

ARISTOCRAT LEISURE LIMITED ABN 44 002 818 368  
aristocrat

changing the gaming environment

“2007 was a particularly challenging year for the industry. I am disappointed by the modest growth, however, our result demonstrates the underlying strength and sustainability of our business in some of the most adverse operating conditions many in the gaming industry can recall. While these market conditions impacted trading in our core businesses, I am particularly pleased with our results in emerging markets, where we have captured a significant share of new opportunities.”

**Paul Oneile, Chief Executive Officer and Managing Director**



Cover: During 2007, Aristocrat released its new Viridian Gen7 product which is now “changing the gaming environment.” The logo on the cover and each page of this report is the new Viridian logo.

# Contents

Company Profile/Key Dates	2
Directors' Report	3
Management Discussion and Analysis:	
– Financial Report	8
– Business Segment Review	17
Australia	17
The Americas	18
Japan	20
New Zealand	21
Other International	22
Remuneration Report	25
Auditor's Independence Declaration	54
Corporate Governance Statement	55
Five Year Summary	62
Financial Statements	63
Independent Auditor's Report to the members	136
Shareholder Information	138
Corporate Directory	142

# Company Profile

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

## Key Dates\*

### 2007 Results

2008 Annual General Meeting	29 April 2008
Announcement of Supplementary Unfranked Dividend ('SUD')	29 April 2008
Shares Trade Ex-SUD	3 June 2008
Record Date for SUD	10 June 2008
Payment Date for SUD	1 July 2008
Interim Results Announcement (6 months ending 30 June 2008)	28 August 2008
Shares Trade Ex-Interim Dividend	3 September 2008
Record Date for Interim Dividend	9 September 2008
Payment Date for Interim Dividend	30 September 2008
Announcement of SUD	24 November 2008
Shares Trade Ex-SUD	28 November 2008
Record Date for SUD	4 December 2008
Payment Date for SUD	5 January 2009

### 2008 Results

Final Results Announcement for 2008	24 February 2009
Shares Trade Ex-Final Dividend	2 March 2009
Record Date for Final Dividend	6 March 2009
Payment Date for Final Dividend	30 March 2009
2009 Annual General Meeting	28 April 2009

\* Dates subject to change.

The Company's Corporate Profile Document is available from the Company's website, [www.aristocratgaming.com](http://www.aristocratgaming.com)

# Directors' Report

## For the 12 months ended 31 December 2007

The directors present their report together with the financial statements of Aristocrat Leisure Limited and its controlled entities ('Group') for the 12 months ended 31 December 2007. The information in this report is current as at 26 February 2008 unless otherwise specified. The directors of Aristocrat Leisure Limited ('Company') during the 12 months ended 31 December 2007 and up to the date of this report are:

Director	Experience	Special responsibilities
<b>DJ Simpson</b> FCPA Age 67	Nominated July 2003. Appointed February 2004. <ul style="list-style-type: none"> <li>• Director, CSL Limited</li> <li>• Former Finance Director, Tabcorp Holdings Limited</li> </ul>	Chairman Member, Nomination and Governance Committee Member, Audit Committee Member, Remuneration Committee
<b>PN Oneile</b> BEc Age 59	Nominated December 2003. Appointed June 2004. <ul style="list-style-type: none"> <li>• Director, Film Finance Corporation Australia Limited</li> <li>• Former Chairman and Chief Executive Officer, United International Pictures (UIP)</li> <li>• Former Managing Director, The Greater Union Organisation Pty Limited</li> </ul>	Chief Executive Officer and Managing Director
<b>WM Baker</b> BA Age 68	Nominated August 1998. Appointed May 1999. <ul style="list-style-type: none"> <li>• Director, J. Edgar Hoover Foundation and Fortress Global Investigations, Inc</li> <li>• Former Assistant Director of the FBI</li> <li>• Former President, The Motion Picture Association</li> </ul>	Chair, Regulatory and Compliance Committee
<b>RA Davis</b> BEc (Hons), MPhilosophy Age 56	Nominated November 2004. Appointed June 2005. <ul style="list-style-type: none"> <li>• Consulting Director – Investment Banking, Rothschild Australia Limited</li> <li>• Chairman, Centric Wealth Advisers Limited</li> <li>• Director, Territory Insurance Office, Trust Company Limited and Macquarie Office Management Limited</li> <li>• Former Senior Executive, Citicorp and Citigroup Inc. in the United States and Japan</li> <li>• Former Group Managing Director, ANZ Banking Group Limited</li> </ul>	Chair, Nomination and Governance Committee Member, Audit Committee



## Directors' Report

Director	Experience	Special responsibilities
<p><b>SCM Kelly</b> BA (Hons), FCA, CA, MAICD Age 44</p>	<p>Nominated and appointed February 2007.</p> <ul style="list-style-type: none"> <li>Former executive Goodman Fielder Limited – Chief Financial Officer – Consumer Foods, Chief Information Officer, General Manager – International, Finance Director – International, Group Accounting Manager</li> <li>Former Senior Manager, PricewaterhouseCoopers (Sydney and London)</li> <li>Member National Executive, Group of 100</li> </ul>	<p>Chief Financial Officer and Finance Director</p>
<p><b>P Morris</b> AM, BArch (Hons), MEnvSc, DipCD, FRAIA, FAICD Age 59</p>	<p>Nominated August 2003. Appointed February 2004.</p> <ul style="list-style-type: none"> <li>Director, Mirvac Limited, Clarius Group Limited (formerly Candle Australia Limited), NSW Institute of Teachers and Bowel Cancer and Digestive Research Institute Australia</li> <li>Former Director, Sydney Harbour Foreshore Authority, Landcom, Strathfield Group Limited, Jupiters Limited, Principal Real Estate Investors (Australia) Limited, Howard Smith Limited, Colonial State Bank, EnergyAustralia, Country Road Limited, Indigenous Land Corporation and Australia Post</li> <li>Former Director of Commonwealth Property, Department of Administrative Services</li> <li>Former Group Executive, Lend Lease Property Services</li> </ul>	<p>Chair, Audit Committee Member, Remuneration Committee Member, Nomination and Governance Committee</p>
<p><b>SAM Pitkin</b> LLB, LLM Age 48</p>	<p>Nominated November 2004. Appointed June 2005.</p> <ul style="list-style-type: none"> <li>Director, Chandler Macleod Limited and Export Finance and Insurance Corporation</li> <li>Former Director, Australian Leisure &amp; Hospitality Group Limited, Ceramic Fuel Cells Limited, Energex Limited, Golden Casket Lottery Corporation Limited and National Leisure &amp; Gaming Limited</li> <li>Former Partner and Special Counsel, Clayton Utz, Lawyers</li> </ul>	<p>Chair, Remuneration Committee Member, Regulatory and Compliance Committee</p>
<p><b>AW Steelman</b> BA, MLA Age 65</p>	<p>Nominated August 1998. Appointed May 1999.</p> <ul style="list-style-type: none"> <li>Former US Congressman</li> <li>Advisor, Proudfoot Consulting Plc</li> <li>Former Board Member, Texas Growth Fund and Sterling Software</li> <li>Former President, Maxager Technology</li> <li>Management Consultant with international experience in software, gaming strategy and government regulation</li> </ul>	<p>Member, Audit Committee</p>

### Principal activities

The principal activities of the Group during the 12 months under review were the design, development, manufacture and marketing of gaming machines, software, systems and other related equipment and services. The Company's objective is to be the leading global provider of gaming solutions. There were no significant changes in the nature of those activities during the 12 months ended 31 December 2007.

