000	-	-	-	345,930
	2017	298,422	15,000	-	-	-	313,422
PJ Ramsey	2018	317,521	15,000	-	-	-	332,521
	2017	282,237	15,000	-	-	-	297,237
<b>Former Non-Executive Director</b>							
RV Dubs	2018	88,416	15,000	8,222	-	-	111,638
	2017	219,178	15,000	20,822	-	-	255,000
DCP Banks	2018	101,979	15,000	11,488	-	-	128,467
	2017	219,178	15,000	20,822	-	-	255,000
Total	2018	2,391,605	120,000	108,676	-	-	2,620,281
	2017	2,197,616	120,000	112,785	-	-	2,430,401

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. Given the large amount of work undertaken by the Board during the reporting period, particularly in relation to the diligence, negotiation and execution of the Big Fish Games acquisition and associated debt financing, it was determined that each Non-Executive Director will receive a fixed sum of A\$15,000. Each Non-Executive Director received a fixed sum of A\$15,000 in FY2017 in relation to the diligence, negotiation and execution of the Plarium acquisition and associated debt financing.
3. Superannuation contributions include amounts required to satisfy the Group's obligations under applicable Superannuation Guarantee legislation.
4. Non-Executive Directors are not entitled to any retirement benefit.

# REMUNERATION REPORT

## SECTION 8 SHAREHOLDINGS

### 8.1 Movement in shares

The number of shares (excluding those unvested under the STI Plan and the LTI Plan) in Aristocrat held during the year ended 30 September 2018 by each Non-Executive Director and Executive KMP, including their personally related entities, are set out below.

No amounts are unpaid on any of the shares issued. Where shares are held by the Director or Executive KMP and any entity under the joint or several control of the Director or Executive KMP, 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 Director or Executive KMP or are held through a nominee or custodian are shown as 'non-beneficially held'.

The following sets out details of the movement in shares in Aristocrat held by Non-Executive Directors or their related parties during the year:

**Table 12 Details of Non-Executive Director shareholdings**

		Non-Executive Directors			
	Type	Balance as at 1 October 2017	Performance shares vested	Other net changes during the year	Balance as at 30 September 2018
ID Blackburne	Beneficially held	-	-	-	-
	Non-beneficially held	137,851	-	(47,851)	90,000
NG Chatfield (nominated on 12 December 2017)	Beneficially held	-	-	8,000	8,000
	Non-beneficially held	-	-	-	-
DCP Banks (retired on 31 March 2018)	Beneficially held	-	-	-	-
	Non-beneficially held	30,851	-	-	30,851 <sup>1</sup>
KM Conlon	Beneficially held	-	-	-	-
	Non-beneficially held	10,514	-	-	10,514
RV Dubs (retired on 22 February 2018)	Beneficially held	32,851	-	-	32,851 <sup>2</sup>
	Non-beneficially held	-	-	-	-
SW Morro	Beneficially held	-	-	-	-
	Non-beneficially held	40,000	-	-	40,000
PJ Ramsey	Beneficially held	19,360	-	-	19,360
	Non-beneficially held	-	-	-	-
AM Tansey	Beneficially held	-	-	-	-
	Non-beneficially held	1,570	-	-	1,570
S Summers Couder	Beneficially held	-	-	6,050	6,050
	Non-beneficially held	-	-	-	-

1. As at 31 March 2018.

2. As at 22 February 2018.

All equity instrument transactions between the Non-Executive Directors, including their related parties, and Aristocrat during the year have been on arm's length basis.

# REMUNERATION REPORT

The following sets out details of the movement in shares in Aristocrat held by Executive KMP or their related parties during the year:

**Table 13 Details of Executive KMP shareholdings not held under an employee share plan**

Executive Director and other Executive KMP					
	Type	Balance as at 1 October 2017	Performance shares vested	Other net changes during the year	Balance as at 30 September 2018
T Croker	Beneficially held	264,107	91,649	(100,000)	255,756
	Non-beneficially held	-	-	-	-
J Cameron-Doe	Beneficially held	5,132	13,861	(12,000)	6,993
	Non-beneficially held	-	-	-	-
J Sevigny	Beneficially held	11,866	72,960	(84,826)	-
	Non-beneficially held	-	-	-	-
M Wilson	Beneficially held	32,129	20,054	(52,183)	-
	Non-beneficially held	-	-	-	-
M Bowen	Beneficially held	10,730	14,000	(24,730)	-
	Non-beneficially held	-	-	-	-
J Goldstein	Beneficially held	-	-	-	-
	Non-beneficially held	-	-	-	-
A Korsanos	Beneficially held	503,107	152,115	(300,000)	355,222
	Non-beneficially held	-	-	-	-

Other than share-based payment compensation effected through an employee share plan, all equity instrument transactions between Executive KMP, including their related parties, and Aristocrat during the year have been on arm's length basis.

## 8.2 Loans with KMP

No KMP or their related parties held any loans from the Group during or at the end of the year ended 30 September 2018 or prior year.

# REMUNERATION REPORT

## SECTION 9 GLOSSARY

<b>2016 LTI Grant</b>	Awards made under the LTI Plan during FY2016 with a three-year performance period 1 October 2015 to 30 September 2018
<b>Aristocrat</b>	Aristocrat Leisure Limited and (where applicable) the Group
<b>Business Score</b>	For Executive KMP and employees in corporate functions - is the result that is based on the actual financial performance of Aristocrat in a financial year, calculated by reference to NPATA and FCF Conversion  For Employees in a region or business unit (including Big Fish Games and Product Madness) - is the result that is based in part on the actual performance of Aristocrat (as above) and in part on the actual regional or business unit performance, using EBITA in place of NPATA for both profit and FCF Conversion calculations
<b>Business Score Goals</b>	Aristocrat's and individual business unit's/region's financial performance goals, approved by the Board at the start of the performance period, that need to be achieved under the STI Plan
<b>Business Score Threshold</b>	The minimum Business Score required to receive payment under the STI Plan (being 85% of the Business Score Goals)
<b>EBIT</b>	Earnings before interest and tax, on a normalised basis excluding significant items as disclosed in the Operating and Financial Review section of the Annual Report
<b>EBITA</b>	Earnings before interest, taxes and amortisation, on a normalised basis excluding significant items as disclosed in the Operating and Financial Review section of the Annual Report
<b>EPS</b>	Fully diluted earnings per share, normalised for significant items as disclosed in the Operating and Financial Review section of the Annual Report
<b>EPSA</b>	Fully diluted EPS before amortisation of acquired intangibles
<b>Executive KMP</b>	Those KMP who were also part of Aristocrat's Executive Steering Committee during the Reporting Period, being (i) T Croker (CEO and Managing Director), (ii) J Cameron-Doe (Chief Financial Officer - for part year), (iii) M Bowen (Managing Director, ANZ & International), (iv) M Wilson (Managing Director, Americas), (v) J Sevigny (President, Video Gaming Technologies), (vi) J Goldstein (Chief Digital Officer), and (vii) A Korsanos (Former Chief Financial Officer, Global Services and Company Secretary - for part year)
<b>Face Value</b>	The volume-weighted average price of Aristocrat shares for the 5 trading days up to and including the day before the start of the performance period
<b>FCF</b>	Free cash flow (measured as operating cash flow according to the Operating and Financial Review net of capital expenditure on gaming machines)
<b>FCF Conversion</b>	In the case of Executive KMP and all employees (other than Big Fish Games and Product Madness employees), this is the target based on FCF as a percentage of NPATA. The exceptions are Big Fish Games and Product Madness employees, as they do not have FCF targets
<b>KMP</b>	Persons who, directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of Aristocrat and the Group during the Reporting Period
<b>KPO</b>	Key Performance Objective
<b>LTI Plan</b>	Aristocrat's long-term incentive plan
<b>NPAT</b>	Net profit after tax normalised for significant items as disclosed in the Operating and Financial Review section of the Annual Report
<b>NPATA</b>	Net profit after tax before amortisation of acquired intangibles, normalised for significant items as disclosed in the Operating and Financial Review section of the Annual Report



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# REMUNERATION REPORT

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<b>Peer Comparator Group</b>	Constituents of the S&P/ASX100 Index, defined at the commencement of the performance period. For grants made during the Reporting Period, the entities comprising the Peer Comparator Group are the constituents of the S&P/ASX100 Index as at 1 October 2017
<b>PSR</b>	Performance Share Right, with each right entitling the holder to receive one fully-paid ordinary share in Aristocrat on vesting. Vesting of PSRs may be subject to vesting conditions and performance hurdles
<b>Relative TSR</b>	Aristocrat's compounded TSR measured against the ranking of constituents of the Peer Comparator Group
<b>Relevant EPS</b>	Cumulative EPS over the performance period compared to a target set by the Board at the commencement of the performance period
<b>Relevant EPSA</b>	EPSA for the final financial year of the relevant performance period
<b>Senior Executives</b>	The group of senior executives consisting of: (i) the Executive KMP, and (ii) other members of Aristocrat's Executive Steering Committee (details of which can be found on <a href="http://www.aristocrat.com">www.aristocrat.com</a> )
<b>STI Plan</b>	Aristocrat's short-term incentive plan
<b>TSR</b>	Total shareholder return measures the percentage growth in the share price together with the value of dividends received during the relevant three year performance period, assuming all dividends are reinvested into new securities

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### *Auditor's Independence Declaration*

As lead auditor for the audit of Aristocrat Leisure Limited for the year ended 30 September 2018, 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.

A handwritten signature in black ink, appearing to read 'MK Graham', is written over a light grey horizontal line.

MK Graham  
Partner  
PricewaterhouseCoopers

Sydney  
29 November 2018

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# NEVADA REGULATORY DISCLOSURE

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**The Nevada Gaming Commission has requested that the following be brought to the attention of shareholders.**

## **Summary of the Nevada Gaming Regulations**

The manufacture, sale and distribution of gaming devices, internet and mobile gaming, and cashless wagering systems for use or play in Nevada and the operation of slot machine routes and inter-casino linked systems are subject to:

- (i) the Nevada Gaming Control Act and the regulations promulgated thereunder (collectively, the "Nevada Act");
- (ii) and various local ordinances and regulations.

Gaming and manufacturing and distribution operations in Nevada are subject to the licensing and regulatory control of the Nevada Gaming Commission ("Nevada Commission"), the Nevada State Gaming Control Board ("Nevada Board") and various other county and city regulatory agencies, collectively referred to as the "Nevada Gaming Authorities".

## **Nevada Regulatory Disclosure**

The laws, regulations and supervisory procedures of the Nevada Gaming Authorities are based upon declarations of public policy which are concerned with, among other things:

- (i) the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming, manufacturing or distributing activities at any time or in any capacity;
- (ii) the establishment and maintenance of responsible accounting practices and procedures;
- (iii) the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing reliable record keeping and requiring the filing of periodic reports with the Nevada Gaming Authorities;
- (iv) the prevention of cheating and fraudulent practices; and
- (v) providing a source of state and local revenues through taxation and licensing fees.

Aristocrat Leisure Limited ("the Company") is registered with the Nevada Commission as a publicly traded corporation (a "Registered Corporation") and has been found suitable to directly or indirectly own the stock of two subsidiaries (collectively, the "Operating Subsidiaries"), one subsidiary

has been licensed as a manufacturer and a distributor of gaming devices and an Internet Gaming System ("IGS") Service Provider, the other subsidiary has been licensed as a manufacturer and a distributor of gaming devices, an operator of a slot machine route and an IGS Service Provider.

A manufacturer's and distributor's license permits the manufacturing, sale and distribution of gaming devices and cashless wagering systems for use or play in Nevada or for distribution outside of Nevada. A license as an operator of a slot machine route permits the placement and operation of gaming devices upon the business premises of other licensees on a participation basis and also permits the operation of inter-casino linked systems consisting of gaming devices only. The IGS Service Provider license allows the provision of certain services of internet gaming to licensed Internet Operators.

If it were determined that the Nevada Act was violated by the Company or the Operating Subsidiaries, the registration of the Company and the licenses of the Operating Subsidiaries could be limited, conditioned, suspended or revoked, subject to compliance with certain statutory and regulatory procedures. In addition, the Company, the Operating Subsidiaries and the persons involved could be subject to substantial fines for each separate violation of the Nevada Act at the discretion of the Nevada Commission.

Any beneficial owner of a Registered Corporation's voting securities (in the case of the Company its ordinary shares), regardless of the number of voting securities owned, may be required to file an application, be investigated, and have their suitability as a beneficial owner of the Registered Corporation's voting securities determined if the Nevada Commission has reason to believe that such ownership would otherwise be inconsistent with the declared policies of the state of Nevada. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting any such investigation.

The Nevada Act requires any person who acquires a beneficial ownership of more than 5% of a Registered Corporation's voting securities to report the acquisition to the Nevada Commission. The Nevada Act requires that beneficial owners of more than 10% of a Registered Corporation's voting securities apply to the Nevada

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# NEVADA REGULATORY DISCLOSURE

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Commission for a finding of suitability within thirty days after the Chairman of the Nevada Board mails the written notice requiring such filing.

Under certain circumstances, an "institutional investor", as defined in the Nevada Act, which acquires the beneficial ownership of more than 10%, but not more than 25% of a Registered Corporation's voting securities may apply to the Nevada Commission for a waiver of such finding of suitability if such institutional investor holds the voting securities for investment purposes only. An institutional investor that has been granted a waiver by the Nevada Commission may beneficially own more than 25%, but not more than 29%, of the voting securities of a Registered Corporation, only if such additional ownership results from a stock repurchase program conducted by a Registered Corporation, and upon the condition that such institutional investor does not purchase or otherwise acquire any additional voting securities of the Registered Corporation that would result in an increase in the institutional investor's ownership percentage. Further, an institutional investor that is subject to NRS 463.643(4) as a result of its beneficial ownership of voting securities of a Registered Corporation and that has not been granted a waiver by the Commission, may beneficially own more than 10%, but not more than 11%, of the voting securities of such Registered Corporation, only if such additional ownership results from a stock repurchase program conducted by the Registered Corporation, upon the condition that such institutional investor does not purchase or otherwise acquire any additional voting securities of the Registered Corporation that would result in an increase in the institutional investor's ownership percentage. Unless otherwise notified by the chairman, such an institutional investor is not required to apply to the commission for a finding of suitability, but shall be subject to reporting requirements as prescribed by the chairman.

The applicant is required to pay all costs of investigation incurred by the Nevada Gaming Authorities.

The Nevada Act provides that any person who fails or refuses to apply for a finding of suitability or a license within thirty days after being ordered to do so by the Nevada Commission or the Chairman of the Nevada Board, may be found unsuitable. The same restrictions apply to a record holder (in the case of the Company a registered holder) if

the record owner, after request, fails to identify the beneficial owner.

Any person found unsuitable and who holds, directly or indirectly, any of the voting securities of a Registered Corporation beyond such period of time as may be prescribed by the Nevada Commission may be guilty of a criminal offence under Nevada law. A Registered Corporation can be sanctioned, including the loss of its approvals if, after it receives notice that a person is unsuitable to be the holder of the voting securities of the Registered Corporation or to have any other relationship with the Registered Corporation, it:

- (i) pays that person any dividend or interest upon its voting securities,
- (ii) allows that person to exercise, directly or indirectly, any voting right conferred through securities held by that person,
- (iii) pays remuneration in any form to that person for services rendered or otherwise, or
- (iv) fails to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities including, if necessary, the immediate purchase of said voting securities for cash at fair market value.

The Nevada Commission may, in its discretion, require the holder of any debt security of a Registered Corporation to file applications, be investigated and be found suitable to own the debt security of a Registered Corporation. If the Nevada Commission determines that a person is unsuitable to own such security, then pursuant to the Nevada Act, the Registered Corporation can be sanctioned, including the loss of its approvals, if without the prior approval of the Nevada Commission, it:

- (i) pays to the unsuitable person any dividend, interest, or any distribution whatsoever;
- (ii) recognises any voting right by such unsuitable person in connection with such securities;
- (iii) pays the unsuitable person remuneration in any form; or
- (iv) makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation, or similar transaction.

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# NEVADA REGULATORY DISCLOSURE

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A Registered Corporation may not make a public offering of its securities without the prior approval of the Nevada Commission if the securities or proceeds therefrom are intended to be used to construct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations incurred for such purposes. On June 21 2001, the Nevada Commission granted the Company prior approval to make public offerings for a period of two years subject to certain conditions ("Shelf Approval"). This approval has been extended and remains in place today. However, the Shelf Approval may be rescinded for good cause without prior notice upon the issuance of an interlocutory stop order by the Chairman of the Nevada Board. The Shelf Approval does not constitute a finding, recommendation or approval by the Nevada Commission or the Nevada Board as to the accuracy or adequacy of the prospectus or the investment merits of the securities offered. Any representation to the contrary is unlawful. An application to renew the Shelf Approval (which can only be issued for a maximum term of three years) will be lodged with the Commission when required.

Other Regulatory requirements - Other Gaming Authorities throughout the world may require any person who acquires a beneficial ownership of more than 5% of a Registered Corporation's voting securities to report the acquisition to the Gaming Authority and in some cases, apply to the Gaming Authority for a finding of suitability within thirty days of acquiring more than 5% of the Registered Corporation's voting securities. The applicant is subject to the same rules as in Nevada in relation to an unsuitable finding. The applicant is required to pay all costs of investigation incurred by the Gaming Authorities.

A copy of the Nevada Act is available on request from:

The Secretary, Aristocrat Leisure Limited  
Building A, Pinnacle Office Park, 85 Epping Road  
North Ryde NSW 2113 Australia  
Telephone: +61 2 9013 6000 Fax: +61 2 9151 1495

# FIVE YEAR SUMMARY

\$'m (except where indicated)	12 months to 30 Sep 2018	12 months to 30 Sep 2017	12 months to 30 Sep 2016	12 months to 30 Sep 2015	12 months to 30 Sep 2014
<b>Profit and loss items</b>					
Revenue <sup>1</sup>	3,624.1	2,453.8	2,128.7	1,582.4	839.1
EBITDA <sup>2</sup>	1,328.6	1,001.2	806.0	523.1	219.2
Depreciation and amortisation	(355.6)	(220.0)	(208.9)	(162.3)	(43.3)
EBIT <sup>2</sup>	973.0	781.2	597.1	360.8	175.9
Net interest expense	(105.4)	(53.1)	(89.9)	(81.3)	(8.0)
Profit before income tax expense <sup>2</sup>	867.6	728.1	507.2	279.5	167.9
Income tax expense	(250.7)	(233.0)	(156.7)	(88.0)	(37.7)
Profit after income tax expense <sup>2</sup>	616.9	495.1	350.5	191.5	130.2
Significant items and discontinued operations after tax	(74.3)	-	-	(5.1)	(146.6)
Reported net profit/(loss) attributable to members of Aristocrat Leisure Limited	542.6	495.1	350.5	186.4	(16.4)
Total dividend paid	249.0	185.2	121.0	101.1	85.5
<b>Balance sheet items</b>					
Contributed equity	715.1	715.1	693.8	693.8	641.6
Reserves	(23.5)	(116.8)	(55.7)	15.7	(58.1)
Retained earnings	1,040.9	747.3	437.4	207.9	122.6
Total equity	1,732.5	1,345.6	1,075.5	917.4	706.1
Cash and cash equivalents	428.1	547.1	283.2	329.0	285.9
Other current assets	924.0	647.9	591.9	569.5	415.6
Property, plant and equipment	389.3	241.3	217.5	203.4	121.4
Intangible assets	3,898.8	1,687.7	1,736.5	1,941.8	130.5
Other non-current assets	206.6	168.9	158.6	175.0	159.3
Total assets	5,846.8	3,292.9	2,987.7	3,218.7	1,112.7

# FIVE YEAR SUMMARY

\$'m (except where indicated)		12 months to 30 Sep 2018	12 months to 30 Sep 2017	12 months to 30 Sep 2016	12 months to 30 Sep 2015	12 months to 30 Sep 2014
Current payables and other liabilities		821.1	460.0	434.9	402.7	209.3
Current borrowings		-	0.1	-	0.1	114.4
Current tax liabilities and provisions		196.4	193.0	114.3	39.5	48.0
Non-current borrowings		2,881.1	1,199.3	1,287.8	1,779.5	0.2
Non-current provisions		13.8	13.8	13.4	14.7	13.2
Other non-current liabilities		201.9	81.1	61.8	64.8	21.5
<b>Total liabilities</b>		<b>4,114.3</b>	<b>1,947.3</b>	<b>1,912.2</b>	<b>2,301.3</b>	<b>406.6</b>
<b>Net assets</b>		<b>1,732.5</b>	<b>1,345.6</b>	<b>1,075.5</b>	<b>917.4</b>	<b>706.1</b>
<b>Other information</b>						
Employees at year end	Number	6,100	3,640	3,200	2,912	2,274
Return on Aristocrat shareholders' equity <sup>2</sup>	%	35.6	36.8	32.6	20.9	18.4
Basic earnings per share <sup>2</sup>	Cents	96.7	77.7	55.1	30.3	23
Net tangible assets/(liabilities) per share	\$	(3.39)	(0.54)	(1.04)	(1.61)	0.91
Total dividends per share - ordinary	Cents	46.0	34.0	25.0	17.0	16.0
Dividend payout ratio <sup>2</sup>	%	48	44	45	56	70
Issued shares at year end	'000	638,544	638,544	637,120	637,120	630,022
Net (cash)/debt <sup>3</sup>	\$'m	2,453.0	652.3	1,004.6	1,450.6	(171.3)
Net cash (debt)/equity	%	(141.6)	(48.5)	(93.4)	(158.1)	24.3

1. Revenue as per segment results.

2. Before the impact of abnormal and one-off items that are not representative of the underlying operational performance of the Group. The non-IFRS information presented above has not been audited in accordance with the Australian Auditing Standards.

3. Current and non-current borrowings net of cash and cash equivalents.

# FINANCIAL STATEMENTS

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### Significant changes in the reporting period

During the year, the Group acquired Plarium Global and Big Fish Games Inc. Further information on these acquisitions is set out in Note 4-1.

For a detailed discussion of the Group's financial performance and position, refer to the Operating and Financial Review.



# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2018

Consolidated	Note	2018 \$'m	2017 \$'m
Revenue	1-2	3,549.8	2,453.8
Cost of revenue		(1,577.5)	(967.6)
<b>Gross profit</b>		<b>1,972.3</b>	<b>1,486.2</b>
Other income	1-2	13.5	10.0
Design and development costs		(413.6)	(268.4)
Sales and marketing costs		(181.3)	(116.8)
General and administration costs	1-3	(512.5)	(320.2)
Finance costs		(115.3)	(62.7)
<b>Profit before income tax expense</b>		<b>763.1</b>	<b>728.1</b>
Income tax expense	1-4	(220.5)	(233.0)
<b>Profit for the year</b>		<b>542.6</b>	<b>495.1</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange difference on translation of foreign operations	3-3	115.0	(30.8)
Net investment hedge	3-3	(25.1)	3.9
Changes in fair value of interest rate hedge	3-3	15.6	10.0
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>105.5</b>	<b>(16.9)</b>
<b>Total comprehensive income for the year</b>		<b>648.1</b>	<b>478.2</b>
<b>Earnings per share attributable to ordinary equity holders of the Company</b>			
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	1-5	85.0	77.7
Diluted earnings per share	1-5	84.9	77.5

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

# BALANCE SHEET

AS AT 30 SEPTEMBER 2018

Consolidated	Note	2018 \$'m	2017 \$'m
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		428.1	547.1
Trade and other receivables	2-1	720.0	512.3
Inventories	2-2	159.9	116.4
Financial assets	3-2	7.4	6.4
Current tax assets		36.7	12.8
<b>Total current assets</b>		<b>1,352.1</b>	<b>1,195.0</b>
<b>Non-current assets</b>			
Trade and other receivables	2-1	112.1	107.0
Financial assets	3-2	22.2	7.8
Property, plant and equipment	2-4	389.3	241.3
Intangible assets	2-3	3,898.8	1,687.7
Deferred tax assets	1-4	72.3	54.1
<b>Total non-current assets</b>		<b>4,494.7</b>	<b>2,097.9</b>
<b>Total assets</b>		<b>5,846.8</b>	<b>3,292.9</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	2-5	669.2	404.7
Borrowings	3-1	-	0.1
Current tax liabilities		141.7	148.7
Provisions	2-6	54.7	44.3
Financial liabilities	3-2	3.2	0.5
Deferred revenue		148.7	54.8
<b>Total current liabilities</b>		<b>1,017.5</b>	<b>653.1</b>
<b>Non-current liabilities</b>			
Trade and other payables	2-5	26.5	44.2
Borrowings	3-1	2,881.1	1,199.3
Provisions	2-6	13.8	13.8
Financial liabilities	3-2	-	0.9
Deferred tax liabilities	1-4	122.7	12.7
Deferred revenue		18.2	19.6
Other liabilities		34.5	3.7
<b>Total non-current liabilities</b>		<b>3,096.8</b>	<b>1,294.2</b>
<b>Total liabilities</b>		<b>4,114.3</b>	<b>1,947.3</b>
<b>Net assets</b>		<b>1,732.5</b>	<b>1,345.6</b>
<b>EQUITY</b>			
Contributed equity	3-4	715.1	715.1
Reserves	3-3	(23.5)	(116.8)
Retained earnings	3-3	1,040.9	747.3
<b>Total equity</b>		<b>1,732.5</b>	<b>1,345.6</b>

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

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2018

Consolidated	Note	Contributed equity \$'m	Reserves \$'m	Retained earnings \$'m	Total equity \$'m
<b>Balance at 1 October 2016</b>		693.8	(55.7)	437.4	1,075.5
Profit for the year ended 30 September 2017		-	-	495.1	495.1
Other comprehensive loss		-	(16.9)	-	(16.9)
<b>Total comprehensive (loss)/income for the year</b>		-	(16.9)	495.1	478.2
<b>Transactions with owners in their capacity as owners:</b>					
Contributions of equity, net of transaction costs and tax	3-4	21.3	-	-	21.3
Net movement in share-based payments reserve	3-3	-	(44.2)	-	(44.2)
Dividends provided for and paid		-	-	(185.2)	(185.2)
		21.3	(44.2)	(185.2)	(208.1)
<b>Balance at 30 September 2017</b>		<b>715.1</b>	<b>(116.8)</b>	<b>747.3</b>	<b>1,345.6</b>
Profit for the year ended 30 September 2018		-	-	542.6	542.6
Other comprehensive income		-	105.5	-	105.5
<b>Total comprehensive income for the year</b>		-	105.5	542.6	648.1
<b>Transactions with owners in their capacity as owners:</b>					
Net movement in share-based payments reserve	3-3	-	(12.2)	-	(12.2)
Dividends provided for and paid*	1-6	-	-	(249.0)	(249.0)
		-	(12.2)	(249.0)	(261.2)
<b>Balance at 30 September 2018</b>		<b>715.1</b>	<b>(23.5)</b>	<b>1,040.9</b>	<b>1,732.5</b>

\*Payment of dividends relates to the 2017 final dividend and 2018 interim dividend.

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

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2018

Consolidated	2018 \$'m	2017 \$'m
<b>Cash flows from operating activities</b>		
Receipts from customers	3,684.1	2,469.4
Payments to suppliers and employees	(2,412.8)	(1,499.7)
Other income	3.6	0.4
Interest received	7.1	8.1
Interest paid	(85.8)	(52.1)
Transaction costs paid relating to the acquisition of subsidiaries	(28.1)	-
Income tax paid	(234.3)	(127.0)
<b>Net cash inflow from operating activities</b>	<b>933.8</b>	<b>799.1</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(198.1)	(123.9)
Proceeds from sale of property, plant and equipment	1.1	0.8
Payments for intangibles	(72.0)	(90.4)
Payment for acquisition of subsidiaries (net of cash acquired)	(1,938.6)	(23.0)
<b>Net cash outflow from investing activities</b>	<b>(2,207.6)</b>	<b>(236.5)</b>
<b>Cash flows from financing activities</b>		
Payments for shares acquired by the employee share trust	(50.0)	(45.9)
Repayments of borrowings	(225.7)	(65.4)
Proceeds from borrowings	1,660.0	-
Finance lease payments	(0.1)	(0.1)
Dividends paid	(249.0)	(185.2)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>1,135.2</b>	<b>(296.6)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(138.6)</b>	<b>266.0</b>
Cash and cash equivalents at the beginning of the year	547.1	283.2
Effects of exchange rate changes	19.6	(2.1)
<b>Cash and cash equivalents at the end of the year</b>	<b>428.1</b>	<b>547.1</b>

The above cash flow statement should be read in conjunction with the accompanying notes.

# CASH FLOW STATEMENT CONTINUED

FOR THE YEAR ENDED 30 SEPTEMBER 2018

## Reconciliation of net operating cash flows

Consolidated	2018 \$'m	2017 \$'m
Profit for the year	542.6	495.1
<i>Non-cash items</i>		
Depreciation and amortisation	355.6	220.0
Equity-settled share-based payments	24.2	16.1
Net loss on sale and impairment of property, plant and equipment	0.6	12.4
Net foreign currency exchange differences	3.7	(9.5)
Non-cash borrowing costs amortisation	6.5	4.6
<b>Change in operating assets and liabilities (adjusted for the impact of acquisitions):</b>		
<i>(Increase)/decrease in assets</i>		
- Receivables and deferred revenue	(25.0)	(85.9)
- Inventories	(58.1)	(20.8)
- Other operating assets	(35.8)	(16.7)
<i>Increase/(decrease) in liabilities</i>		
- Payables	127.5	68.5
- Other provisions	10.4	12.3
- Tax balances	(18.4)	103.0
<b>Net cash inflow from operating activities</b>	<b>933.8</b>	<b>799.1</b>

### Depreciation and amortisation

The depreciation and amortisation amount above includes amortisation of \$17.1m (2017: \$13.6m) that is classified as contra-revenue in the profit and loss.

### Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank overdrafts, deposits held at call with financial institutions and 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.

## NOTES TO THE FINANCIAL STATEMENTS



# 1. BUSINESS PERFORMANCE

This section provides the information that is most relevant to understanding the financial performance of the Group during the financial year.

Details on the primary operating assets used and liabilities incurred to support the Group's operating activities are set out in Section 2 while the Group's financing activities are outlined in Section 3.

1-1 Segment performance	1-4 Taxes
1-2 Revenues	1-5 Earnings per share
1-3 Expenses	1-6 Dividends

### 1-1 SEGMENT PERFORMANCE

#### (a) Identification of reportable segments

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

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker. Reports reviewed consider the business primarily from a geographical perspective. The following reportable segments have been identified:

- The Americas;
- Australia and New Zealand;
- Digital; and
- International Class III.

Plarium Global Limited and Big Fish Game Inc., which were acquired during the year, form part of the Digital segment.

#### (b) Segment results

Segment results represent earnings before interest and tax, and before significant items and adjustments, design and development expenditure, amortisation of acquired intangibles, selected intercompany charges and corporate costs.

Segment revenues and expenses 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 revenues, expenses and results exclude transfers between segments. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the statement of profit or loss and other comprehensive income.

## NOTES TO THE FINANCIAL STATEMENTS

# 1. BUSINESS PERFORMANCE CONTINUED

## 1-1 SEGMENT PERFORMANCE CONTINUED

	The Americas		Australia and New Zealand		Digital		International Class III		Consolidated	
	\$'m		\$'m		\$'m		\$'m		\$'m	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>Revenue</b>										
Revenue from external customers	1,620.2	1,424.5	454.5	431.6	1,338.9	383.0	210.5	214.7	3,624.1	2,453.8
Acquisition accounting fair value adjustments	-	-	-	-	(74.3)	-	-	-	(74.3)	-
<b>Statutory revenue</b>	<b>1,620.2</b>	<b>1,424.5</b>	<b>454.5</b>	<b>431.6</b>	<b>1,264.6</b>	<b>383.0</b>	<b>210.5</b>	<b>214.7</b>	<b>3,549.8</b>	<b>2,453.8</b>
<b>Results</b>										
Segment results	859.2	736.4	207.1	190.5	438.2	158.9	103.4	112.5	1,607.9	1,198.3
Interest revenue									9.9	9.6
Interest expense									(115.3)	(62.7)
Design and development costs									(413.6)	(268.4)
Amortisation of acquired intangibles									(156.3)	(76.9)
Expenses from significant items									(51.3)	-
Acquisition fair value adjustments not allocated to a segment									(53.2)	-
Other expenses									(65.0)	(71.8)
<b>Profit before income tax expense</b>									<b>763.1</b>	<b>728.1</b>
Income tax expense									(220.5)	(233.0)
<b>Profit for the year</b>									<b>542.6</b>	<b>495.1</b>
<b>Other segment information</b>										
Non-current assets other than financial and deferred tax assets	2,040.1	1,903.1	143.5	116.3	2,189.1	1.5	27.5	15.1	4,400.2	2,036.0
Depreciation and amortisation expense	142.9	111.3	17.5	13.3	14.7	0.4	7.1	4.5	182.2	129.5

The amortisation of acquired intangibles amounting to \$156.3m (2017:\$76.9m) does not form part of segment results.