### Dividends

A final dividend in respect of the 12 months ended 31 December 2007 of 25 cents per share (\$116.1 million) has been declared and will be paid on 31 March 2008 to shareholders on the register at 5:00pm on 7 March 2008. The final dividend will be fully franked.

A supplementary unfranked dividend of 10 cents per share (\$46.4 million) was paid on 7 January 2008 in respect of the 12 months ended 31 December 2007.

A fully franked interim dividend of 14 cents per share (\$65.0 million) was paid on 18 September 2007 in respect of the six months ended 30 June 2007.

The total dividend paid or payable in respect of 2007 was 49 cents per share.

The Dividend Reinvestment Plan ('DRP') was in operation for the interim and supplementary unfranked dividend for shareholders resident in Australia and New Zealand. Shares were acquired on-market to satisfy those shares provided under the DRP. Similarly, the DRP will also operate in respect of the 2007 final dividend.

### Review and results of operations

A review of the operations of the Group for the 12 months ended 31 December 2007 is set out in the attached Management Discussion and Analysis which forms part of this Directors' Report. The operating result of the Group attributable to shareholders for the 12 months ended 31 December 2007 was a profit of \$247.2 million after tax and minority interest.

### Corporate governance

The Board is committed to maintaining the highest standards of corporate governance. The Company's Corporate Governance Statement, Board and Committee charters and key governance policies can be found on the Company's website.

### Significant changes in state of affairs

Except as outlined below and elsewhere in this report, there were no significant changes in the state of affairs of the Group during the 12 months ended 31 December 2007.

### Events after balance date

Other than the refinancing of the Group's debt facilities referred to in the Management Discussion and Analysis, no material matters requiring disclosure in this report have arisen subsequent to 31 December 2007. To the best of their knowledge, the directors are not aware of any other matter or circumstance that has arisen since 31 December 2007 that has significantly affected or may significantly affect:

- (a) the Group's operations in future financial years; or
- (b) the results of those operations in future financial years; or
- (c) the Group's state of affairs in future financial years.

## Directors' Report

### Likely developments and expected results

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

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

### Directors' attendance at Board and Committee meetings during 2007

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

### Remuneration and emoluments of Board members and senior executives

The requirements of section 300A of the *Corporations Act 2001* are included in the attached Remuneration Report on pages 25 to 53 which forms part of this Directors' Report.

### Indemnities and insurance premiums

Clause 23.1 of the Company's Constitution provides that: "to the maximum extent permitted by law (including the *Corporations Act*) the Company must indemnify every person who is or has been a director, secretary or executive officer of the Company". In accordance with Clause 23.4 of the Company's Constitution, the Company has executed documentary indemnities with directors, secretaries and a number of officers (formerly known as 'executive officers' and now defined, pursuant to section 9 of the *Corporations Act*, as 'officers'). The Company maintains a Directors' and Officers' Insurance policy in respect of insurance cover of directors and officers. The policy is primarily a Company reimbursement policy.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the directors, secretaries or officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the directors, secretaries or officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the directors, secretaries or officers or the improper use by the directors, secretaries or officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. In accordance with usual commercial practice, the premium paid and the terms of cover secured by that premium are confidential under the terms of the insurance contract. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities. The assets of the Group are adequately insured for reasonably foreseeable contingencies, in line with normal business practices. The insurance does not provide cover for the independent auditors of the Company.

(Meetings attended/held)

Director	Board	Audit	Nomination and Governance	Regulatory and Compliance	Remuneration
DJ Simpson	12/12	4/4	3/3		4/4
PN Oneile	12/12				
WM Baker	12/12			9/9	
RA Davis	11/12	4/4	3/3		
SCM Kelly	12/12				
P Morris	12/12	4/4	3/3		4/4
SAM Pitkin	12/12			9/9	4/4
AW Steelman	12/12	4/4			



### 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 manufacturing and integration activities. The Company manufactures gaming machines, games and systems at its Australian facilities which are zoned Industrial (4) under local Environmental Plan 114 and are the subject of New South Wales and Australian federal environmental legislation. The Company integrates (assembles) machines and systems in the USA, Macau and Japan. Machines are also assembled under contract in Japan. The Company uses limited amounts of chemicals in its manufacturing and assembly processes. The directors are not aware of any breaches of any environmental legislation or of any significant environmental incidents during the 12 months ended 31 December 2007.

### Company secretary

The Company Secretary is Mr BJ Yahl. Mr JFC Carr-Gregg was also joint Company Secretary until he resigned from this position on 21 December 2007.

Both have previously worked as solicitors in private practice and also as corporate solicitors for Australian publicly listed organisations.

### Proceedings on behalf of the Company

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

### Auditors

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

### Non-audit services provided by 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 their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important. The Company has a charter of audit independence which specifies those non-audit services which cannot be performed by the Company 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 year are set out in Note 34 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 is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out in Note 34 to the financial statements did not compromise the auditor independence requirements of the *Corporations Act 2001* 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 on page 54 of this report.

### Rounding of amounts to nearest thousand dollars

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

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



**DJ Simpson**

Chairman

26 February 2008



# Financial Report

## Summary

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

	Constant currency* 2007 \$Million	Reported 2007 \$Million	Reported 2006 \$Million	Variance vs	
				Constant currency* %	Reported %
Total Revenue from Ordinary Activities	<b>1,203.2</b>	1,122.0	1,074.5	12.0%	4.4%
Earnings Before Interest, Tax and R&D Costs	<b>466.0</b>	436.5	430.5	8.3%	1.4%
Earnings Before Interest and Tax ("EBIT")	<b>356.4</b>	332.3	335.3	6.3%	-0.9%
Profit after Tax	<b>266.3</b>	247.9	240.1	10.9%	3.2%
Profit after Tax and Minority Interest	<b>265.6</b>	247.2	239.0	11.1%	3.4%
Net Working Capital/Revenue^	<b>11.3%</b>	12.1%	7.7%	3.6pts	4.4pts
Operating Cash Flow	<b>229.8</b>	222.2	204.8	12.2%	8.5%
Closing Net Debt	<b>(122.9)</b>	(111.8)	(40.8)	201.2%	174.0%
Earnings Per Share (Fully Diluted)	<b>56.7c</b>	52.8c	50.9c	11.4%	3.7%
Cash Flow Per Share (Fully Diluted)**	<b>49.1c</b>	47.4c	43.6c	12.6%	8.7%
Total Dividends Per Share	<b>49.0c</b>	49.0c	36.0c	36.1%	36.1%

^ As a percentage of last 12 months' revenue.