## NOTES TO THE FINANCIAL STATEMENTS

# 1. BUSINESS PERFORMANCE CONTINUED

## 1-2 REVENUES

	2018 \$'m	2017 \$'m
<b>Revenue</b>		
Sale of goods and related licences	992.2	1,076.0
Gaming operations, digital and services	2,557.6	1,377.8
<b>Total revenue</b>	<b>3,549.8</b>	<b>2,453.8</b>
<b>Other income</b>		
Interest	9.9	9.6
Sundry income	3.6	0.4
<b>Total other income</b>	<b>13.5</b>	<b>10.0</b>

### Recognition and measurement

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.

Interest income is recognised using the effective interest method.

Revenue type	Revenue stream	Recognition
Revenue from sale of goods and related licences	Machine sales	When significant risks and rewards have transferred, usually upon delivery of goods to the customer.
	Licence income	When all obligations in accordance with the agreement have been met, which may be at the time of sale or over the life of the agreement.
	Systems contracts	On installation of the system or customer acceptance if significant risk that customer will not accept the installed system.
	Multiple element arrangements	Recognised over the period that the obligations are satisfied. The fair values of each element are determined based on the current market price of each of the elements when sold separately. Where there is a discount on the arrangement, such discount is allocated proportionally between the elements.
Revenue from gaming operations, digital and services	Participation revenue	Amount of revenue recognised monthly is calculated by either: <ul style="list-style-type: none"> <li>- multiplying a daily fee by the total number of days the machine has been operating on the venue floor; or</li> <li>- an agreed fee based upon a percentage of turnover or the net win of participating machines.</li> </ul>
	Rental income	Operating leases rental income is recognised on a straight-line basis over the term of the lease contract. Selling profit on finance leases is recognised in accordance with machine sales. Finance income is recognised based on a constant periodic rate of return on the remaining balance of the finance lease investment.
	Service revenue	Recognised evenly over the period of the service agreement or as services are performed. Revenue received in advance on prepaid service contracts is included in deferred revenue.
	Digital revenue	Revenue is recognised when credits are consumed, or if the items purchased with credits are available to the player for the entire time that they play the game, the average player life. Amounts not used at year end are included in deferred revenue.



## NOTES TO THE FINANCIAL STATEMENTS

# 1. BUSINESS PERFORMANCE CONTINUED

### 1-3 EXPENSES

	2018 \$'m	2017 \$'m
<b>Depreciation and amortisation</b>		
<i>Property, plant and equipment</i>		
- Buildings	3.1	4.9
- Plant and equipment	143.6	101.4
- Leasehold improvements	8.8	5.3
<b>Total depreciation and amortisation of property, plant and equipment</b>	<b>155.5</b>	<b>111.6</b>
<i>Intangible assets</i>		
- Customer relationships and contracts	48.5	43.1
- Game names	10.6	0.7
- Technology and software	107.0	37.4
- Intellectual property and licences	12.4	10.3
- Capitalised development costs	4.5	3.3
<b>Total amortisation of intangible assets</b>	<b>183.0</b>	<b>94.8</b>
<b>Total depreciation and amortisation</b>	<b>338.5</b>	<b>206.4</b>
<b>Employee benefits expense</b>		
Remuneration, bonuses and on-costs	614.5	393.9
Superannuation costs	28.5	13.9
Post-employment benefits other than superannuation	6.2	4.5
Share-based payments expense	24.2	16.1
<b>Total employee benefits expense</b>	<b>673.4</b>	<b>428.4</b>
<b>Lease payments</b>		
Rental expense relating to operating leases		
- Minimum lease payments	42.2	28.5
<b>General and administration costs reconciliation</b>		
General and administration before acquisition costs and amortisation of acquired intangibles	304.9	243.3
Acquisition related transaction, integration, restructuring and retention costs	51.3	-
Amortisation of acquired intangibles included in general and administration costs	156.3	76.9
<b>Total general and administration costs</b>	<b>512.5</b>	<b>320.2</b>
<b>Other expense items</b>		
Write down of inventories to net realisable value	8.2	9.8
Legal costs (including acquisition transaction costs)	43.6	24.9
Net foreign exchange loss	3.2	5.0

#### Recognition and measurement

##### Lease payments

Payments made under operating leases (net of any incentives received from the lessor) are recognised in the profit or loss on a straight-line basis over the period of the lease. 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 rental obligation cost is charged to profit or loss over the lease period.

##### Finance and borrowing costs

Finance costs comprise interest expense on borrowings, the costs to establish financing facilities (which are expensed over the term of the facility) and finance lease interest charges.

##### Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave are recognised in other payables in respect of employees' services up to the reporting date. The amounts are measured at the amounts expected to be paid when the liabilities are settled.

##### Long-term benefits

The liability for long service leave which is not expected to be settled within 12 months after the end of the period 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 reporting date. 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 reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

##### Bonus plans

The Group recognises a liability and an expense for bonuses based on criteria that takes into account the profit attributable to the Company's shareholders. The Group recognises a liability where contractually obliged or where there is past practice that has created a constructive obligation. Where bonus plans are settled by way of the issue of shares in the Company, the expense is accounted for as part of the share-based payments expense.

##### 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.

## NOTES TO THE FINANCIAL STATEMENTS

# 1. BUSINESS PERFORMANCE CONTINUED

### 1-4 TAXES

	2018 \$'m	2017 \$'m
Major components of income tax expense are:		
<b>(a) Income tax expense</b>		
<i>Current</i>		
Current year	243.2	214.6
Adjustment for prior years	(11.6)	(9.4)
<i>Deferred</i>		
Temporary differences	(22.8)	20.4
Adjustment for prior years	11.7	7.4
<b>Income tax expense</b>	<b>220.5</b>	<b>233.0</b>
Deferred income tax (benefit)/expense included in income tax expense comprises:		
Change in net deferred tax	(11.1)	27.8
<b>Deferred income tax (benefit)/expense included in income tax expense</b>	<b>(11.1)</b>	<b>27.8</b>
<b>(b) Tax reconciliation</b>		
<b>Profit before tax</b>	<b>763.1</b>	<b>728.1</b>
Tax at the Australian tax rate of 30% (2017: 30%)	228.9	218.4
Impact of changes in tax rates and law	(4.4)	22.3
Exempt income	(14.9)	(26.6)
Non-deductible expenses	16.9	13.3
Research and development tax credit	(7.2)	(6.5)
Tax credits written off	0.6	-
Difference in overseas tax rates	0.5	14.1
Adjustment in respect of previous years income tax	0.1	(2.0)
<b>Income tax expense</b>	<b>220.5</b>	<b>233.0</b>
Average effective tax rate	28.9%	32.0%
<b>(c) Amounts recognised directly in equity</b>		
Net deferred tax - credited directly to equity	12.9	3.6

	2018 \$'m	2017 \$'m
<b>(d) Revenue and capital tax losses</b>		
Unused gross tax losses for which no deferred tax asset has been recognised	1.0	1.0
Unused gross capital tax losses for which no deferred tax asset has been recognised	204.8	204.8
<b>Revenue and capital tax losses</b>	<b>205.8</b>	<b>205.8</b>
<b>Potential tax benefit</b>	<b>61.7</b>	<b>61.7</b>

Unused revenue losses were incurred by Aristocrat Leisure Limited's overseas subsidiaries. All unused capital tax losses were incurred by Australian entities.

#### Current taxes

The income tax expense for the year is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities, current income tax of prior years and unused tax losses/credits.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income.

## NOTES TO THE FINANCIAL STATEMENTS

# 1. BUSINESS PERFORMANCE CONTINUED

### 1-4 TAXES CONTINUED

	2018 \$'m	2017 \$'m
<b>(e) Deferred tax</b>		
<b>Gross deferred tax assets</b>		
Employee benefits	46.5	33.0
Accruals and other provisions	41.8	48.9
Provision for stock obsolescence	9.1	14.4
Share-based equity	-	3.5
Unrealised foreign exchange losses	6.7	1.7
Other	-	1.8
<b>Gross deferred tax assets</b>	<b>104.1</b>	<b>103.3</b>
<b>Deferred tax liabilities:</b>		
Financial liabilities	(1.7)	(4.3)
Share-based equity	(2.3)	-
Plant, equipment and intangible assets	(150.5)	(57.6)
<b>Net deferred tax (liabilities)/assets</b>	<b>(50.4)</b>	<b>41.4</b>
<b>Movements</b>		
<b>Balance at the start of the year</b>	<b>41.4</b>	<b>55.1</b>
Credited/(charged) to profit or loss	11.1	(27.8)
Credited directly to equity	12.9	3.6
Deferred tax liabilities recognised on acquisitions	(92.6)	-
Reclassification to current tax provision	-	10.6
Foreign exchange currency movements	(23.2)	(0.1)
<b>Balance at the end of the year</b>	<b>(50.4)</b>	<b>41.4</b>

#### Deferred taxes

Deferred tax is recognised for all taxable temporary differences and is calculated based on the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences relating to:

- initial recognition of goodwill;
- initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit;
- investments in subsidiaries, where the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

Deferred tax is accounted for in respect of temporary differences arising from differences between the carrying amount of assets and liabilities and the corresponding tax base.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Group intends to settle its current tax assets and liabilities on a net basis.

#### Tax consolidation

The Company and its wholly-owned Australian controlled entities are part of a tax-consolidated group under Australian taxation law. Aristocrat Leisure Limited is the head entity in the tax-consolidated group. Entities within the tax-consolidated group have entered into a tax-funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax-funding arrangement, Aristocrat Leisure Limited and each of the entities in the tax-consolidated group have agreed to pay (or receive) a tax equivalent payment to (or from) the head entity, based on the current tax liability or current tax asset of the entity. Each entity in the tax-consolidated group measures its current and deferred taxes as if it continued to be a separate taxable entity in its own right.



#### Key judgements and estimates: Income tax provision

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

## NOTES TO THE FINANCIAL STATEMENTS



# 1. BUSINESS PERFORMANCE CONTINUED

## 1-5 EARNINGS PER SHARE

Basic and diluted earnings per share (EPS) calculations	2018	2017
Net profit attributable to members of Aristocrat Leisure Limited (\$'m)	542.6	495.1
Weighted average number of ordinary shares (WANOS) used in calculating basic EPS (number)	638,123,160	637,565,360
Effect of Performance Share Rights (number)	1,179,478	1,580,860
<b>WANOS used in calculating diluted EPS (number)</b>	<b>639,302,638</b>	639,146,220
Basic EPS (cents per share)	85.0	77.7
Diluted EPS (cents per share)	84.9	77.5

### Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding.

### Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares.

### Information concerning the classification of securities

#### Share-based payments

Rights granted to employees under share-based payments arrangements are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. Details relating to the rights are set out in Note 5-2.

Included within the weighted average number of potential ordinary shares related to Performance Share Rights are 172,409 (2017: 287,461) Performance Share Rights that had lapsed during the year.

#### Share-based payments trust

Shares purchased on-market and issued shares 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 in calculating basic earnings per share. At the end of the reporting period, there were 1,686,397 (2017: 2,083,839) shares held in the share trust.

## NOTES TO THE FINANCIAL STATEMENTS



# 1. BUSINESS PERFORMANCE CONTINUED

## 1-6 DIVIDENDS

Ordinary shares	2018 Final	2018 Interim	2017 Final	2017 Interim
Dividend per share (cents)	27.0c	19.0c	20.0c	14.0c
Franking percentage (%)	100%	100%	100%	25%
Cost (\$'m)	172.4	121.3	127.7	89.6
Payment date	19 December 2018	3 July 2018	20 December 2017	3 July 2017

### Franking credits

The franking account balance at 30 September 2018 was \$105.6m (2017: \$51.6m).

### Recognition and measurement

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at reporting date. The final 2018 dividend had not been declared at the reporting date and therefore is not reflected in the financial statements.

### Dividends not recognised at year end

Since the end of the year, the Directors have recommended the payment of a final dividend of 27.0 cents (2017: 20.0 cents) per fully-paid ordinary share, franked at 100%. The aggregate amount of the proposed final dividend expected to be paid on 19 December 2018 out of retained earnings at 30 September 2018, but not recognised as a liability at the end of the year is \$172.4m.

## NOTES TO THE FINANCIAL STATEMENTS



# 2. OPERATING ASSETS AND LIABILITIES

This section provides information relating to the operating assets and liabilities of the Group which contribute to the business platform for generating revenues and profits.

2-1 Trade and other receivables	2-4 Property, plant and equipment
2-2 Inventories	2-5 Trade and other payables
2-3 Intangible assets	2-6 Provisions

### 2-1 TRADE AND OTHER RECEIVABLES

	2018 \$'m	2017 \$'m
<b>Current</b>		
Trade receivables	613.6	459.8
Provision for impairment	(14.5)	(17.8)
Loan receivables	2.7	2.6
Other receivables	118.2	67.7
<b>Total current receivables</b>	<b>720.0</b>	<b>512.3</b>
<b>Non-current</b>		
Trade receivables	69.0	60.9
Loan receivables	8.0	10.2
Other receivables	35.1	35.9
<b>Total non-current receivables</b>	<b>112.1</b>	<b>107.0</b>
<b>Movements in the provision:</b>		
At the start of the year	(17.8)	(14.7)
Provision recognised during the year	(0.9)	(3.9)
Foreign currency exchange differences	(1.4)	0.4
Provisions no longer required	5.6	0.4
<b>At the end of the year</b>	<b>(14.5)</b>	<b>(17.8)</b>

The above provision for impairment includes \$11.0m (2017: \$9.0m) of trade receivables past due and considered impaired. Included in the provision is \$9.4m (2017: \$10.9m) relating to Latin America trade receivables.

#### Trade receivables past due but not impaired

Under 3 months	94.2	61.9
3 months and over	4.2	0.6
<b>Total receivables past due but not impaired</b>	<b>98.4</b>	<b>62.5</b>

#### Trade receivables

Trade receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less an allowance for impairment. Current trade receivables are non-interest bearing and generally have terms of up to 120 days.

#### Impairment of trade receivables

Collectability of trade receivables is reviewed on an ongoing basis. 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. Debts which are known to be uncollectible are written off by reducing the carrying amount directly.

#### Other receivables

These include prepayments, other receivables and long-term deposits incurred under normal terms and conditions and which do not earn interest. They do not contain impaired assets and are not past due.

#### Fair value

Due to their short-term nature, the carrying amount of current receivables are estimated to represent their fair value. Non-current receivables are carried at discounted carrying values which are estimated to represent their fair value.

## NOTES TO THE FINANCIAL STATEMENTS



# 2. OPERATING ASSETS AND LIABILITIES CONTINUED

### 2-2 INVENTORIES

	2018 \$'m	2017 \$'m
<b>Current</b>		
Raw materials and stores	129.5	96.6
Work in progress	10.2	10.6
Finished goods	42.4	32.2
Inventory in transit	1.7	1.7
Provision for obsolescence and impairment	(23.9)	(24.7)
<b>Total inventories</b>	<b>159.9</b>	<b>116.4</b>

#### Inventory expense

Inventories recognised as an expense during the year ended 30 September 2018 amounted to \$396.7m (2017: \$410.8m).

#### Recognition and measurement

Inventories are valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to sell.



#### Key judgements and estimates: Carrying value of inventory

The Group assess at each reporting date whether inventory is recorded at the lower of cost and net realisable value, including assessing the expected sales of slow-moving inventories. These assessments involve estimates and assumptions that are based on current expectations of demand and market conditions, including opportunities to sell into new markets.

## NOTES TO THE FINANCIAL STATEMENTS



# 2. OPERATING ASSETS AND LIABILITIES CONTINUED

### 2-3 INTANGIBLE ASSETS

\$'m	Goodwill	Customer relationships and contracts	Tradename and game names	Intellectual property and licences	Capitalised development costs	Technology and software	Total
Cost	973.4	628.5	26.3	72.4	34.5	228.2	1,963.3
Accumulated amortisation	-	(123.5)	(2.1)	(14.1)	(18.3)	(117.6)	(275.6)
<b>Net carrying amount</b>	<b>973.4</b>	<b>505.0</b>	<b>24.2</b>	<b>58.3</b>	<b>16.2</b>	<b>110.6</b>	<b>1,687.7</b>
<b>Carrying amount at 1 October 2016</b>	<b>996.2</b>	<b>559.7</b>	<b>25.5</b>	<b>32.1</b>	<b>9.6</b>	<b>113.4</b>	<b>1,736.5</b>
Additions	-	-	-	38.5	9.9	36.5	84.9
Transfers	-	-	-	-	-	(0.2)	(0.2)
Amortisation charge	-	(43.1)	(0.7)	(10.3)	(3.3)	(37.4)	(94.8)
Foreign currency exchange movements	(22.8)	(11.6)	(0.6)	(2.0)	-	(1.7)	(38.7)
<b>Carrying amount at 30 September 2017</b>	<b>973.4</b>	<b>505.0</b>	<b>24.2</b>	<b>58.3</b>	<b>16.2</b>	<b>110.6</b>	<b>1,687.7</b>
Cost	<b>2,731.5</b>	<b>696.4</b>	<b>156.1</b>	<b>87.2</b>	<b>59.4</b>	<b>637.0</b>	<b>4,367.6</b>
Accumulated amortisation	-	(184.6)	(13.1)	(29.6)	(28.0)	(213.5)	(468.8)
<b>Net carrying amount</b>	<b>2,731.5</b>	<b>511.8</b>	<b>143.0</b>	<b>57.6</b>	<b>31.4</b>	<b>423.5</b>	<b>3,898.8</b>
<b>Carrying amount at 1 October 2017</b>	<b>973.4</b>	<b>505.0</b>	<b>24.2</b>	<b>58.3</b>	<b>16.2</b>	<b>110.6</b>	<b>1,687.7</b>
Additions	-	-	-	-	18.5	47.8	66.3
Additions on acquisition of subsidiaries	<b>1,547.0</b>	<b>13.0</b>	<b>117.7</b>	<b>5.3</b>	<b>1.1</b>	<b>338.2</b>	<b>2,022.3</b>
Disposals	-	-	-	-	-	(0.2)	(0.2)
Amortisation charge	-	(48.5)	(10.6)	(12.4)	(4.5)	(107.0)	(183.0)
Foreign currency exchange movements	<b>211.1</b>	<b>42.3</b>	<b>11.7</b>	<b>6.4</b>	<b>0.1</b>	<b>34.1</b>	<b>305.7</b>
<b>Carrying amount at 30 September 2018</b>	<b>2,731.5</b>	<b>511.8</b>	<b>143.0</b>	<b>57.6</b>	<b>31.4</b>	<b>423.5</b>	<b>3,898.8</b>

The additions on acquisition of subsidiaries in the table above includes the Plarium and Big Fish acquisitions as detailed in Note 4-1, as well as a further acquisition that is not material.



## NOTES TO THE FINANCIAL STATEMENTS



# 2. OPERATING ASSETS AND LIABILITIES CONTINUED

### 2-3 INTANGIBLE ASSETS CONTINUED

Intangible assets	Useful life	Amortisation method	Recognition and measurement
Goodwill	Indefinite	Not amortised	Goodwill acquired in a business combination is measured at cost and subsequently measured at cost less any impairment losses. The cost represents the excess of the cost of a business combination over the fair value of the identifiable assets and liabilities acquired.
Customer relationships and contracts	Up to 15 years	Straight-line	Customer relationships and contracts acquired in business combinations are carried at cost less accumulated amortisation and any accumulated impairment losses.
Tradenname	Indefinite	Not amortised	The tradenames were acquired as part of business combinations and recognised at fair value at the dates of acquisition. These have an indefinite life so are not amortised, but rather tested for impairment at each reporting date.  The factors that determined that this asset had an indefinite useful life included the history of the business and tradename, the market position, stability of the industry and the expected usage.
Game names	Up to 15 years	Straight-line	Game names were acquired as part of business combinations. Game names are recognised at their fair value at the date of acquisition and are subsequently amortised.
Intellectual property and licences	Up to 8 years	Straight-line	Intellectual property and licences are carried at cost less accumulated amortisation and impairment losses.
Capitalised design and development costs	Up to 4 years	Straight-line	Capitalised development costs are costs incurred on internal development projects. Development costs are only capitalised when they relate to the creation of an asset that can be used or sold to generate benefits and can be reliably measured.
Technology and software	Up to 10 years	Straight-line	Technology and software is carried at cost less accumulated amortisation and impairment losses. Technology and software acquired through a business combination is measured at the fair value at acquisition date and is subsequently amortised.

#### (a) Impairment tests

Goodwill and other assets are allocated to the Group's cash-generating units (CGUs) for the purpose of impairment testing. A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

A summary of the goodwill allocation by CGU is presented below:	2018 \$'m	2017 \$'m
<b>Americas segment</b>		
Americas (excluding VGT)	101.9	72.6
VGT	953.1	878.0
<b>Digital segment</b>		
Product Madness	24.8	22.8
Big Fish	1,122.4	-
Plarium	529.3	-
<b>Total goodwill at the end of the year</b>	<b>2,731.5</b>	<b>973.4</b>

The VGT CGU also includes \$17.2m and Big Fish \$43.6m relating to tradenames that are not amortised, and are tested for impairment annually.

## NOTES TO THE FINANCIAL STATEMENTS



# 2. OPERATING ASSETS AND LIABILITIES CONTINUED

### 2-3 INTANGIBLE ASSETS CONTINUED

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

A discounted cash flow model has been used based on operating and investing cash flows (before borrowing costs and tax impacts) in valuing the Group's CGUs that contain intangible assets. The following inputs and assumptions have been adopted:

Inputs	Assumptions		
Cash flow projections	Financial budgets and strategic plans approved by the Board to 2019 and management projections from 2020 to 2023. These projections, which include projected revenues, gross margins and expenses, have been determined based on past performance and management expectations for the future. Expected market conditions in which each CGU operates have been taken into account in the projections.		
		2018	2017
Pre-tax annual discount rate	Americas (excluding VGT)	10.6%	11.0%
	VGT	9.5%	10.3%
	Product Madness	10.7%	13.3%
	Big Fish	11.4%	Not applicable
	Plarium	11.7%	Not applicable
Terminal growth rate	Americas (excluding VGT)	2.0%	2.0%
	VGT	2.0%	2.0%
	Product Madness	3.0%	3.0%
	Big Fish	3.0%	Not applicable
	Plarium	3.0%	Not applicable
Allocation of head office assets	The Group's head office assets do not generate separate cash inflows and are utilised by more than one CGU. Head office assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the head office assets are allocated.		

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

With regard to the assessment of the value-in-use of the Americas, VGT and Product Madness CGUs, management do not believe that a reasonably possible change in any one of the key assumptions would lead to a material impairment charge.

Plarium and Big Fish were acquired in the current year. Impairment testing was performed for 2018, and no impairment was required to be recorded as a result. Going forward, should management projections fall below low single-digit growth rates, an impairment may result in future financial years.



#### Key judgements and estimates: Recoverable amount of intangible assets

The Group tests annually whether goodwill and other intangible assets that are not amortised have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. The above note details these assumptions and the potential impact of changes to the assumptions.

## NOTES TO THE FINANCIAL STATEMENTS



# 2. OPERATING ASSETS AND LIABILITIES CONTINUED

### 2-4 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings \$'m		Leasehold improvements \$'m		Plant and equipment \$'m		Total \$'m	
	2018	2017	2018	2017	2018	2017	2018	2017
Cost	28.8	20.2	119.9	57.1	746.8	554.4	895.5	631.7
Accumulated depreciation/ amortisation	(16.1)	(11.4)	(41.1)	(31.4)	(449.0)	(347.6)	(506.2)	(390.4)
<b>Net carrying amount</b>	<b>12.7</b>	<b>8.8</b>	<b>78.8</b>	<b>25.7</b>	<b>297.8</b>	<b>206.8</b>	<b>389.3</b>	<b>241.3</b>
<b>Carrying amount at the start of the year</b>	<b>8.8</b>	<b>14.1</b>	<b>25.7</b>	<b>24.9</b>	<b>206.8</b>	<b>178.5</b>	<b>241.3</b>	<b>217.5</b>
Additions	0.2	-	41.8	6.5	185.7	118.7	227.7	125.2
Additions on acquisition of subsidiaries	6.5	-	16.3	-	19.0	-	41.8	-
Disposals	-	-	-	-	(2.8)	(3.1)	(2.8)	(3.1)
Transfers*	(0.4)	-	0.4	-	12.7	18.7	12.7	18.7
Depreciation and amortisation	(3.1)	(4.9)	(8.8)	(5.3)	(143.6)	(101.4)	(155.5)	(111.6)
Foreign currency exchange differences	0.7	(0.4)	3.4	(0.4)	20.0	(4.6)	24.1	(5.4)
<b>Carrying amount at the end of the year</b>	<b>12.7</b>	<b>8.8</b>	<b>78.8</b>	<b>25.7</b>	<b>297.8</b>	<b>206.8</b>	<b>389.3</b>	<b>241.3</b>

\*Transfers predominantly relate to gaming operations assets that have been transferred to and from inventory.

#### Recognition and measurement

All property, plant and equipment are stated at historical cost less accumulated depreciation/amortisation and impairment.

The expected useful lives and depreciation and amortisation methods are listed below:

Asset	Useful life	Depreciation method
Buildings	Up to 40 years	Straight-line
Leasehold improvements	Up to 12 years	Straight-line
Plant and equipment	Up to 10 years	Straight-line
Land	Indefinite	No depreciation

#### Derecognition

An item of property, plant and equipment is derecognised when it is sold or disposed, or when its use is expected to bring no future economic benefits. Gains and losses on disposals are determined by comparing disposal proceeds with the carrying amount of the asset and are recognised within 'other income' in the profit or loss in the period the disposal occurs.

## NOTES TO THE FINANCIAL STATEMENTS



# 2. OPERATING ASSETS AND LIABILITIES CONTINUED

### 2-5 TRADE AND OTHER PAYABLES

	2018 \$'m	2017 \$'m
<b>Current</b>		
Trade payables	216.2	130.5
Deferred consideration	20.8	-
Other payables	432.2	274.2
<b>Total current payables</b>	<b>669.2</b>	<b>404.7</b>
<b>Non-current</b>		
Deferred consideration	-	18.6
Other payables	26.5	25.6
<b>Total non-current payables</b>	<b>26.5</b>	<b>44.2</b>

#### Recognition and measurement

Trade payables and other payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are unsecured and are usually paid within 30-120 days of recognition. Other payables include short-term employee benefits.

The deferred consideration relates to the final payment for the VGT acquisition.

The carrying amounts of trade and other payables are estimated to represent their fair value.

## NOTES TO THE FINANCIAL STATEMENTS



# 2. OPERATING ASSETS AND LIABILITIES CONTINUED

### 2-6 PROVISIONS

	Employee benefits \$'m		Make-good allowances \$'m		Progressive jackpot liabilities \$'m		Other provisions \$'m		Total \$'m	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Current	20.2	12.5	0.6	0.4	33.3	31.4	0.6	-	54.7	44.3
Non-current	1.3	1.5	9.4	8.8	3.1	3.5	-	-	13.8	13.8
<b>Carrying amount at the end of the year</b>	<b>21.5</b>	<b>14.0</b>	<b>10.0</b>	<b>9.2</b>	<b>36.4</b>	<b>34.9</b>	<b>0.6</b>	<b>-</b>	<b>68.5</b>	<b>58.1</b>

#### Movements in provisions

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

	Make-good allowances \$'m		Progressive jackpot liabilities \$'m		Other provisions \$'m	
	2018	2017	2018	2017	2018	2017
<b>Carrying amount at the start of the year</b>	<b>9.2</b>	<b>8.8</b>	<b>34.9</b>	<b>23.8</b>	<b>-</b>	<b>-</b>
Payments	-	-	(38.5)	(32.5)	(0.6)	-
Additional provisions recognised	0.4	0.6	37.1	44.0	0.5	-
Additions on acquisition of subsidiaries	-	-	-	-	0.7	-
Reversal of provisions recognised	-	-	-	-	(0.2)	-
Foreign currency exchange differences	0.4	(0.2)	2.9	(0.4)	0.2	-
<b>Carrying amount at the end of the year</b>	<b>10.0</b>	<b>9.2</b>	<b>36.4</b>	<b>34.9</b>	<b>0.6</b>	<b>-</b>

#### Recognition and measurement

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

#### 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:

- an annuity paid out over 19 or 20 years after winning; or
- a lump sum amount equal to the present value of the progressive component.

Provision is made for the estimated cash flows expected to be required to settle the obligation based on a percentage of jackpot funded revenue.

#### Make-good allowances

Provision is made for the estimated discounted cash flows expected to be required to satisfy the make-good clauses in the lease contracts.

## NOTES TO THE FINANCIAL STATEMENTS



### 3. CAPITAL AND FINANCIAL STRUCTURE

This section provides information relating to the Group's capital structure and its exposure to financial risk, how they affect the Group's financial position and performance, and how the risks are managed.

The Directors review the Group's capital structure and dividend policy regularly and do so in the context of the Group's ability to invest in opportunities that grow the business, enhance shareholder value and continue as a going concern.

3-1 Borrowings	3-5 Net tangible assets per share
3-2 Financial assets and financial liabilities	3-6 Capital and financial risk management
3-3 Reserves and retained earnings	3-7 Net debt reconciliation
3-4 Contributed equity	

#### 3-1 BORROWINGS

	2018 \$'m	2017 \$'m
<b>Current</b>		
<i>Secured</i>		
Lease liabilities	-	0.1
<b>Total current borrowings</b>	-	0.1
<b>Non-current</b>		
<i>Secured</i>		
Bank loans	2,880.2	1,198.6
Lease liabilities	0.9	0.7
<b>Total non-current borrowings</b>	<b>2,881.1</b>	<b>1,199.3</b>

#### Recognition and measurement

Borrowings are initially recognised at fair value, net of transaction costs. Borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities are included as part of the carrying amount of the borrowings.

The fair value of borrowings approximates the carrying amount.

The carrying amounts of the Group's borrowings are denominated in USD.

For an analysis of the sensitivity of borrowings to interest rate and foreign exchange risk, refer to Note 3-6.

#### Financing arrangements

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

Credit standby arrangements	Notes	2018 \$'m		2017 \$'m	
		Total	Unused	Total	Unused
<i>Total facilities</i>					
- Bank overdrafts	(i)	7.8	7.8	7.6	7.6
- Bank loans	(ii)	2,980.2	100.0	1,298.6	100.0
<b>Total facilities</b>		<b>2,988.0</b>	<b>107.8</b>	<b>1,306.2</b>	<b>107.6</b>

- (i) The bank overdraft facilities (A\$5,000,000 and US\$2,000,000) are subject to annual review.
- (ii) Syndicated loan facilities:
- US\$2,100.2 million fully underwritten US Term Loan B debt facility maturing 19 October 2024.
  - A\$100 million 5-year Revolving facility maturing 20 October 2019.

These facilities are provided by a syndicate of banks and financial institutions. These secured facilities are supported by guarantees from certain members of the Company's wholly owned subsidiaries and impose various affirmative and

negative covenants on the Company, including restrictions on encumbrances, and customary events of default. As part of the corporate facility, the Group is subject to certain customary financial covenants measured on a six-monthly basis.