\* Adjusted for translational exchange rates using rates applying in 2006.

\*\* Operating cash flow per share.

Overall market and regulatory conditions across the Group's three largest regions – Australia, North America and Japan – remained difficult throughout the year. Each experienced their own particular circumstances, resulting in subdued market demand and limited catalysts for overall growth during the period.

The Australian market was impacted by the introduction of non-smoking legislation coupled with delays in the approval and take up of Ticket-in Ticket-out technology. In North America, the replacement cycle remained depressed with demand skewed towards stepper product and limited new market opportunities. While the Japanese market fully transitioned to Regulation 5 in October, the overall size of the pachislot installed base has declined. Despite an improvement in sentiment to Regulation 5 towards the end of the year, overall sales for the year remained modest.

The Group's businesses in emerging markets – Asia Pacific, Europe, South Africa and South America – experienced strong underlying operating revenue and profit growth as gaming markets in these regions continue to develop.

Reported results were significantly impacted by the strengthening of the Australian Dollar over the period with the currency appreciating 11.3% against the US Dollar and 12.4% against the Japanese Yen compared with the prior year. This had the effect of reducing the translated value of foreign denominated earnings ('translational impact'). The translational impact for the year reduced reported Revenue by \$81.2 million and Profit after Tax by \$18.4 million. The net transactional foreign exchange impact ('transactional impact') on underlying local currency denominated transactions over the year was insignificant. In overall terms, when adjusting for the translational impact of foreign exchange, Revenue would have been \$1,203.2 million and Profit after Tax \$266.3 million. Further discussion on foreign exchange translational and transactional impacts and their management is included later in this Report.

During the period, the Group maintained its ongoing commitment to invest in its future through research and development, which is fully expensed against profit. Total research and development spend for the year was \$104.2 million, approximately \$9.0 million (9.5%) above the prior year.

In reported terms, Total Revenue increased 4.4% to \$1,122.0 million while EBIT decreased marginally to \$332.3 million. In constant currency terms, the underlying growth was significantly higher with Total Revenue increasing 12.0% and EBIT up 6.3% compared to the prior year.

Operating cash flow increased 8.5% to \$222.2 million, representing 19.8% of revenue. This increase is mainly attributable to lower tax payments compared to the prior period.

At 31 December, debt exceeded cash on hand by \$111.8 million, a \$71.0 million increase from the net debt position at the end of the prior year. This increase reflects the net impact of \$253.0 million returned to shareholders through dividends and other capital management initiatives together with capital expenditure for the period offset by operating cash flow.

Despite the substantial strengthening of the Australian dollar and ongoing difficult market conditions in the Group's three largest regions, the strong performance of businesses in emerging markets has enabled the Group to report a record full year result. This profit increase together with a lower weighted average number of shares on issue resulting from the Group's ongoing share buy-back program, have delivered fully diluted earnings per share of 52.8 cents per share, a 3.7% increase on 2006. At like-for-like exchange rates, earnings per share improved 11.4%.

Consistent with the Group's focus on cash flow generation, Operating Cash Flow Per Share increased 3.8 cents to 47.4 cents. The combination of the strength of earnings and cash flow per share enabled the Group to increase overall dividend payments for the year by 36.1% to 49.0 cents per share.



## Management Discussion and Analysis

### Profit and Loss

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

The Group reported a full year Profit after Tax and Minority Interest of \$247.2 million, a 3.4% increase on the prior year.

The operating results are summarised below.

### Segment Results

	Segment revenue			Profit/(loss)			% Margin		
	2007 \$m	2006 \$m	Var %	2007 \$m	2006 \$m	Var %	2007 %	2006 %	Var Pts
<b>Segment Results</b>									
Australia	280.1	276.2	1.4	109.5	109.7	-0.2	39.1	39.7	(0.6)
North America	483.6	565.2	-14.4	203.9	252.4	-19.2	42.2	44.7	(2.5)
South America	23.2	27.5	-15.6	8.7	12.2	-28.7	37.5	44.4	(6.9)
New Zealand	25.2	26.6	-5.3	9.5	11.5	-17.4	37.7	43.2	(5.5)
Japan	91.2	50.4	81.0	5.9	(5.6)	n/a	6.5	n/a	n/a
Other International	217.2	127.5	70.4	80.1	42.5	88.5	36.9	33.3	3.6
ACE Interactive	1.5	2.4	-37.5	(11.6)	(7.4)	56.8	n/a	n/a	n/a
Elektronček	38.5	34.0	13.2	10.1	10.6	-4.7	26.2	31.2	(5.0)
<b>Total Segment Results</b>	<b>1,160.5</b>	<b>1,109.8</b>	<b>4.6</b>	<b>416.1</b>	<b>425.9</b>	<b>-2.3</b>	<b>35.9</b>	<b>38.4</b>	<b>(2.5)</b>
							<b>% Revenue</b>		
<b>Unallocated Expenses</b>									
Research and Development				(104.2)	(95.2)	-9.5	-9.0	-8.6	(0.4)
Foreign Exchange				6.6	(0.1)	n/a	0.6	-	(0.6)
Corporate/Other Income				15.2	8.1	87.7	1.3	0.7	0.6
<b>Total Unallocated Expenses</b>				<b>(82.4)</b>	<b>(87.2)</b>	<b>-5.5</b>	<b>-7.1</b>	<b>-7.9</b>	<b>0.8</b>
<b>Earnings Before Interest and Tax</b>				<b>333.7</b>	<b>338.7</b>	<b>-1.5</b>	<b>28.8</b>	<b>30.5</b>	<b>(1.7)</b>
Interest				(6.0)	(2.4)	150.0	-0.5	-0.2	(0.3)
<b>Profit Before Tax</b>				<b>327.7</b>	<b>336.3</b>	<b>-2.6</b>	<b>28.2</b>	<b>30.3</b>	<b>(2.1)</b>
Income Tax				(79.8)	(96.2)	-17.0	-6.9	-8.7	1.8
<b>Profit After Tax</b>				<b>247.9</b>	<b>240.1</b>	<b>3.2</b>	<b>21.4</b>	<b>21.6</b>	<b>(0.2)</b>
Minority Interest				(0.7)	(1.1)	-36.4	-0.1	-0.1	-
<b>Profit After Tax and Minority Interest</b>				<b>247.2</b>	<b>239.0</b>	<b>3.4</b>	<b>21.3</b>	<b>21.5</b>	<b>(0.2)</b>

\* Management basis includes the Group's share of the jointly controlled entity's Revenue, Segmental Profit (EBIT), Interest and Tax on their respective lines. On a statutory reported basis, the Group's share of the jointly controlled entity's after Tax is included as a one line income item only.

## Segment revenue

Despite the difficult market and regulatory conditions across the Group's three largest regions and the adverse impact of the stronger Australian dollar, total Segment Revenue increased by \$50.7 million (up 4.6%) to \$1,160.5 million.