Borrowings are currently priced at a floating rate of LIBOR plus a fixed credit margin as specified in the Term Loan B Syndicated Facility Agreement. A portion of the interest rate exposure has been fixed under separate interest rate swap arrangements.

## NOTES TO THE FINANCIAL STATEMENTS



# 3. CAPITAL AND FINANCIAL STRUCTURE CONTINUED

## 3-2 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	2018 \$'m	2017 \$'m
<b>Financial assets</b>		
<b>Current</b>		
Debt securities held-to-maturity	6.5	6.4
Interest rate swap contracts - cash flow hedges	0.2	-
Other investments	0.7	-
<b>Total current financial assets</b>	<b>7.4</b>	<b>6.4</b>
<b>Non-current</b>		
Debt securities held-to-maturity	5.2	4.7
Interest rate swap contracts - cash flow hedges	16.7	-
Other investments	0.3	3.1
<b>Total non-current financial assets</b>	<b>22.2</b>	<b>7.8</b>
<b>Financial liabilities</b>		
<b>Current</b>		
Derivatives used for hedging	3.2	0.5
<b>Total current financial liabilities</b>	<b>3.2</b>	<b>0.5</b>
<b>Non-current</b>		
Interest rate swap contracts - cash flow hedges	-	0.9
<b>Total non-current financial liabilities</b>	<b>-</b>	<b>0.9</b>

### (a) Classification

#### 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.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in trade and other receivables in the balance sheet.

#### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed

maturities that the Group 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.

### (b) 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 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.

### (c) Measurement

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

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 statement of comprehensive income within other income or other expenses in the period in which they arise.

Further information on financial assets and liabilities is disclosed in Note 3-6.

### (d) Impairment

The Group assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

All held-to-maturity investments are denominated in US dollars. Details regarding interest rate and foreign exchange risk exposure are disclosed in Note 3-6. There is no exposure to price risk as the investments will be held to maturity. The maximum exposure to credit risk at the reporting date is the carrying amount of the investments. None of the held-to-maturity investments are either past due or impaired.

## NOTES TO THE FINANCIAL STATEMENTS



# 3. CAPITAL AND FINANCIAL STRUCTURE CONTINUED

### 3-3 RESERVES AND RETAINED EARNINGS

\$'m	Retained earnings	Foreign currency translation reserve	Share-based payments reserve	Interest rate hedge reserve	Non-controlling interest reserve	Total reserves
<b>Balance at 1 October 2016</b>	437.4	(11.1)	(26.6)	(10.9)	(7.1)	(55.7)
Profit for the year	495.1	-	-	-	-	-
Currency translation differences	-	(30.8)	-	-	-	(30.8)
Net investment hedge	-	3.9	-	-	-	3.9
Movement in fair value of interest rate hedges	-	-	-	10.0	-	10.0
<b>Total comprehensive income/(loss) for the year</b>	495.1	(26.9)	-	10.0	-	(16.9)
<b>Transactions with owners in their capacity as owners</b>						
Dividends paid or provided for	(185.2)	-	-	-	-	-
Share-based payments expense	-	-	16.1	-	-	16.1
Issues of shares to and purchases of shares by the Aristocrat Employee Share Trust	-	-	(67.2)	-	-	(67.2)
Share-based tax and other adjustments	-	-	6.9	-	-	6.9
<b>Balance at 30 September 2017</b>	747.3	(38.0)	(70.8)	(0.9)	(7.1)	(116.8)
<b>Balance at 1 October 2017</b>	<b>747.3</b>	<b>(38.0)</b>	<b>(70.8)</b>	<b>(0.9)</b>	<b>(7.1)</b>	<b>(116.8)</b>
Profit for the year	542.6	-	-	-	-	-
Currency translation differences	-	115.0	-	-	-	115.0
Net investment hedge	-	(25.1)	-	-	-	(25.1)
Movement in fair value of interest rate hedges	-	-	-	15.6	-	15.6
<b>Total comprehensive income for the year</b>	<b>542.6</b>	<b>89.9</b>	<b>-</b>	<b>15.6</b>	<b>-</b>	<b>105.5</b>
<b>Transactions with owners in their capacity as owners</b>						
Dividends paid or provided for	(249.0)	-	-	-	-	-
Share-based payments expense	-	-	24.2	-	-	24.2
Issues of shares to and purchases of shares by the Aristocrat Employee Share Trust	-	-	(50.0)	-	-	(50.0)
Share-based tax and other adjustments	-	-	13.6	-	-	13.6
<b>Balance at 30 September 2018</b>	<b>1,040.9</b>	<b>51.9</b>	<b>(83.0)</b>	<b>14.7</b>	<b>(7.1)</b>	<b>(23.5)</b>



## NOTES TO THE FINANCIAL STATEMENTS



# 3. CAPITAL AND FINANCIAL STRUCTURE CONTINUED

## 3-3 RESERVES AND RETAINED EARNINGS CONTINUED

### Nature and purpose of reserves:

#### 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.

#### 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, as well as purchases of shares by the Aristocrat Employee Share Trust.

#### Interest rate hedge reserve

The interest rate hedge reserve is used to record gains or losses on interest rate hedges that are recognised in other comprehensive income.

#### Non-controlling interest reserve

The non-controlling interest reserve is used to record transactions with non-controlling interests that do not result in the loss of control.

## 3-4 CONTRIBUTED EQUITY

	Shares		\$'m	
	2018	2017	2018	2017
Ordinary shares, fully paid	638,544,150	638,544,150	715.1	715.1
<b>Movements in ordinary share capital</b>				
Ordinary shares at the beginning of the year	638,544,150	637,119,632	715.1	693.8
Shares issued during the year	-	1,424,518	-	21.3
<b>Ordinary shares at the end of the financial year</b>	<b>638,544,150</b>	<b>638,544,150</b>	<b>715.1</b>	<b>715.1</b>

### 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. Holders of ordinary shares are entitled to one vote per share at meetings of the Company.

### Recognition and measurement

Incremental costs directly attributable to the issue of new shares are shown in contributed equity as a deduction, net of tax, from the proceeds.

If the entity reacquires its own equity instruments, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental cost (net of income taxes) is recognised directly in equity. There is no current on-market buy back.

## NOTES TO THE FINANCIAL STATEMENTS



# 3. CAPITAL AND FINANCIAL STRUCTURE CONTINUED

### 3-5 NETTANGIBLE ASSETS/(LIABILITIES) PER SHARE

	2018 \$	2017 \$
Net tangible liabilities per share	(3.39)	(0.54)

A large proportion of the Group's assets are intangible in nature, including goodwill and identifiable intangible assets relating to businesses acquired. These assets are excluded from the calculation of net tangible assets per share, which results in a negative amount.

Net assets per share at 30 September 2018 were \$2.71 (2017: \$2.11).

### 3-6 CAPITAL AND FINANCIAL RISK MANAGEMENT

#### (a) Capital management

The Group's overall strategic capital management objective is to maintain a funding structure, which provides sufficient flexibility to fund the operational demands of the business and to underwrite any strategic opportunities.

The Group has managed its capital through interest and debt coverage ratios as follows:

	2018	2017
Gross debt/bank EBITDA*	2.0x	1.2x
Net debt/(cash)/bank EBITDA*	1.7x	0.6x
Interest coverage ratio (bank EBITDA*/interest expense**)	11.4x	19.1x

\* Bank EBITDA refers to Consolidated EBITDA for the Group as defined in Aristocrat's Syndicated Facility Agreement.

\*\* Interest expense includes ongoing finance fees relating to bank debt facility arrangements, such as line fees.

This section explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance.

#### (b) Financial risk management

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 co-operation 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 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. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments.

## NOTES TO THE FINANCIAL STATEMENTS



# 3. CAPITAL AND FINANCIAL STRUCTURE CONTINUED

### 3-6 CAPITAL AND FINANCIAL RISK MANAGEMENT CONTINUED

Risk	Exposure arising from	Measurement	Management
Market risk: Interest rate	Floating rate borrowings drawn under a Term Loan B facility	Sensitivity analysis	<ul style="list-style-type: none"> <li>- Use of floating to fixed swaps; and</li> <li>- The mix between fixed and floating rate debt is reviewed on a regular basis under the Group Treasury policy.</li> </ul>
Market risk: Foreign exchange	Future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency	Sensitivity analysis & cash flow forecasts	<ul style="list-style-type: none"> <li>- The Group's foreign exchange hedging policy reduces the risk associated with transactional exposures; and</li> <li>- Unrealised gains/losses on outstanding foreign exchange contracts are taken to the profit or loss on a monthly basis.</li> </ul>
Market risk: Price risk	The Group's exposure to commodity price risk is indirect and is not considered likely to be material	Nil	Nil
Credit risk	Cash and cash equivalents, trade and other receivables, derivative financial instruments and held-to-maturity investments	Ageing analysis & credit ratings	<ul style="list-style-type: none"> <li>- Customers and suppliers are appropriately credit assessed per Group policies;</li> <li>- Derivative counterparties and cash transactions are limited to high credit quality financial institutions; and</li> <li>- All cash and cash equivalents are held with counterparties which are rated 'A' or higher.</li> </ul>
Liquidity risk	Borrowings and other liabilities	Cash flow forecasts and debt covenants	<ul style="list-style-type: none"> <li>- Maintaining sufficient cash and marketable securities;</li> <li>- Maintaining adequate amounts of committed credit facilities and the ability to close out market positions; and</li> <li>- Maintaining flexibility in funding by keeping committed credit lines available.</li> </ul>

#### Hedge of net investment in foreign entity

At 30 September 2018, US\$228.6m of the US Term Loan B debt facility shown in Note 3-1 that is held within an Australian company has been designated as a hedge of the net investment in an American subsidiary. The foreign exchange gains and losses on translation of the borrowing into Australian dollars at the end of the reporting period are recognised in other comprehensive income and accumulated in the foreign currency translation reserve within shareholders equity (Note 3-3). There was no ineffectiveness to be recorded in the profit or loss from net investments in foreign entity hedges.

## NOTES TO THE FINANCIAL STATEMENTS



# 3. CAPITAL AND FINANCIAL STRUCTURE CONTINUED

## 3-6 CAPITAL AND FINANCIAL RISK MANAGEMENT CONTINUED

### Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk. These sensitivities are prior to the offsetting impact of hedging instruments, and are shown on a pre-tax basis:

	Carrying amount		Interest rate risk				Foreign exchange risk			
	\$'m		-1% Profit \$'m		+1% Profit \$'m		-10% Profit \$'m		+10% Profit \$'m	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>Financial assets</b>										
Cash and cash equivalents	428.1	547.1	(4.3)	(5.5)	4.3	5.5	0.1	0.4	(0.1)	(0.3)
Receivables	832.1	619.3	-	-	-	-	5.8	2.3	(4.8)	(1.9)
Debt securities held-to-maturity	11.7	11.1	(0.1)	(0.1)	0.1	0.1	-	-	-	-
Other financial assets	16.9	-	-	-	-	-	-	-	-	-
Other investments	1.0	3.1	-	-	-	-	-	-	-	-
<b>Financial liabilities</b>										
Payables	695.7	448.9	-	-	-	-	(5.6)	(2.7)	4.6	2.2
Borrowings	2,881.1	1,199.4	29.1	12.1	(29.1)	(12.1)	-	-	-	-
Progressive jackpot liabilities	36.4	34.9	0.4	0.3	(0.4)	(0.3)	-	-	-	-
Other financial liabilities	3.2	1.4	-	-	-	-	-	-	-	-
<b>Total increase/(decrease)</b>			<b>25.1</b>	<b>6.8</b>	<b>(25.1)</b>	<b>(6.8)</b>	<b>0.3</b>	<b>-</b>	<b>(0.3)</b>	<b>-</b>

### Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings as follows:

(i) based on their contractual maturities:

- all non-derivative financial liabilities, and
- net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of cash flows.

(ii) based on the remaining period to the expected settlement date:

- derivative financial liabilities for which the contractual maturities are not essential for an understanding of the timing of cash flows.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

## NOTES TO THE FINANCIAL STATEMENTS



# 3. CAPITAL AND FINANCIAL STRUCTURE CONTINUED

## 3-6 CAPITAL AND FINANCIAL RISK MANAGEMENT CONTINUED

### Contractual maturities of financial liabilities

	Less than 1 year		Between 1 to 5 years		Over 5 years		Total contractual cash flows		Carrying amount (assets)/liabilities	
	\$'m		\$'m		\$'m		\$'m		\$'m	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>Non-derivatives</b>										
Trade payables	216.2	130.5	-	-	-	-	216.2	130.5	216.2	130.5
Other payables	432.2	274.2	26.5	25.6	-	-	458.7	299.8	458.7	299.8
Deferred consideration	20.8	-	-	19.1	-	-	20.8	19.1	20.8	18.6
Borrowings	-	0.1	15.7	1,199.3	2,865.4	-	2,881.1	1,199.4	2,881.1	1,199.4
Borrowings - interest payments	121.9	39.6	489.4	120.4	122.6	-	733.9	160.0	-	-
Progressive jackpot liabilities	33.3	31.4	1.8	1.6	1.3	1.9	36.4	34.9	36.4	34.9
<b>Total non-derivatives</b>	<b>824.4</b>	<b>475.8</b>	<b>533.4</b>	<b>1,366.0</b>	<b>2,989.3</b>	<b>1.9</b>	<b>4,347.1</b>	<b>1,843.7</b>	<b>3,613.2</b>	<b>1,683.2</b>
<b>Derivatives</b>										
Net settled (interest rate swaps)	(0.2)	0.1	(16.7)	0.8	-	-	(16.9)	0.9	(16.9)	0.9
Gross settled (forward foreign exchange contracts)										
- (inflow)	(162.4)	(65.5)	-	-	-	-	(162.4)	(65.5)	-	-
- outflow	165.6	66.0	-	-	-	-	165.6	66.0	3.2	0.5
<b>Total (inflow)/outflow</b>	<b>3.2</b>	<b>0.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3.2</b>	<b>0.5</b>	<b>3.2</b>	<b>0.5</b>
<b>Total derivatives</b>	<b>3.0</b>	<b>0.6</b>	<b>(16.7)</b>	<b>0.8</b>	<b>-</b>	<b>-</b>	<b>(13.7)</b>	<b>1.4</b>	<b>(13.7)</b>	<b>1.4</b>

### (c) Foreign currency risk

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

	2018 \$'m	2017 \$'m
US dollars	617.1	396.2
Australian dollars	176.4	191.2
Other <sup>(1)</sup>	38.6	31.9
<b>Total carrying amount</b>	<b>832.1</b>	<b>619.3</b>

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

	2018 \$'m	2017 \$'m
US dollars	521.8	310.2
Australian dollars	143.4	124.5
Other <sup>(1)</sup>	30.5	14.2
<b>Total carrying amount</b>	<b>695.7</b>	<b>448.9</b>

(1) Other refers to a basket of currencies (including Euro, Pound Sterling, Israeli New Shekel and New Zealand Dollar).

## NOTES TO THE FINANCIAL STATEMENTS



# 3. CAPITAL AND FINANCIAL STRUCTURE CONTINUED

### 3-6 CAPITAL AND FINANCIAL RISK MANAGEMENT CONTINUED

#### (d) Credit risk

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer above 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:

	2018 \$'m	2017 \$'m
Trade receivables with guarantees	8.5	12.7
Trade receivables without guarantees	659.6	490.2
<b>Total trade receivables</b>	<b>668.1</b>	<b>502.9</b>

#### (e) 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 30 September 2018 on the net fair value of the Group's existing foreign exchange hedge contracts:

Currency pair	Weighted average exchange rate	Maturity profile <sup>(1)</sup>		Net fair value gain/(loss) <sup>(2)</sup> \$'m
		1 year or less \$'m	1 to 7 year(s) \$'m	
AUD/EUR	0.6162	16.9	-	-
AUD/USD	0.7391	144.1	-	(3.2)
AUD/ZAR	10.2940	1.4	-	-
<b>Total</b>		<b>162.4</b>	<b>-</b>	<b>(3.2)</b>

(1) The foreign base amounts are converted at the prevailing period end exchange rate to AUD equivalents.

(2) The net fair value of the derivatives above is included in financial assets/(liabilities).

#### (f) Fair value measurements

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows below the table.