Reported revenue results of individual businesses varied significantly with the Australian performance marginally ahead of the prior year, North and South America, New Zealand and ACE Interactive ('ACE') reporting revenue declines while Japan, Other International (comprising Asia Pacific, Europe and South Africa) and Elektronček posted double digit revenue growth. The revenue declines in North and South America in particular were exacerbated by the strong Australian dollar which reduced the reported value of revenues compared with the prior year.

North American reported revenue declined (14.4%, \$81.6 million) in Australian Dollar terms while in local terms the decline was 4.8% (\$27.0 million) reflecting a decline in overall market volumes and the skewing of market demand towards stepper (mechanical) product at the expense of video, partially offset by improved pricing. In Japan, revenue increased (81.0%, \$40.8 million) to \$91.2 million despite operators' resistance to purchasing new Regulation 5 product as long as possible and fierce price competition.

In other regions, revenue in New Zealand continues to be impacted by adverse regulatory requirements with the market expected to pick up over 2008, while in South America reported revenue declined as a result of the timing of cash receipts which impacted revenue recognition and the particularly favourable comparative result which included cash collections on prior period sales. Elsewhere, revenue performance was positive with Asia Pacific reporting strong growth (up approximately 100%) as the Group continued to capture a significant share of this rapidly expanding region.

European operating revenues increased over 60% and South African revenues grew by 16% as opportunities continued to develop.

The Group's 50% share of revenue of its multi-terminal business (Elektronček) amounted to \$38.5 million, an increase of 13.3% (\$4.5 million), as the business continued to expand its sales reach as regulatory approvals were received.

## Earnings

Management EBIT was lower by 1.5% or \$5.0 million compared with the prior corresponding period.

In constant currency terms all businesses except North and South America, New Zealand and ACE reported earnings growth, with particularly strong increases from businesses in emerging markets. The Australian result was flat.

The Japanese business reported a profit of \$5.9 million, an \$11.5 million turnaround on the prior period loss of \$5.6 million, despite increased inventory provisioning.

Overall margin declined by 2.5 percentage points to 35.9%, predominantly driven by a decline in North America and Australia.

Total unallocated expenses declined \$4.8 million (5.5%). This primarily reflects higher net Corporate/Other Income and favourable foreign exchange gains on hedging activities offset by an increase of \$9.0 million (9.5%) in research and development costs.

Corporate/Other Income improved by almost 88% (\$7.1 million) reflecting improved supply chain efficiency offset in part by \$6.0 million of relocation, redundancy and other non-recurring costs associated with the closure and relocation of the Group's Australian manufacturing operations. This change has further progressed the Group's strategy to transition from a traditional vertically integrated manufacturer to one of a regional integrator focused on the local assembly of modules purchased from strategic suppliers.

Key benefits of this model, which is now fully operational in North America, Asia and Australia, include improved speed to market, customer service, flexibility and cost.

In addition, Corporate/Other Income includes the \$4.9 million profit recognised on the partial sale of the Australian manufacturing site offset by the \$4.0 million settlement cost of an intellectual property dispute.

Higher research and development costs result from an increase in new product delivery output, investment in new technologies and a full period's charge of ACE expenditure. As a percentage of revenue, research and development expenditure rose to 9.0% for the period compared to 8.6% in 2006.

The increase in interest expense from \$2.4 million in the prior year to \$6.0 million reflects higher average net debt over the period and higher average interest rates.

## Tax

The effective tax rate for the year of 24.4% is lower than the 28.6% full year 2006 rate and marginally lower than the 2007 half year rate of 24.8%. This reduction in the current year has been driven by a number of factors including research and development concessions, the benefits of more favourable overseas tax regimes, the non-taxable profit on the disposal of property and the recognition of deferred tax losses on land and buildings held for sale.

The dividend franking outlook continues to remain positive and the 2007 final dividend payable on 31 March 2008 will be fully franked. Subject to maintenance of current earnings mix and agreed positions with various taxation authorities around the world, the Group anticipates it will continue to fully frank dividends in the order of 60%-70% of annual earnings going forward.



## Management Discussion and Analysis

### Earnings Per Share

The improvement in Profit after Tax, together with the reduction in the weighted average number of shares as a result of the Group's capital management initiatives, has resulted in fully diluted earnings per share increasing by 1.9 cents (up 3.7%) to 52.8 cents. Basic earnings per share increased by 1.8 cents to 53.0 cents (up 3.5%). Fully diluted Operating Cash Flow Per Share also strengthened, increasing 3.8 cents to 47.4 cents (up 8.7%).

### Balance sheet

The balance sheet can be summarised as follows:

	2007 \$Million	2006 \$Million
Net Working Capital	135.5	83.9
Other Current/Non-Current Assets	45.5	75.9
Property, Plant and Equipment	130.5	122.5
Investments in Jointly Controlled Entity and Other Companies	87.6	93.2
Intangible Assets	128.2	146.4
Other Current/Non-Current Liabilities	(80.2)	(111.9)
Provision for Supplementary Unfranked Dividend	(40.5)	-
Net Tax Balances	26.0	(4.2)
Funds Employed	432.6	405.8
Net Debt	(111.8)	(40.8)
Shareholders' Funds	320.8	365.0

Net Working Capital increased from \$83.9 million at 31 December 2006 to \$135.5 million. The main driver of this increase was higher receivables in emerging markets where trading terms are generally more competitive than in more established markets. Timing of Australian sales and the increased momentum in Japan towards the end of the year also had an influence on the increase in Working Capital. A reduction in North American inventories and trade receivables partially offset these impacts. Net Working Capital as a

percentage of the last 12 months' revenue was 12.1% at 31 December 2007, outside the Group's target of 10%, although this key ratio is expected to trend back towards this target over the next 12 months.

The 40.1% decline in Other Assets to \$45.5 million primarily results from lower non-current receivables in Australia relating to Value Added Service Agreements ('VASA') and the offsetting of deferred revenue on legacy contracts with the underlying asset following the resolution of disputed amounts.

An equivalent reduction was recognised in Other Liabilities which was the main driver of the 28.3% decline to \$80.2 million.

Property, Plant and Equipment increased \$8.0 million reflecting capital expenditure of \$52.2 million offset by disposals and depreciation. Total capital spend on participation units was \$31.8 million as a result of the net increase in the installed base. A further \$4.0 million was spent on the opening of the Group's new Australian integration centre with ongoing "stay-in-business" capital expenditure amounting to \$16.4 million.

Intangible assets have declined by \$18.2 million since 31 December 2006, primarily due to the retranslation of the North American and Swedish components at closing foreign exchange rates and \$5.9 million of amortisation.

At 31 December 2007, \$40.5 million was provided in respect of the inaugural supplementary unfranked dividend of 10 cents per share which was paid on 7 January 2008. This dividend forms part of the initiation of the next phase of the Group's capital management strategy announced in August 2007.

Net Tax Balances moved \$30.2 million mainly as a result of a reduction in tax liabilities following tax payments made in 2007 relating to 2006 profits, partially offset by accrued tax in respect of the current period.

In overall terms, Shareholders' Funds decreased from \$365.0 million at 31 December 2006 to \$320.8 million. This change reflects the \$247.2 million profit after tax for the period offset by \$222.1 million of dividend payments, a \$52.4 million reduction in equity arising from shares bought back and a \$14.6 million movement in the foreign currency translation reserve as a result of the strengthening of the Australian Dollar.



## Statement of cash flows

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

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

	2007 \$Million	2006 \$Million
<b>Net (debt)/cash - opening balance</b>	<b>(40.8)</b>	<b>183.7</b>
EBIT	332.3	335.3
Depreciation and amortisation	36.4	31.4
EBITDA	368.7	366.7
Non-cash adjustments:		
- Net (profit)/loss on sale of non-current assets	(2.7)	0.8
- Share of Elektronček profits after tax	(8.6)	(7.2)
- Net profit on sale of interest in subsidiary	-	(6.2)
- Net foreign exchange differences	2.5	4.7
- Expensing of costs of share-based payments	9.4	9.6
- Non-cash interest income	(0.9)	-
Net interest paid	(6.0)	(0.4)
Net tax paid	(96.8)	(115.4)
Change in operating assets and liabilities	(43.4)	(47.8)
<b>Net cash inflow from operating activities</b>	<b>222.2</b>	<b>204.8</b>
Payments for acquisitions	(3.1)	(153.5)
Net cash outflow from other investing activities	(52.2)	(36.1)
Proceeds from sale of interest in subsidiary	-	8.2
Repayments/(Loans) to non-related parties	1.0	(9.0)
Proceeds from exercise of options	3.0	7.1
Payments for shares bought back	(52.4)	(34.6)
Payments to employee share trust	(18.0)	(56.0)
Dividends paid	(182.6)	(149.3)
Net repayment of borrowings	-	(5.8)
<b>Movement in net cash</b>	<b>(82.1)</b>	<b>(224.2)</b>
Effect of exchange rate changes on net debt	11.1	(0.3)
<b>Net debt - closing balance</b>	<b>(111.8)</b>	<b>(40.8)</b>



Operating cash flow improved \$17.4 million (8.5%) to \$222.2 million mainly as a result of a combination of higher EBITDA and lower tax payments. Taxes paid reduced \$18.6 million as a result of lower tax payments in America and Japan compared to the prior year. Movements in operating assets and liabilities primarily result from the increase in net working capital associated with expanding business in emerging markets partially offset by a reduction in VASA balances.

The net cash outflow from acquisitions fell \$150.4 million to \$3.1 million as the prior period result was largely driven by the acquisition of interests in Elektronček, ACE and PokerTek, Inc. which collectively amounted to \$141.4 million. The payment in the current period reflects the final earn out payment on the Elektronček acquisition.

The net cash outflow on other investing activities represents capital expenditure undertaken across the Group's operations. Expenditure this period increased \$16.1 million to \$52.2 million primarily representing increased investment in participation units and the opening of the Australian integration centre.

A total of \$52.4 million was spent acquiring approximately 3.4 million shares under the Group's share buy-back program during the year, with a further \$18.0 million also spent acquiring approximately 1.2 million shares to satisfy obligations under employee share-based remuneration plans.

The overall impact of changes in foreign exchange rates on net debt since 31 December 2006 amounted to a favourable \$11.1 million as a large proportion of the Group's debt is US dollar denominated.

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

### Dividends

A final dividend in respect of the year ended 31 December 2007 of 25 cents per share fully franked (\$116.1 million) has been declared and will be paid on 31 March 2008. The Dividend Reinvestment Plan ('DRP') will operate in respect of this dividend (for shareholders resident in Australia and New Zealand), with shares acquired on-market to satisfy those shares to be provided under the DRP. No discount will apply in determining the DRP issue price.

An interim dividend of 14 cents per share (\$65.0 million) was paid on 18 September 2007.

In addition, the Group paid an inaugural supplementary unfranked dividend of 10 cents per share on 7 January 2008, announced as part of the Group's capital management initiatives on 23 August 2007.

Total dividends declared in respect of the 2007 year amount to 49.0 cents per share, with average franking of 79.6%. This represents a 36.1% increase on the total dividend payout of 36 cents per share in respect of 2006. Excluding the supplementary unfranked dividend, the payout ratio was 73.6%.

### Capital management

The Group has continued to progress a number of capital management initiatives during the year:

- shares were acquired on-market to mitigate the dilutionary impact of share issues which would otherwise be necessary to satisfy obligations under employee share-based remuneration plans as they crystallise. A total of approximately 1.2 million shares at an average price of \$15.31 per share (total cost \$18.0 million) were purchased during the year. At year end 95% of outstanding actual and potential obligations were covered; and
- its second \$100 million on-market buy-back was concluded, with approximately 3.4 million shares acquired, bringing total purchases under the second program to 7.4 million shares at an average price of \$13.50 per share.

On 23 August 2007, the Group announced the next stage of its capital management program. This next phase follows initiatives which have collectively distributed almost \$400 million back to shareholders since October 2004, with a total of 24.7 million shares (5.2% of opening share capital) acquired over that time.

Given the Group's strong underlying cash flows and financial position, with limited demands for capital to support its projected organic growth combined with tight controls over working capital and a continued focus on cash flow management, the Group announced that it would bring a more optimal level of gearing into the balance sheet. This will be effected through:

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





- the payment of supplementary unfranked dividends totalling 20 cents per share per annum, payable as two supplementary unfranked dividends of 10 cents per share each; and
- an on-market share buy-back program of up to \$100 million per annum over a three to five year timeframe.

The inaugural supplementary unfranked dividend of 10 cents per share was announced on 22 October 2007 and paid on 7 January 2008. The first \$100 million tranche of the on-market share buy-back program was announced on 17 December 2007, with purchases commencing on 8 January 2008.

The Group expects to continue the payment of supplementary unfranked dividends on an ongoing basis and to complete the proposed on-market share buy-back program over the planned time horizon, subject to its overall earnings performance, prevailing economic circumstances, alternative strategic demands on funds or alternative, more effective capital management opportunities becoming available.

Since the end of the year, to the date of this report, the Group acquired a total of approximately 1.7 million shares at an average price of \$9.78 per share (total cost \$16.5 million) under its latest share buy-back program.

The Group is confident that it retains ample financial flexibility and its actions are consistent with its overall capital management objectives. The outlook for cash flow remains positive, with the business requiring limited capital investment to grow organically combined with tight controls over working capital and continued focus on cash flow management.

The Group will continue to proactively review capital management initiatives on an ongoing basis.

### Bank facilities

The Group had committed bank facilities of \$400 million and a USD200 million Letter of Credit facility at 31 December 2007, of which \$192.5 million was drawn compared to \$164.3 million at 31 December 2006.

Subsequent to balance date, the Group replaced its existing debt facilities with a new three year \$835 million debt and USD200 million Letter of Credit facility. These increased facilities support the next stage of the Group's capital management program. Despite the prevailing weak credit environment following the US sub prime issues, financing costs under this new facility have increased only marginally and will not have a material impact on future reported earnings. This result is testament to the Group's strong underlying business and financial strength and its investment grade credit rating.