	Level 1 \$'m		Level 2 \$'m		Level 3 \$'m		Total \$'m	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>Assets</b>								
Interest rate swap contracts	-	-	16.9	-	-	-	16.9	-
<b>Total assets at the end of the year</b>	<b>-</b>	<b>-</b>	<b>16.9</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16.9</b>	<b>-</b>
<b>Liabilities</b>								
Contingent consideration	-	-	-	-	-	-	-	-
Interest rate swap contracts	-	-	-	0.9	-	-	-	0.9
Derivatives used for hedging	-	-	3.2	0.5	-	-	3.2	0.5
<b>Total liabilities at the end of the year</b>	<b>-</b>	<b>-</b>	<b>3.2</b>	<b>1.4</b>	<b>-</b>	<b>-</b>	<b>3.2</b>	<b>1.4</b>

## NOTES TO THE FINANCIAL STATEMENTS



# 3. CAPITAL AND FINANCIAL STRUCTURE CONTINUED

### 3-6 CAPITAL AND FINANCIAL RISK MANAGEMENT CONTINUED

Fair value hierarchy levels	Definition	Valuation technique
Level 1	The fair value is determined using the unadjusted quoted market price in an active market for similar assets or liabilities.	The Group did not have any Level 1 financial instruments at the end of the current and prior reporting periods. The quoted market price used for financial assets held by the Group is the current bid price.
Level 2	The fair value is calculated using predominantly observable market data other than unadjusted quoted prices for an identical asset or liability.	Derivatives used for hedging are valued using forward exchange rates at the balance sheet date.
Level 3	The fair value is calculated using inputs that are not based on observable market data.	The contingent consideration liability forms part of trade and other payables, and is measured based on forecasted earnings before interest and tax (EBITDA) of the Plarium Group. Refer to Note 4-1 for further information.

There were no transfers between levels in the fair value hierarchy and no changes to the valuation techniques applied since 30 September 2017. The carrying amount of financial instruments not measured at fair value approximates fair value.

The valuation process for the Level 3 contingent consideration liability uses forecasts developed by Plarium finance team members as an input into the valuations. The forecasts are reviewed by group finance team members, including the chief financial officer (CFO), with fair value estimates made following this review.

#### (g) Fair value measurements using significant unobservable inputs (Level 3)

##### Contingent consideration liability

	2018 \$'m
Opening balance	-
Acquisitions	69.8
Foreign exchange movements	2.5
Payments	(72.3)
<b>Closing balance</b>	<b>-</b>

### 3-7 NET DEBT RECONCILIATION

This section sets out an analysis of net debt and the movements in net debt.

Net Debt	2018 \$'m	2017 \$'m
Cash and cash equivalents	428.1	547.1
Current borrowings	-	(0.1)
Non-current borrowings	(2,881.1)	(1,199.3)
<b>Net debt</b>	<b>(2,453.0)</b>	<b>(652.3)</b>
Net debt as at 1 October 2017	(652.3)	
Cashflows and non-cash amortisation of borrowing costs	(1,579.4)	
Foreign exchange movements	(221.3)	
<b>Net debt as at 30 September 2018</b>	<b>(2,453.0)</b>	

## NOTES TO THE FINANCIAL STATEMENTS

### 4. GROUP STRUCTURE

This section explains significant aspects of the Group structure, including its controlled entities and how changes affect the Group structure. It provides information on business acquisitions and disposals made during the financial year and the impact they had on the Group's financial performance and position.

4-1 Business combinations

4-2 Subsidiaries

#### 4-1 BUSINESS COMBINATIONS DURING THE YEAR

##### Recognition and measurement

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value. Acquisition-related costs are expensed as incurred in the profit or loss.

##### (a) Plarium Global Limited

On 19 October 2017 the Group acquired 100% of Plarium Global Limited (Plarium). Plarium is a free-to-play, social and web-based game developer, headquartered in Israel. The acquisition significantly expands Aristocrat's Digital addressable market in adjacent gaming segments.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	\$'m
Purchase consideration	
Cash paid	630.5
Contingent consideration	69.8
<b>Total purchase consideration</b>	<b>700.3</b>

The assets and liabilities at the date of acquisition are as follows:

	Fair Value \$'m
Cash and cash equivalents	40.0
Trade and other receivables	37.1
Property, plant and equipment	19.8
Intangible assets: Technology	182.4
Intangible assets: Game names	30.9
Other assets	13.6
Trade and other payables	(72.7)
Deferred tax liabilities	(38.4)
<b>Net identifiable assets acquired</b>	<b>212.7</b>
Add: goodwill	487.6
<b>Net assets acquired</b>	<b>700.3</b>

The goodwill is attributable to key employees, future growth opportunities and synergies from combining operations with Plarium. The goodwill is not deductible for tax purposes.

##### (i) Contingent consideration

The contingent consideration arrangement requires the Group to pay the former owners of Plarium based on a multiple of 10 times earnings before taxes, interest, depreciation and amortisation (EBITDA) for the 2017 and 2018 calendar years. The fair value of the amount payable at the acquisition date was \$69.8m (US\$54.7m), which was paid during the 2018 financial year.

##### (ii) Acquisition related costs

Acquisition related costs of \$9.6m are included in general and administration costs in the statement of profit or loss and other comprehensive income for the year and \$11.7m in operating cash flows in the statement of cash flows.

##### (iii) Acquired receivables

The fair value of trade and other receivables on acquisition was \$37.1m, of which \$24.1m were trade receivables. The gross contractual amount for trade receivables due was \$24.1m. The fair value of the receivables have been recovered from customers.

##### (iv) Revenue and profit contribution

The acquired business contributed revenues of \$307.5m and a statutory net loss after tax of \$17.9m to the Group for the period from 19 October 2017 to 30 September 2018. The statutory net loss includes the amortisation of acquired intangibles of \$38.4m (before tax), as well as fair value adjustments to deferred revenue resulting from acquisition accounting. Had the acquisition occurred on 1 October 2017, the revenue would have been \$323.8m, and the statutory net loss after tax \$15.9m.

Refer to the Review of Operations for information on normalised results.

##### (v) Purchase consideration - cash outflow

	\$'m
Outflow of cash to acquire subsidiary	702.8
Less: Cash acquired	(40.0)
<b>Outflow of cash - investing activities</b>	<b>662.8</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 4. GROUP STRUCTURE CONTINUED

#### 4-1 BUSINESS COMBINATIONS DURING THE YEAR CONTINUED

##### (b) Big Fish Games Inc.

On 10 January 2018 the Group acquired 100% of Big Fish Games Inc. (Big Fish). Big Fish is a global publisher of free-to-play games that operates across three key business lines that are focused on specific game segments, including social casino, social gaming and premium paid games. The acquisition provides a platform for growth through existing successful applications and an attractive pipeline of new applications.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	\$'m
Purchase consideration	
Cash paid	1,257.9
<b>Total purchase consideration</b>	<b>1,257.9</b>

The assets and liabilities at the date of acquisition were as follows:

	Fair Value \$'m
Cash and cash equivalents	0.3
Trade and other receivables	52.0
Property, plant and equipment	22.0
Intangible assets: Technology	155.8
Intangible assets: Game names	46.6
Intangible assets: Trade name	40.2
Intangible assets: Customer relationships	13.0
Other assets	0.6
Trade and other payables	(39.7)
Other liabilities	(14.7)
Deferred tax liabilities	(54.2)
<b>Net identifiable assets acquired</b>	<b>221.9</b>
Add: goodwill	1,036.0
<b>Net assets acquired</b>	<b>1,257.9</b>

The goodwill is attributable to key employees, future growth opportunities and synergies from combining operations with Big Fish Games Inc. The goodwill is not deductible for tax purposes.

##### (i) Acquisition related costs

Acquisition related costs of \$14.0m are included in general and administration costs in the statement of profit or loss and other comprehensive income for the year and \$16.4m in operating cash flows in the statement of cash flows.

##### (ii) Acquired receivables

The fair value of trade and other receivables on acquisition was \$52.0m, of which \$40.5m were trade receivables. The gross contractual amount for trade receivables due was \$40.5m. The fair value of the receivables have been recovered from customers.

##### (iii) Revenue and profit contribution

The acquired business contributed revenues of \$434.9m and a statutory net profit after tax of \$7.3m to the Group for the period from 10 January 2018 to 30 September 2018. The statutory net profit includes the amortisation of acquired intangibles of \$32.7m (before tax), as well as fair value adjustments to deferred revenue resulting from acquisition accounting.

Had the acquisition occurred on 1 October 2017, consolidated pro-forma revenue and profit after tax of the Group would have been \$3,727.9m and \$558.5m respectively.

Refer to the Review of Operations for information on normalised results.

##### (iv) Purchase consideration - cash outflow

	\$'m
Outflow of cash to acquire subsidiary	1,257.9
Less: Cash acquired	(0.3)
<b>Outflow of cash - investing activities</b>	<b>1,257.6</b>

##### (c) Other acquisitions

The Group made a further acquisition during the year that was not material to these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 4. GROUP STRUCTURE CONTINUED

#### 4-2 SUBSIDIARIES

The principal controlled entities of the Group are listed below. These were wholly owned during the current and prior year, unless otherwise stated:

Controlled entities	Country of incorporation
Aristocrat Technologies Australia Pty Ltd	Australia
Aristocrat International Pty Ltd	Australia
Aristocrat Technologies, Inc.	USA
Video Gaming Technologies, Inc.	USA
Product Madness Inc.	USA
Big Fish Games Inc.*	USA
Plarium Global Limited*	Israel
Aristocrat (Macau) Pty Limited	Australia
Aristocrat Technologies NZ Limited	New Zealand
Aristocrat Technologies Europe Limited	UK
Aristocrat Technologies Mexico, S.A. DE C.V.	Mexico
Aristocrat Service Mexico, S.A. DE C.V.	Mexico
AI (Puerto Rico) Pty Limited	Australia
Aristocrat (Argentina) Pty Limited	Australia
Aristocrat Technologies India Private Ltd	India
Product Madness (UK) Limited	UK
Aristocrat Technologies Spain S.L.	Spain

\* Ownership interest at 30 September 2018: 100% (2017: 0%)

## NOTES TO THE FINANCIAL STATEMENTS



### 5. EMPLOYEE BENEFITS

This section provides a breakdown of the various programs the Group uses to reward and recognise employees and key executives, including Key Management Personnel.

5-1 Key management personnel

5-2 Share-based payments

#### 5-1 KEY MANAGEMENT PERSONNEL

##### Key management personnel compensation

Key management personnel includes all Non-Executive Directors, Executive Directors and Senior Executives who were responsible for the overall planning, directing and controlling of activities of the Group. During the year ended 30 September 2018, 7 Executive Directors and Senior Executives (2017: 5 Executive Directors and Senior Executives) were designated as key management personnel.

	2018 \$	2017 \$
Short-term employee benefits	10,200,351	7,679,267
Post-employment benefits	165,751	182,315
Long-term benefits	44,484	123,005
Termination benefits	1,130,992	3,267,430
Share-based payments	3,950,715	4,722,109
<b>Key management personnel compensation</b>	<b>15,492,293</b>	<b>15,974,126</b>

Detailed remuneration disclosures are provided in the remuneration report.

## NOTES TO THE FINANCIAL STATEMENTS



### 5. EMPLOYEE BENEFITS CONTINUED

#### 5-2 SHARE-BASED PAYMENTS

The Remuneration Report, presented in the Directors' Report, also provides detailed disclosure on share-based payments.

Plan	Description	Shares outstanding at the end of the year
Performance share plan ("PSP")	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.	36 employees (2017: 14) were entitled to 1,247,201 rights (2017: 1,663,201)
Deferred equity employee plan	Certain eligible employees are offered incentives of share rights that are based on individual and company performance, subject to continued employment. Should the performance criteria be met, an amount of share rights are granted. The shares outstanding at 30 September 2018 result from the meeting of performance criteria in the 2016 and 2017 financial years. These rights are subject to the respective employees remaining with the Group until October 2018 and October 2019.	882,386 (2017: 1,140,739)
Key employee equity program	Certain eligible employees are offered incentives of share rights that are based on individual and company performance, subject to continued employment. Should the performance criteria be met, an amount of share rights are granted. There are no shares outstanding at 30 September 2018 resulting from employees meeting the performance criteria.	Nil (2017: Not applicable as new in 2018)
Deferred short-term incentive plan	Upon the vesting of short-term incentives, Executives receive the incentives as 50% cash, with 50% deferred as Performance Share Rights. These share rights are expensed over the vesting periods, being two and three years.	339,031 (2017: 529,603)
General employee share plan ("GESP")	GESP is designed to provide employees with shares in the parent entity under the provisions of Division 83A of the Australian Income Tax Assessment Act. The number of shares issued to participants in the Plan is the offer amount divided by the weighted average price at which the Company's shares are traded on the Australian Securities Exchange during the five days immediately before the date of the offer.	Nil (2017: Nil)
Other grants	Contractual share rights are granted to retain key employees from time to time across the Group, subject to continued employment. Share rights are expensed over the respective vesting periods.	629,399 (2017: 556,449)

#### (a) Share-based payments expense

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefits expense were as follows:

	2018 \$'m	2017 \$'m
Performance Share Plan	5.9	3.7
General Employee Share Plan	0.7	0.5
Deferred Short-Term Incentive Plan	3.8	3.9
Deferred Equity Employee Plan	3.7	5.2
Key Employee Equity Program	3.6	-
Other grants	6.5	2.8
	<b>24.2</b>	<b>16.1</b>

## NOTES TO THE FINANCIAL STATEMENTS



### 5. EMPLOYEE BENEFITS CONTINUED

#### 5-2 SHARE-BASED PAYMENTS CONTINUED

##### Recognition and measurement

The fair value of rights granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions and the impact of non-vesting conditions but excludes the impact of any individual performance-based and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of rights that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Shares issued through the Aristocrat Employee Equity Plan Trust continue to be recognised in the share-based payments reserve in equity. Similarly, treasury shares acquired by the Aristocrat Employee Equity Plan Trust are recorded in share-based payments trust reserves. Information relating to these shares is disclosed in Note 3-3.

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.

##### (b) Performance Share Plan ('PSP')

##### Accounting fair value of Performance Share Rights granted

The assessed accounting fair values of Performance Share Rights granted during the financial years ended 30 September 2018 and 30 September 2017 are as follows:

Timing of grant of rights	Performance period start date	Performance period expiry date	Performance condition	Accounting valuation date	Accounting valuation (\$)
2018 financial year	1 October 2017	30 September 2020	TSR	27 April 2018	20.22
			EPSP		25.73
			Individual performance		25.73
2017 financial year	1 October 2016	30 September 2019	TSR	28 March 2017	11.91
			EPSP		16.82
			Individual performance		16.82

## NOTES TO THE FINANCIAL STATEMENTS



### 5. EMPLOYEE BENEFITS CONTINUED

#### 5-2 SHARE-BASED PAYMENTS CONTINUED

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 Total Shareholder Return ('TSR'), Earnings Per Share Growth ('EPSG') and individual performance condition models. Performance Share Rights with a market vesting condition (for example, TSR) incorporates the likelihood that the vesting condition will be met. The accounting valuation of Performance Share Rights with a non-market vesting condition (for example, EPSG) does not take into account the likelihood that the vesting condition will be met.

##### (i) Total Shareholder Return ('TSR') model

Deloitte has developed a Monte-Carlo Simulation-based model which simulates the path of the share price according to a probability distribution assumption. The pricing model incorporates the impact of performance hurdles and the vesting scale on the value of the share rights. The model considers the Relative TSR hurdles to be market hurdles and any individual performance conditions attached to the Relative TSR rights are not used in the determination of the fair value of the rights at the valuation date. 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.

##### (ii) Earnings Per Share Growth ('EPSG') model, individual performance condition

Deloitte has utilised a Black-Scholes-Merton 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.

The model inputs for share rights granted during the year ended 30 September 2018 and year ended 30 September 2017 included:

Input	Consideration	
	2018	2017
Share rights granted	Zero consideration and have a three year life.	
Share price at grant date	\$26.90	\$17.75
Price volatility of Company's shares	24.8%	25.0%
Dividend yield	1.7%	2.0%
Risk-free interest rate	2.3%	1.8%

The expected price volatility is based on the historical volatility of the share price of the Company due to the long-term nature of the underlying share rights.