The Group remains confident that, given the strong cash generation of the business, these facilities remain adequate to meet the ongoing requirements of the business and provide sufficient flexibility to enable the Group to execute strategic opportunities as they arise.

### Debt ratios

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

Ratio	31 December 2007	31 December 2006
EBITDA*/Interest Expense*	29.0X	28.3X
Debt/EBITDA*	0.5X	0.4X
Net Debt/EBITDA*	0.3X	0.1X

\*EBITDA and Interest Expense are based on the preceding 12 months' results. EBITDA represents Bank EBITDA which is inclusive of interest received.

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

The Group has ceased reporting debt to equity ratios given its relatively unique balance sheet position. As the balance of accounting shareholders' funds has reduced through the execution of capital management initiatives, this measure currently has little meaning.

### Credit rating

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



## Management Discussion and Analysis

### Foreign exchange

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

- translational – the effect of changes in exchange rates on the translated value of foreign denominated earnings and net assets; and
- transactional – the impact of changes in exchange rates on underlying local currency results where the local business undertakes foreign currency denominated transactions.

#### *Translational foreign exchange*

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

In the current period, Revenue and Profit after Tax were adversely impacted by \$81.2 million and \$18.4 million respectively as a result of the translational impact of the generally stronger Australian dollar compared with the prior corresponding period. In addition, the net effect of the retranslation of the net assets of foreign controlled entities (recognised through the foreign currency translation reserve) was \$14.6 million.

Based on the Group's 2007 mix of profitability, the major exposure to translational foreign exchange results from the Group's US dollar profits. A USD 1 cent change in the USD/AUD exchange rate results in an estimated \$2.1 million translational impact on the Group's reported Profit after Tax. This impact will vary as the magnitude of overseas profits change.

#### *Transactional foreign exchange*

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

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

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

AUD:	31 December 2007	31 December 2006	2007 Average*	2006 Average*
USD	0.8816	0.7913	0.8432	0.7574
NZD	1.1354	1.1216	1.1385	1.1639
JPY	98.77	94.13	98.93	87.99
EUR	0.5980	0.6012	0.6113	0.5991
SEK	5.7010	5.3357	5.6162	5.5064

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



# Business Segment Review

In this review, segment profit/(loss) is before charges for licence fees, research and development costs, corporate expenses, international service recharges, advance pricing agreements and any impairment of intangible assets and other non-trading assets. The total amount of these items is included in the unallocated category. Constant currency amounts refer to results restated using exchange rates applying in 2006.

## Australia

	2007 \$Million	2006 \$Million	Variance \$Million	Variance %
Revenue	280.1	276.2	3.9	1.4
Profit	109.5	109.7	(0.2)	(0.2)
Margin	39.1%	39.7%		(0.6) pts

Despite difficult market conditions, revenue increased by 1.4% primarily driven by higher average unit prices (a combination of mix and price) offset by a reduction in platform volumes. Sales of multi-terminal gaming machines also contributed to increased revenue although these were unfavourable to overall margin. Also contributing to the reduction in margins was the impact of unfavourable mix in games sales despite increased volumes.

Although market sentiment is improving, full smoking bans in New South Wales ('NSW'), Victoria and South Australia adversely impacted operator revenues with a consequential impact on spending on gaming floors. This was exacerbated by the increase in club taxation rates in NSW and the introduction of new taxes in Victoria. Platform volumes fell 11.6% while conversion volumes increased 8.4%. The Group's share of the installed base remains at 67%.

Sales in NSW were driven by the large range of new games released which included more than 18 stand alone game titles, 3 new dual screen Double Stand Alone Progressive titles and a new *Hyperlink™* concept, *Bank Buster™*. Sales in Victoria benefited from the required transition to Player Information Displays while in Queensland the release of new dollar games to clubs and hotels proved successful.

The Group's strategy in this challenging, mature and highly regulated operating environment is to continue to focus on innovative premium product offerings such as the new *Viridian™* cabinet and *Gen 7™* platform, Ticket-in Ticket-out, and the development of a recurring revenue business model.

With smoking restrictions now in place in most States and as operators complete related capital works, the market is expected to progressively improve over the next 12 months. Operator feedback on the *Viridian™* cabinet and *Gen 7™* platform, to be launched progressively over 2008, has been very positive and the Group is well positioned to benefit from improvements in market demand.



## Management Discussion and Analysis

### The Americas

#### North America

<b>Reported</b>	<b>2007</b>	<b>2006</b>	<b>Variance</b>	<b>Variance</b>
	<b>\$Million</b>	<b>\$Million</b>	<b>\$Million</b>	<b>%</b>
Revenue	<b>483.6</b>	565.2	(81.6)	(14.4)
Profit	<b>203.9</b>	252.4	(48.5)	(19.2)
Margin	<b>42.2%</b>	44.7%		(2.5)pts

<b>At Constant</b>	<b>2007</b>	<b>2006</b>	<b>Variance</b>	<b>Variance</b>
<b>Currency<sup>^</sup></b>	<b>\$Million</b>	<b>\$Million</b>	<b>\$Million</b>	<b>%</b>
Revenue	<b>538.2</b>	565.2	(27.0)	(4.8)
Profit	<b>227.4</b>	252.4	(25.0)	(9.9)
Margin	<b>42.3%</b>	44.7%		(2.4)pts

<sup>^</sup> Adjusted for translational exchange rates using rates applying in 2006.

Reported revenue decreased by 14.4% and profit fell 19.2%. In constant currency terms, revenue declined by 4.8% and profit by 9.9%, reflecting a reduction in overall sales volumes only partially offset by improved pricing. Margin declined as a result of a combination of adverse mix, lower recurring revenue margins and the relative fixed cost base of the business. Underlying selling, marketing, general and administration cost increases were limited to 2.4% despite investment in resources to support new products and developing future opportunities such as server-based gaming, the *Viridian*<sup>™</sup> cabinet and *Gen 7*<sup>™</sup> platform, multi-terminal products and new and expanding jurisdictions.

The overall size of the market declined reflecting both the subdued state of the replacement cycle and the lack of new jurisdictions opening up in the period. At the same time, market volumes were skewed towards stepper (mechanical) product, contrary to the trend of the past few years where video has made up the dominant share of overall sales. Platform sales declined 22.6% to 13,807 units with the Group retaining its approximate 40% share of all new video sales, albeit in a smaller overall market segment when compared with 2006.

The Group finally re-launched its 5-reel stepper product in August, after a number of false starts. While performance in the field has been encouraging, operators have been reluctant to commit to purchasing units without a trial period, which slowed the rate of sales. Nevertheless, by the end of the year, a total of 586 units had been sold, 452 units were placed on participation, with a further 538 units on trial/order.

The Group continued to grow its installed base of recurring revenue units, with the installed base increasing by 1,012 units to 7,473 units over the year. This increase was driven by strong placements of *Jackpot Deluxe*<sup>™</sup>, *Sopranos*<sup>®</sup>, *Outback Jack*<sup>™</sup>, *Cashman Tonight*<sup>™</sup>, and *Loco Loot*<sup>™</sup>. However, average revenue per day declined to USD45 per day (compared to USD50 in 2006) as a result of a lower proportion of jackpot vs non-jackpot machines.