## NOTES TO THE FINANCIAL STATEMENTS



### 5. EMPLOYEE BENEFITS CONTINUED

#### 5-2 SHARE-BASED PAYMENTS CONTINUED

Performance Share Rights are detailed in the tables below:

##### Consolidated - 2018

Grant date	Performance period expiry date	Rights at start of year Number	New rights issues Number	Rights vested Number	Rights lapsed Number	Rights at end of year Number
1 October 2014	30 September 2017	529,532	-	(529,532)	-	-
27 February 2015	30 September 2017	329,589	-	(329,589)	-	-
3 March 2016	30 September 2018	542,304	-	-	-	542,304
28 March 2017	30 September 2019	261,776	-	-	(30,753)	231,023
27 April 2018	30 September 2020	-	508,345	-	(34,471)	473,874
		<b>1,663,201</b>	<b>508,345</b>	<b>(859,121)</b>	<b>(65,224)</b>	<b>1,247,201</b>

##### Consolidated - 2017

Grant date	Performance period expiry date	Rights at start of year Number	New rights issues Number	Rights vested Number	Rights lapsed Number	Rights at end of year Number
20 February 2014	30 September 2016	435,000	-	(435,000)	-	-
1 October 2013	30 September 2016	827,845	-	(827,845)	-	-
1 October 2014	30 September 2017	611,468	-	-	(81,936)	529,532
27 February 2015	30 September 2017	409,556	-	-	(79,967)	329,589
3 March 2016	30 September 2018	851,554	-	-	(309,250)	542,304
28 March 2017	30 September 2019	-	291,480	-	(29,704)	261,776
		<b>3,135,423</b>	<b>291,480</b>	<b>(1,262,845)</b>	<b>(500,857)</b>	<b>1,663,201</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 6. OTHER DISCLOSURES

This section provides details on other required disclosures relating to the Group to comply with the accounting standards and other pronouncements.

6-1 Commitments and contingencies	6-5 Parent entity financial information
6-2 Events occurring after reporting date	6-6 Deed of cross guarantee
6-3 Remuneration of auditors	6-7 Basis of preparation
6-4 Related parties	

#### 6-1 COMMITMENTS AND CONTINGENCIES

	2018 \$'m	2017 \$'m
<b>(a) Commitments</b>		
<b>Capital commitments</b>		
Capital expenditure contracted for at the reporting date but not recognised as liabilities:		
Property, plant and equipment	0.5	0.1
<b>Lease commitments</b>		
<b>Non-cancellable operating leases</b>		
The Group leases various offices and plant and equipment under non-cancellable operating leases. Commitments for minimum lease payments are as follows:		
Under one year	35.3	26.7
Between one and five years	121.3	84.3
Over five years	170.9	81.4
<b>Commitments not recognised in the financial statements</b>	<b>327.5</b>	<b>192.4</b>
<b>Sub-lease payments</b>		
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	1.5	3.7

#### (b) Contingent liabilities

The Group and parent entity have contingent liabilities at 30 September 2018 in respect of the following matters:

- a contingent liability may exist in relation to certain guarantees and indemnities given in the ordinary course of business by the Group;
- controlled entities within the Group are and become parties to various legal actions in the ordinary course of business and from time to time. The Directors consider that any liabilities arising from this type of legal action are unlikely to have a material adverse effect on the Group;
- controlled entities within the Group may become parties to various legal actions concerning intellectual property claims. Intellectual property claims can include challenges to the Group's patents on various products or processes and/or assertions of infringement of third party patents.

Most intellectual property claims involve highly complex issues. Often, these issues are subject to substantial

- uncertainties and therefore the probability of damages, if any, being sustained and an estimate of the amount of damages is difficult to ascertain. Based on the information currently available, the Directors consider that there are no current claims likely to have a material adverse effect on the Group;
- Aristocrat Leisure Limited, Aristocrat International Pty Ltd, Aristocrat Technologies Australia Pty Ltd, Aristocrat (Holdings) 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 the Australian Securities & Investments Commission as discussed in Note 6-6; and
  - In April 2015, Cheryl Kater filed a purported class action lawsuit against Churchill Downs Incorporated (CDI) in the U.S. Federal District Court for the Western District of Washington. The litigation relates to the operation of the online social gaming platform Big Fish Casino, which is part of Big Fish Games, Inc. Aristocrat completed its acquisition of Big Fish Games, Inc from CDI in January 2018.



## NOTES TO THE FINANCIAL STATEMENTS

# 6. OTHER DISCLOSURES CONTINUED

### 6-1 COMMITMENTS AND CONTINGENCIES CONTINUED

The case is currently going through the court process and Aristocrat and CDI continue to work together to vigorously defend the action and believe that there are meritorious legal and factual defences against the Plaintiff's allegations and requests for relief. Aristocrat is not aware of any other US Court having found in favour of a plaintiff in a matter involving similar facts and issues to those in the Kater litigation case.

Aristocrat has a number of contractual protections from CDI, including broad indemnity protection relating specifically to the Kater litigation.

### 6-2 EVENTS OCCURRING AFTER REPORTING DATE

There has not arisen in the interval between the end of the 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 reporting periods.

Refer to Note 1-6 for information regarding dividends declared after reporting date.

### 6-3 REMUNERATION OF AUDITORS

During the year, the following fees were paid or payable to the auditor of the parent entity, PricewaterhouseCoopers and its related practices:

	2018	2017
	\$	\$
<b>Audit or review of financial reports</b>		
Australia	1,015,000	837,000
Overseas	2,303,000	1,489,500
<b>Total remuneration for audit/ review services</b>	<b>3,318,000</b>	2,326,500
<b>Other assurance services</b>		
Overseas	-	789
<b>Total remuneration for other assurance services</b>	-	789
<b>Total remuneration for assurance services</b>	<b>3,318,000</b>	2,327,289
<b>Tax and advisory services</b>		
Australia	1,837,866	1,784,441
Overseas	1,621,478	792,277
<b>Total remuneration for advisory services</b>	<b>3,459,344</b>	2,576,718

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice, due diligence on acquisitions, consulting, cyber reviews or where PricewaterhouseCoopers is awarded assignments on a competitive basis in accordance with the non-audit services policy.

### 6-4 RELATED PARTIES

#### (a) Other transactions with key management personnel

There were no other related party transactions aside from disclosures under key management personnel. Refer to Note 5-1.

#### (b) Subsidiaries

Interests in subsidiaries are set out in Note 4-2.

## NOTES TO THE FINANCIAL STATEMENTS

# 6. OTHER DISCLOSURES CONTINUED

### 6-5 PARENT ENTITY FINANCIAL INFORMATION

#### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2018 \$'m	2017 \$'m
<b>Balance sheet</b>		
Current assets	63.3	105.0
Total assets	995.0	984.4
Current liabilities	129.8	148.4
Total liabilities	129.8	148.4
<b>Net assets</b>	<b>865.2</b>	<b>836.0</b>
<i>Shareholders' equity</i>		
Contributed equity	715.1	715.1
Reserves	158.2	134.0
Retained profits/(Accumulated losses)	(8.1)	(13.1)
<b>Total equity</b>	<b>865.2</b>	<b>836.0</b>
<b>Profit for the year after tax</b>	<b>254.0</b>	<b>323.8</b>
<b>Total comprehensive income after tax</b>	<b>254.0</b>	<b>323.8</b>

#### (b) Guarantees entered into by the parent entity

Cross guarantees given by the parent entity are set out in Note 6-6.

#### (c) Contingent liabilities of the parent entity

Contingent liabilities of the parent entity are set out in Note 6-1.

#### Recognition and measurement

The financial information for the parent entity, Aristocrat Leisure Limited, disclosed above has been prepared on the same basis as the consolidated financial statements, except for investments in subsidiaries where they are accounted for at cost less impairment charges in the financial statements of Aristocrat Leisure Limited.

### 6-6 DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations Instrument 2016/785, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of a financial report and Directors' Report.

It is a condition of the Instrument that the Company and each of the participating subsidiaries enter into a Deed of Cross Guarantee (Deed). The effect of the Deed, dated 22 December 2006, is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the participating subsidiaries under certain provisions of the Corporations Act. If a winding up occurs under other provisions of the Corporations Act, the Company will only be liable in the event that after six months, any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event the Company is wound up.

The subsidiaries subject to the Deed are:

- Aristocrat Technologies Australia Pty Limited
- Aristocrat International Pty Limited
- Aristocrat (Asia) Pty Limited
- Aristocrat (Macau) Pty Limited
- Aristocrat (Holdings) Pty Limited

The above named companies represent a Closed Group for the purposes of the Instrument, and as there are no other parties to the Deed that are controlled by the Company, they also represent the Extended Closed Group.

## NOTES TO THE FINANCIAL STATEMENTS

# 6. OTHER DISCLOSURES CONTINUED

### 6-6 DEED OF CROSS GUARANTEE CONTINUED

Set out below is the statement of profit or loss and other comprehensive income of the Closed Group:

	2018 \$'m	2017 \$'m
Revenue	546.9	573.5
Dividends received from related parties	503.5	-
Other income from related parties	374.5	264.5
Other income from non-related parties	6.7	5.1
Cost of revenue and other expenses	(221.9)	(181.6)
Employee benefits expense	(161.5)	(163.7)
Finance costs	(15.3)	(10.6)
Depreciation and amortisation expense	(17.6)	(13.4)
Profit before income tax	1,015.3	473.8
Income tax expense	(163.8)	(139.3)
<b>Profit for the year</b>	<b>851.5</b>	<b>334.5</b>
<b>Other comprehensive income</b>		
Changes in fair value of interest rate hedge	2.3	1.9
<b>Other comprehensive income net of tax</b>	<b>2.3</b>	<b>1.9</b>
<b>Total comprehensive income for the year</b>	<b>853.8</b>	<b>336.4</b>
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	306.9	157.6
Profit for the year	851.5	334.5
Dividends paid	(249.0)	(185.2)
<b>Retained earnings at the end of the financial year</b>	<b>909.4</b>	<b>306.9</b>

Set out below is the balance sheet of the Closed Group:

	2018 \$'m	2017 \$'m
<b>Current assets</b>		
Cash and cash equivalents	86.5	325.4
Trade and other receivables	153.6	153.6
Inventories	37.6	32.9
<b>Total current assets</b>	<b>277.7</b>	<b>511.9</b>
<b>Non-current assets</b>		
Trade and other receivables	347.4	95.6
Investments	1,375.5	705.0
Property, plant and equipment	11.8	13.2
Deferred tax assets	41.9	39.1
Intangible assets	80.7	47.6
<b>Total non-current assets</b>	<b>1,857.3</b>	<b>900.5</b>
<b>Total assets</b>	<b>2,135.0</b>	<b>1,412.4</b>
<b>Current liabilities</b>		
Trade and other payables	189.9	153.7
Current tax liabilities	136.6	147.4
Provisions	13.6	12.7
Deferred revenue and other liabilities	22.3	19.6
<b>Total current liabilities</b>	<b>362.4</b>	<b>333.4</b>
<b>Non-current liabilities</b>		
Trade and other payables	1.3	2.3
Borrowings	312.7	163.0
Provisions	6.5	6.5
Deferred revenue and other liabilities	12.9	17.7
<b>Total non-current liabilities</b>	<b>333.4</b>	<b>189.5</b>
<b>Total liabilities</b>	<b>695.8</b>	<b>522.9</b>
<b>Net assets</b>	<b>1,439.2</b>	<b>889.5</b>
<b>Equity</b>		
Contributed equity	715.1	715.1
Reserves	(185.3)	(132.5)
Retained earnings	909.4	306.9
<b>Total equity</b>	<b>1,439.2</b>	<b>889.5</b>

## NOTES TO THE FINANCIAL STATEMENTS

# 6. OTHER DISCLOSURES CONTINUED

### 6-7 BASIS OF PREPARATION

#### Corporate information

Aristocrat Leisure Limited is a for-profit company incorporated and domiciled in Australia and limited by shares publicly traded on the Australian Securities Exchange. This financial report covers the financial statements for the consolidated entity consisting of Aristocrat Leisure Limited and its subsidiaries (together referred to as the Group). A description of the nature of the Group's operations and its principal activities is included in the Directors' Report and the Operating and Financial Review. The financial report was authorised for issue in accordance with a resolution of Directors on 29 November 2018.

The Group's registered office and principal place of business is:

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

The Group ensures that its corporate reporting is timely, complete and available globally. All press releases, financial statements, and other information are available in the investor information section of the Company's website: [www.aristocrat.com](http://www.aristocrat.com)

#### Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the Corporations Act 2001. The report presents information on a historical cost basis, except for financial assets and liabilities (including derivative instruments), which have been measured at fair value and for classes of property, plant and equipment which have been measured at deemed cost. Amounts have been rounded off to the nearest whole number of million dollars and one decimal place representing hundreds of thousands of dollars, or in certain cases, the nearest dollar in accordance with the relief provided under the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 as issued by the Australian Securities and Investments Commission.

Policies have been applied consistently for all years presented, unless otherwise stated.

Comparative information is reclassified where appropriate to enhance comparability.

#### Principles of consolidation

The consolidated financial statements incorporate the financial statements of Aristocrat Leisure Limited (the Company) and its subsidiaries as at 30 September 2018.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

In preparing the consolidated financial statements, all intercompany balances, transactions and unrealised gains have been eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group has a trust to administer the Group's employee share scheme. This trust is consolidated as it is controlled by the Group.

#### Foreign currency

The consolidated financial statements are presented in Australian dollars. 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 results and financial position of foreign operations are translated into Australian dollars at the reporting date using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Income and expenses	Average exchange rate
Assets and liabilities	Reporting date
Equity	Historical date
Reserves	Historical date

Foreign exchange gains and losses resulting from translation are recognised in the statement of profit or loss, except for qualifying cash flow hedges which are deferred to equity.

Foreign exchange differences resulting from translation of foreign operations are initially recognised in the foreign currency translation reserve and subsequently transferred to the profit or loss on disposal of the foreign operation.

## NOTES TO THE FINANCIAL STATEMENTS

# 6. OTHER DISCLOSURES CONTINUED

### 6-7 BASIS OF PREPARATION CONTINUED

#### New accounting standards and interpretations

A number of new accounting standards and interpretations have been published that are not mandatory for 30 September 2018 reporting periods and have not been early adopted by the Group. The status of the Group's assessment of the impact of these new standard and interpretations is set out below:

Reference	Description	Financial Year of Application by Aristocrat	Impact on the Group
<b>AASB 9</b> <i>Financial Instruments</i>	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It also includes an expected loss impairment model and a reformed approach to hedge accounting.	2019	<p>The Group has reviewed AASB 9 to determine the impact of the new standard and to develop accounting policies that will be followed from FY2019.</p> <p>The Group has assessed the impact of the new 'expected loss model' whereby doubtful debts provisions will need to incorporate the risk that receivables will not be collected regardless of whether customers are making payments. Given that historical bad debts of the Group are relatively low, the doubtful debts provision will not be materially different on transition to the new Standard, and is expected to increase by an amount that is not material to the financial statements.</p> <p>Changes in the standard resulting from new hedge accounting requirements will not have a material impact.</p>
<b>AASB 15</b> <i>Revenue from Contracts with Customers</i>	The new standard is based on the principle that revenue is recognised when control of goods or services transfers to the customer. The notion of control replaces the existing notion of risks and rewards. AASB 15 replaces existing revenue recognition standards including AASB 118 Revenue and AASB 111 Construction Contracts.	2019	<p>The assessment of impact has focused on the Group's main revenue streams by reviewing arrangements with customers to identify the impacts of the new standard and to develop an accounting policy to be followed from FY2019.</p> <p>The main change as a result of the standard is Jackpot liability expenses will be classified as contra revenue rather than as expenses. For 2018, \$35.0m of these expenses were incurred.</p> <p>Financial statements presented for 2019 will have the comparatives amended for the impact of the changes to show results on a like-for-like basis.</p> <p>Overall, there will be a low magnitude of impact on adoption of the new standard.</p>
<b>AASB 16</b> <i>Leases</i>	AASB 16 removes the classification of leases as either operating leases or finance leases for the lessee. The lease becomes an on-balance sheet liability that attracts interest, together with a new asset on the balance sheet.	2020	<p>The Group has continued to assess the impact of the new lease standard in preparation for it being applied from 1 October 2019. Changes to the leases standard will impact the Group on leases of property, plant and equipment. By bringing operating leases on the balance sheet, there will be an increase in assets and a corresponding increase in liabilities. Furthermore, the Group will no longer recognise 'rent expense' in relation to operating leases, but rather depreciation expense on the right of use asset and interest expense on the lease liability. Note 6-1 provides information on operating lease commitments that are currently recorded off-balance sheet. On transition to the new standard these will be recognised on-balance sheet after discounting to present value.</p>

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## DIRECTORS' DECLARATION

### for the year ended 30 September 2018

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 62 to 107 are in accordance with the Corporations Act 2001 including:
  - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 September 2018 and of its performance, for the financial year ended on that date; and
- (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; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 6-6 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 6-6.

Note 6-7 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given declarations by the Chief Executive Officer and Managing Director and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.



**Dr ID Blackburne**

Chairman

Sydney

29 November 2018



## Independent auditor's report

To the members of Aristocrat Leisure Limited

### Report on the audit of the financial report

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#### Our opinion

In our opinion:

The accompanying financial report of Aristocrat Leisure Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 September 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### What we have audited

The Group consolidated financial report comprises:

- the balance sheet as at 30 September 2018
- the statement of changes in equity for the year then ended
- the cash flow statement for the year then ended
- the statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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Liability limited by a scheme approved under Professional Standards Legislation.

## Our audit approach

- An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.
- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.
- Aristocrat provides gaming solutions involving Class II and Class III gaming machines and casino management systems. Aristocrat also operates within the on-line social gaming and real money wager markets. The group is structured into Australia and New Zealand, the Americas, International Class III and Digital businesses. Key group wide functions such as design & development, supply chain, human resources and finance are structured on a global basis.



### Materiality

- For the purpose of our audit we used overall Group materiality of \$38m, which represents approximately 5% of the Group's profit before tax, along with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose the Group's profit before tax from continuing operations because, in our view, it is the metric against which the performance of the Group is most commonly measured and it is a generally accepted benchmark.
- We selected 5% based on our professional judgement noting that it is also within the range of commonly acceptable profit related thresholds.

### Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group comprises entities located globally with the most financially significant operations being located in Australia and the United States of America (USA). Accordingly, we structured our audit as follows:
  - The group audit team was led by our team from PwC Australia ("group audit team"). The group audit team conducted an audit of the special purpose financial information of businesses operating in Australia used to prepare the consolidated financial statements.
  - Under instructions from and on behalf of the group audit team, PwC component auditors in:
    - Three USA locations (Las Vegas, Nashville and Seattle) performed an audit of the respective special purpose financial information for these locations used to prepare the consolidated financial statements.
    - Israel performed specified audit procedures over selected financial statement items within the respective special purpose financial information used to prepare the consolidated financial statements.
  - Ongoing dialogue was held throughout the year between the group audit team and component audit teams including consideration of how component audit work was planned and executed.
- Each year, the group audit team rotates its site visits. During the current period, the group audit team have visited management and finance teams from Aristocrat businesses in the following locations: Sydney, Nashville, Las Vegas, Seattle, Tel-Aviv, Uxbridge and the Sydney integration facility to develop an understanding of their operations.





## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Board Audit Committee.

### Key audit matter

### How our audit addressed the key audit matter

#### Revenue recognition

Refer to Note 1-2 Revenues \$3,549.8m

A material proportion of the Group's total revenue is represented by machine sales and systems contracts which contain multiple arrangements as described in the accounting policy note 1-2.

Accounting for revenue from machine sales and system contracts is complex due to contractual arrangements with customers such as delayed settlement, delayed delivery and bundling of products.

Where sales are made to distributors there is a risk that the contractual arrangements may not result in the transfer of inventory risk and that sales may not be recognised in the correct financial reporting period. This may potentially result in a material misstatement of the reported revenue for the financial year.

For this reason, we have focused on revenue recognition of the bespoke contractual and multiple element arrangements with the customers of Class III gaming machines and casino management systems.

We developed an understanding of the systems, controls and processes associated with the recording of sales transactions. We identified, selected and tested transactions and contracts that had a higher risk of sales not being recognised in the correct period.

Where delayed settlement terms were identified during our testing we re-calculated the Group's calculation of present value of the consideration and found it to be accurate for the sample of contracts we tested.

Where delayed delivery was identified we considered whether the Group had transferred the inventory risk to the customer before the balance date of 30 September 2018 and found that they had in the sample of contracts we tested.

Where bundling of different products was identified we compared the revenue allocation of the products sold in the sample of contracts we selected for testing to recent examples of sales of that product on a standalone basis. We found that the implied discounts had been appropriately allocated pro-rata across the products sold and had been recognised in the correct period for the sample we tested.

#### Income taxes

Refer to Note 1-4 Taxes

The Group operates globally and is subject to tax regimes and tax legislation administered by separate tax authorities in a number of countries. Transfer pricing arrangements between different countries is a complex tax and accounting area. Judgement by the Group is involved in accounting for uncertain tax positions that had not been assessed by the relevant tax authorities at the date of this financial report.

The Group has recognised provisions for uncertain tax positions in relation to some of its international

We worked with our internal taxation experts to assess the Group's accounting for uncertain tax positions that existed at 30 September 2018 including considering possible alternate positions. We considered a number of matters, including:

- relevant correspondence with tax authorities
- relevant correspondence with the Group's tax advisors
- the consistency of assumptions inherent in accounting positions, in years where tax assessments were still open, to historically



**Key audit matter**

**How our audit addressed the key audit matter**

related party dealings.

Under the relevant legislation in certain territories some tax assessments remain open to challenge for an extended period. There is a risk that the position adopted by the Group could be challenged by tax authorities. This may potentially result in a material change in the accounting estimate.

- agreed positions with tax authorities
- relevant tax legislation
- assessing the appropriateness of the Group’s disclosure in the financial report in light of Australian Accounting Standard requirements.

**Accounting of Plarium and Big Fish acquisitions**

*Refer to Note 4-1 Business combinations*

In the year ended 30 September 2018 the Group completed two acquisitions:

- On 19 October 2017 the Group acquired 100% of Plarium Global Limited (Plarium) for a total consideration of \$700.3m.
- On 10 January 2018 the Group acquired 100% of Big Fish Games Inc. (Big Fish) for a total consideration of \$1,257.9m.

The accounting for the acquisitions was a key audit matter because of:

- the financial significance of the purchase considerations
- the judgement applied by the Group in allocating the total consideration to the underlying assets and liabilities of Plarium and Big Fish and;
- estimating the purchase consideration, particularly in respect of contingent consideration arrangements for Plarium

Assisted by PwC valuation experts in aspects of our work, our procedures included the following, amongst others:

- evaluating the Group’s accounting against the requirements of Australian Accounting Standards
- reading the executed purchase contracts between the relevant parties
- assessing whether the basis and composition of the purchase consideration in the executed contracts was consistent with the Group’s accounting for the acquisitions
- assessing if the calculation of the contingent consideration was in accordance with the contractual arrangements and the requirements of Australian Accounting Standards
- assessing the fair values of the acquired assets and liabilities recognised, including:
  - considering key assumptions used in the models (the models) that estimated fair value
  - considering the discount rate assumptions used in the models
  - subjecting the key assumptions in the models to sensitivity analysis
  - considering the valuation methodology in the models in light of the requirements of Australian Accounting Standards
  - assessing the competence and capability of management’s expert who assisted the Group in estimating fair values
- considering the adequacy of the business combination disclosures against the requirements of Australian Accounting Standards.

**Estimated recoverable amount of goodwill – Video Gaming Technology Inc. (VGT), Plarium and Big Fish**

*Refer to Note 2-3 Intangible assets – Goodwill \$2,731.5m*

The total goodwill balance of \$2,731.5m is significantly greater than materiality. The goodwill primarily relates to the VGT (\$953.1m), Plarium (\$529.3m) and Big Fish (\$1,122.4m) businesses. We

Assisted by PwC valuation experts in aspects of our work, our audit procedures assessing the recoverable amount of goodwill (amongst others) are detailed below:

- We evaluated and challenged the Group’s cash flow forecasts and the process by which



### *Key audit matter*

focussed on the recoverable amount testing relating to the VGT, Plarium and Big Fish businesses' goodwill because of the judgement involved in the assessment of recoverable amount as at 30 September 2018.

The Group's recoverable amount assessment includes assumptions about the forecasted future results of the businesses, terminal growth rates, revenue forecasts and the discount rates applied to future cash flow forecasts in order to assess the recoverable amount of goodwill.

### *How our audit addressed the key audit matter*

- they were developed.
- We compared these forecasts to the Board/Group's approved plan and found them to be consistent.
- We corroborated the Group's cash flow forecasts with external information where appropriate
- We evaluated the Group's analysis for VGT of previous forecasts to actual results, to assess the performance of the business and the historical accuracy of the Group's forecasting of future results.
- We compared the Group's investment case for Plarium and Big Fish to the Group's cash flow forecasts to assess the reasonableness of any changes.
- We challenged:
  - the terminal growth rate by comparing it to economic and industry forecasts
  - the discount rate by assessing the costs of capital applied to the Group and comparable organisations, as well as considering territory specific factors.
  - the installed base and win per unit assumptions for the VGT business.
- We tested the sensitivity of the calculations by varying the above mentioned key assumptions. We determined the recoverable amount testing result was most sensitive to assumptions for growth rates and discount rates. We checked the valuation calculations used in the recoverable amount testing for mathematical accuracy.
- We assessed the adequacy of disclosures relating to the Group's assessment of recoverable amount of goodwill.

### *Other information*

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 September 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' Report and Operating and Financial Review. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.



In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

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### *Responsibilities of the directors for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

## *Report on the remuneration report*

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### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 32 to 55 of the directors' report for the year ended 30 September 2018.

In our opinion, the remuneration report of Aristocrat Leisure Limited for the year ended 30 September 2018 complies with section 300A of the *Corporations Act 2001*.



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### *Responsibilities*

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.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'MK Graham' in a cursive script.

MK Graham  
Partner

Sydney  
29 November 2018

# SHAREHOLDER INFORMATION

## Distribution of equity securities as at 28 November 2018

Size of holding	Holders of Performance Share Rights <sup>1</sup>	Shareholders	Number of shares <sup>2</sup>	% of issued capital
1- 1,000	26	17,764	6,918,177	1.083
1,001- 5,000	124	6,277	13,667,258	2.140
5,001- 10,000	43	860	6,103,498	0.956
10,001- 100,000	35	472	10,208,868	1.599
100,001- over	4	65	601,646,349	94.222
<b>TOTAL</b>	232	25,438	638,544,150	100.000
Less than a marketable parcel of \$500.00	-	735	4,673	0.00073

1. All share rights are allocated under the Company's incentive programs to take up ordinary shares in the capital of the Company. These share rights are subject to the rules of the relevant program and are unquoted and non-transferable.

2. Fully-paid ordinary shares (excludes unvested performance share rights that have not been converted into shares).

## Substantial shareholders 28 November 2018

As at 28 November 2018, the following shareholders were registered by the Company as a substantial shareholder, having notified the Company of a relevant interest in accordance with Section 671B of the Corporations Act 2001 (Cth), in the voting shares below:

Name of shareholder	Number of ordinary shares held	% of issued capital	Date of notice
Blackrock Group	44,884,870	7.02%	17/07/2017

# SHAREHOLDER INFORMATION

## Twenty largest ordinary shareholders as at 28 November 2018

Name of shareholder	Number of ordinary shares held	% issued capital
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	261,452,677	40.945%
J P MORGAN NOMINEES AUSTRALIA LIMITED	114,757,072	17.972%
CITICORP NOMINEES PTY LIMITED	71,297,099	11.166%
NATIONAL NOMINEES LIMITED	32,441,705	5.081%
WRITEMAN PTY LIMITED	27,378,475	4.288%
BNP PARIBAS NOMINEES PTY LTD	25,810,798	4.042%
THUNDERBIRDS ARE GO PTY LTD	19,527,754	3.058%
ARMINELLA PTY LIMITED	14,692,200	2.301%
ECA 1 PTY LIMITED	8,562,904	1.341%
MAAKU PTY LIMITED	5,284,127	0.828%
UBS NOMINEES PTY LTD	4,577,023	0.717%
ARGO INVESTMENTS LIMITED	3,064,665	0.480%
BNP PARIBAS NOMS (NZ) LTD	2,286,883	0.358%
AMP LIFE LIMITED	2,135,619	0.334%
CS THIRD NOMINEES PTY LIMITED	1,729,365	0.271%
BOND STREET CUSTODIANS LIMITED	1,475,971	0.231%
FORSYTH BARR CUSTODIANS LTD	1,384,256	0.217%
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	732,961	0.115%
AUSTRALIAN EXECUTOR TRUSTEES LIMITED	685,394	0.107%
INVIA CUSTODIAN PTY LIMITED	643,713	0.101%

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# SHAREHOLDER INFORMATION

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## Voting Rights

At meetings of shareholders, each shareholder may vote in person or by proxy, attorney or (if the shareholder is a body corporate) corporate representative. On a show of hands, every person present who is a shareholder or a representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy or attorney has one vote for each fully-paid ordinary share. Performance share right holders have no voting rights.

## Regulatory Considerations affecting Shareholders

Aristocrat Leisure Limited 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 shareholders 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 enquiries

You can access information about Aristocrat Leisure Limited and your holdings via the internet. Aristocrat's website, [www.aristocrat.com](http://www.aristocrat.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 Australian Securities Exchange to provide current share prices. The share registry manages all your shareholding details. Visit [www.boardroomlimited.com.au](http://www.boardroomlimited.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).

## Dividends

### Electronic Funds Transfer

The Company has a mandatory direct payment of dividends program for all shareholders who were requested to complete and submit Direct Credit payment instructions with the Company's share registrar. Shareholders who have not submitted valid Direct Credit payment instructions will receive a notice from the Company's share registrar advising that:

- (a) the relevant dividend amount is being held as direct credit instructions have not been received;
- (b) the relevant dividend will be credited to the nominated bank account as soon as possible on receipt of direct credit instructions; and
- (c) 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 instructions on the record date of the relevant dividend.

### Dividend Reinvestment Plan

The Directors consider whether the Company's Dividend Reinvestment Plan (DRP) should operate each time a dividend is declared.

The DRP Rules and the 'Dividend Reinvestment Plan Application or Variation Form' are available from the Company's share registrar, Boardroom Limited on 1300 737 760 (in Australia), or +61 2 9290 9600 (international) or email [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)

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 any 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 determined by the Board.



## CORPORATE DIRECTORY

### Directors

#### ID Blackburne

Non-Executive Chairman

#### TJ Croker

Chief Executive Officer and  
Managing Director

#### NG Chatfield

Non-Executive Director

#### KM Conlon

Non-Executive Director

#### SW Morro

Non-Executive Director

#### AM Tansey

Non-Executive Director

#### S Summers Couder

Non-Executive Director

#### PJ Ramsey

Non-Executive Director

### Company Secretary

RH Bell

### Global Headquarters

#### Aristocrat Leisure Limited

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85 Epping Road  
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Australia

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Facsimile: + 61 2 9013 6200

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### The Americas

#### North America

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#### Video Gaming Technologies, Inc.

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#### Big Fish Games, Inc.

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Seattle Washington 98104  
USA

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#### South America

#### Aristocrat (Argentina) Pty Limited

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### Europe

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#### Aristocrat Technologies Europe Limited

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#### Israel

#### Plarium Global Limited

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### Investor Contacts

#### Share Registry

#### Boardroom Limited

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Telephone: 1300 737 760 (in Australia)

Telephone: +61 2 9290 9600  
(international)

Email: [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)

Website: [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)

#### Auditor

#### PricewaterhouseCoopers

One International Towers Sydney  
Watermans Quay, Barangaroo  
Sydney NSW 2001  
Australia

#### Stock Exchange Listing

#### Aristocrat Leisure Limited

Ordinary shares are listed on the  
Australian Securities Exchange

CODE: ALL

#### Internet Site

[www.aristocrat.com](http://www.aristocrat.com)

#### Investor Email Address

Investors may send email queries to:  
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