Systems revenue grew 8.2% to USD38.2 million, largely driven by sales of *Sentinel III*<sup>™</sup> player-tracking interface hardware. 15 new customers were brought online during the year, including the first installation in Pennsylvania, taking the Group's *OASIS*<sup>™</sup> *Casino Management System* customer base to 239, representing approximately 42% of the systems installed in North America.

The 2008 outlook for the business is positive with the overall size of the market expected to increase as new jurisdictions open up, a progressive reversion towards a normal level of video vs stepper sales mix expected to benefit the Group's sales volumes, and a full year's contribution of stepper sales. In addition, the Group is expecting to benefit from positive operator feedback in relation to its new *Viridian*<sup>™</sup> cabinet and *Gen7*<sup>™</sup> platform, which will be progressively launched across the region over the year.



## South America

<b>Reported</b>	<b>2007</b> <b>\$Million</b>	<b>2006</b> <b>\$Million</b>	<b>Variance</b> <b>\$Million</b>	<b>Variance</b> <b>%</b>
Revenue	<b>23.2</b>	27.5	(4.3)	(15.6)
Profit	<b>8.7</b>	12.2	(3.5)	(28.7)
Margin	<b>37.5%</b>	44.4%		(6.9) pts

<b>At Constant</b> <b>Currency<sup>^</sup></b>	<b>2007</b> <b>\$Million</b>	<b>2006</b> <b>\$Million</b>	<b>Variance</b> <b>\$Million</b>	<b>Variance</b> <b>%</b>
Revenue	<b>26.0</b>	27.5	(1.5)	(5.5)
Profit	<b>9.7</b>	12.2	(2.5)	(20.5)
Margin	<b>37.3%</b>	44.4%		(7.1) pts

<sup>^</sup> Adjusted for translational exchange rates using rates applying in 2006.

Revenue and profit declined due to the timing of sales and collections, with the prior corresponding period having benefited from collections of 2005 and legacy revenues. The timing of this revenue recognition also distorted margin in percentage terms. On a full accruals basis, prior to the recognition of collections on legacy contracts, constant currency revenue increased 28% and profit 39% year on year with the business recording a margin of 39.7%.

The Group continues to focus its sales efforts on a small group of selected key accounts, comprising many of the region's principal gaming operators and will continue to add selected products to its South American product library to increase both sales and its recurring revenue installed base as markets in the region continue to expand.

Japan

<b>Reported</b>	<b>2007</b> <b>\$Million</b>	<b>2006</b> <b>\$Million</b>	<b>Variance</b> <b>\$Million</b>	<b>Variance</b> <b>%</b>
Revenue	<b>91.2</b>	50.4	40.8	81.0
Profit/(Loss)	<b>5.9</b>	(5.6)	11.5	n/a
Margin	<b>6.5%</b>	n/a		n/a

<b>At Constant</b> <b>Currency ^</b>	<b>2007</b> <b>\$Million</b>	<b>2006</b> <b>\$Million</b>	<b>Variance</b> <b>\$Million</b>	<b>Variance</b> <b>%</b>
Revenue	<b>100.5</b>	50.4	50.1	99.4
Profit/(Loss)	<b>5.9</b>	(5.6)	11.5	n/a
Margin	<b>5.9%</b>	n/a		n/a

^ Adjusted for translational exchange rates using rates applying in 2006.

Revenue increased by 81% driven by an increase in unit sales albeit at a lower average selling price. The result improved from a loss of \$5.6 million to a profit of \$5.9 million reflecting higher volumes at a broadly flat Yen gross margin per unit, offset by inventory provisioning and re-work costs associated with the transition to new Regulation 5 games. The margin at 6.5% remains substantially below the 20+% recorded in prior years under Regulation 4 as a result of the relatively low volume vs the fixed cost base of the business and the effect of the \$8.3 million (2006: \$7.4 million) provision which was booked for redundant inventory resulting from the transition to Regulation 5. In constant currency terms, gross margin before inventory provisioning and fixed selling costs improved from 23.4% in 2006 to 27.3% in the current year.

Reported results were impacted by the average 12.4% strengthening of the Australian Dollar against the Yen compared with the prior corresponding period, although at the profit level the impact was insignificant.

Seven Regulation 5 games (*Kaido-oh™*, *Cashman™*, *Danceman™*, *Zoo Mania™*, *Kyofu Shimbun™*, *Tetsuya™*, and *Pandora™*) were marketed during 2007 with a total of 29,843 units sold, well above the 12,043 sold in 2006, but significantly lower than the annual 85,000+ units sold in the last few years of Regulation 4. *Tetsuya™* proved to be the Group's most successful Regulation 5 game to date, selling over 15,000 units.

The long-term working relationship between Sammy Corporation and the Group continues to be close. During 2007 the Group released three of its seven Japanese games in a cabinet designed and manufactured by Sammy.

The high degree of uncertainty prevailing in the market is largely a result of the lower performance of Regulation 5 compared with Regulation 4 games and the changing approach of SECTA, the testing authority, to the testing and approval process applicable to Regulation 5 game submissions.

The pachislot market has changed significantly over the last two years with the number of pachinko/pachislot halls having fallen by approximately 15% and the installed base of pachislot machines having declined to approximately 1.1 million units.

Although the pachislot market remains in an uncertain state, since the full transition to Regulation 5 in the final quarter of the year, there appears to have been a positive change in operator sentiment, with selling prices stabilising and a heightened operator interest in new product. The outlook for 2008 is positive as the market adjusts to the new Regulation 5 environment and the Group remains confident of re-establishing its 5%-6% market share, albeit in a market which in the short term will be somewhat smaller than its peak of a few years ago.

## New Zealand

<b>Reported</b>	<b>2007</b> <b>\$Million</b>	<b>2006</b> <b>\$Million</b>	<b>Variance</b> <b>\$Million</b>	<b>Variance</b> <b>%</b>
Revenue	<b>25.2</b>	26.6	(1.4)	(5.3)
Profit	<b>9.5</b>	11.5	(2.0)	(17.4)
Margin	<b>37.7%</b>	43.2%		(5.5) pts

<b>At Constant</b> <b>Currency<sup>^</sup></b>	<b>2007</b> <b>\$Million</b>	<b>2006</b> <b>\$Million</b>	<b>Variance</b> <b>\$Million</b>	<b>Variance</b> <b>%</b>
Revenue	<b>24.7</b>	26.6	(1.9)	(7.1)
Profit	<b>9.3</b>	11.5	(2.2)	(19.1)
Margin	<b>37.7%</b>	43.2%		(5.5) pts

<sup>^</sup> Adjusted for translational exchange rates using rates applying in 2006.

The market remained difficult in 2007 as operators continued to defer purchases of new product so as to retain more 'player friendly' grandfathered games. Reported revenue fell by 5.3% as a result of lower volumes, while the relatively fixed cost base of the business resulted in profit declining 17.4% with margins deteriorating by 5.5 percentage points.

The restrictive regulatory environment and the introduction of responsible gaming legislation requiring random interruptive Player Information Display ('PID') have reduced the national installed base of gaming machines in clubs and hotels by over 20% from a peak of 25,221 in 2003 to 20,163 at the end of September 2007.

The adverse prevailing market conditions are not expected to improve until closer to the regulatory PID compliance date of July 2009. The market is expected to commence replacement and upgrades for compliance over 2008 and the first half of 2009.

## Other International

<b>Reported</b>	<b>2007</b> \$Million	<b>2006</b> \$Million	<b>Variance</b> \$Million	<b>Variance</b> %
Revenue	<b>217.2</b>	127.5	89.7	70.4
Profit	<b>80.1</b>	42.5	37.6	88.5
Margin	<b>36.9%</b>	33.3%		3.6 pts

<b>At Constant Currency<sup>^</sup></b>	<b>2007</b> \$Million	<b>2006</b> \$Million	<b>Variance</b> \$Million	<b>Variance</b> %
Revenue	<b>232.0</b>	127.5	104.5	82.0
Profit	<b>86.2</b>	42.5	43.7	102.8
Margin	<b>37.2%</b>	33.3%		3.9 pts

<sup>^</sup> Adjusted for translational exchange rates using rates applying in 2006.

Revenue improved by 70.4% and Profit increased by 88.5% driven by improved results across all three regions comprising 'Other International' – Asia Pacific, Europe and South Africa.

### (i) Asia Pacific

Revenue grew by approximately 100% with profit improving by 93% as the Group continued to improve on its dominant market position in the region.

The Group's growth in Macau was the standout, driven by the outstanding performance of the Group's products in this expanding market. As a number of major new casinos opened and existing casinos expanded their operations, the overall installed base of gaming machines grew 38% to more than 10,000 over the year.

The Group made significant sales to the new casinos that opened during the year including the Grand Lisboa, Crown Macau, Venetian, Ponte 16 and the MGM Grand. Overall market share in Macau continues to approximate 60%.

Elsewhere in the region, sales to Cambodia, the Philippines, South Korea and Vietnam continued to grow and the Group maintained its 80% market share in

Singapore, where two major casinos are currently being constructed but are not expected to open until 2009/10. In the Philippines, further gaming machines have been placed in PAGCOR venues under the Group's participation agreement, although revenues at this stage remain relatively modest. The Group has also established a preferred supplier status for the region with the Elixir group, which resulted in significant sales in the year.

The Group is the leading supplier across the region and remains well placed to maintain and grow its position as new opportunities develop although reported results will be influenced by the timing of the opening of new casinos in the region.

### (ii) Europe

Revenue increased by 63% and profit increased by almost 160% driven by record unit volumes and a higher proportion of premium product sales. Sales volumes were particularly strong in France and Slovenia, with regulation changes combined with strong game performance resulting in increased demand for the Group's products across much of the region.

The Group expects the momentum and growth experienced during the year to continue in 2008 although this is heavily dependent on the receipt of key product and cabinet approvals. The Group is also expanding into new jurisdictions in the region and expects to launch its first game into the Spanish market in 2008.

### (iii) South Africa

Revenue increased 16% and profit increased over 30%, reflecting higher recurring revenue placements and systems revenue. At the end of the reporting period, the Group had a recurring revenue product installed base of over 900 units, an increase of 131% on the prior year. The Group also installed the first *System7000 Prime™* casino management system in the region at the Silverstar Casino, a new Johannesburg Gold Reef City property. The Group retains an 80% share of the expanding Limited Payout Market ('LPM') segment.

The Group is optimistic about further growth in the region, with ongoing success across all three segments (LPM, casino management systems and traditional casino markets) in which it operates.





## ACE

<b>Reported</b>	<b>2007</b> <b>\$Million</b>	<b>2006</b> <b>\$Million</b>	<b>Variance</b> <b>\$Million</b>	<b>Variance</b> <b>%</b>
Revenue	1.5	2.4	(0.9)	(37.5)
Profit	(11.6)	(7.4)	(4.2)	56.8
Margin	n/a	n/a		n/a

<b>At Constant</b> <b>Currency<sup>^</sup></b>	<b>2007</b> <b>\$Million</b>	<b>2006</b> <b>\$Million</b>	<b>Variance</b> <b>\$Million</b>	<b>Variance</b> <b>%</b>
Revenue	1.7	2.4	(0.7)	(29.2)
Profit	(12.8)	(7.4)	(5.4)	73.0
Margin	n/a	n/a		n/a

<sup>^</sup> Adjusted for translational exchange rates using rates applying in 2006.

ACE develops, manufactures and markets next generation interactive systems and video terminal hardware and software utilising a leading edge server-based gaming technology.

The ACE product has been designed for both the casino ('Class III') and video lottery terminal ('VLT') markets.

Significant development work on the ACE *Server-based Gaming Platform™ (A/IGS™)* was undertaken during the year. This work included building additional functionality to meet the demands of casino operators and to ensure it complies with the various Gaming Laboratories International ('GLI') standards. This system is expected to be approved for use in Class III casinos by GLI in the first quarter of 2008, with trials planned during the first half of the year.

In September, Casino Slovakia successfully went live with 50 Ace Interactive™ Video Terminals (IVTs) connected to the Ace *Interactive™ A/IGS™* platform. This was the first commercial installation of the A/IGS™ platform.

During the year, the European Free Trade Association Court overturned a challenge against Norsk Tipping ('NT'), allowing it to recommence the rollout of ACE's VLT system in Norway. ACE had originally been awarded the contract by NT to provide a turnkey server-based gaming solution in 2002. ACE has been actively working with NT to resume the rollout of VLTs connected to the ACE system with the first 500 terminals expected to be installed and operational during the second half of 2008.

Looking forward, ACE will be continuing to actively pursue and identify other global VLT type opportunities in addition to trialling its new Class III server-based gaming platform in a number of casino operations.



### Elektronček (50% ownership)

<b>Reported</b>	<b>2007</b> <b>\$Million</b>	<b>2006</b> <b>\$Million</b>	<b>Variance</b> <b>\$Million</b>	<b>Variance</b> <b>%</b>
Revenue	<b>38.5</b>	34.0	4.5	13.2
Profit	<b>10.1</b>	10.6	(0.5)	(4.7)
Margin	<b>26.2%</b>	31.2%		(5.0) pts

<b>At Constant</b> <b>Currency<sup>^</sup></b>	<b>2007</b> <b>\$Million</b>	<b>2006</b> <b>\$Million</b>	<b>Variance</b> <b>\$Million</b>	<b>Variance</b> <b>%</b>
Revenue	<b>38.8</b>	34.0	4.8	14.1
Profit	<b>11.2</b>	10.6	0.6	5.7
Margin	<b>28.9%</b>	31.2%		(2.3) pts

<sup>^</sup> Adjusted for translational exchange rates using rates applying in 2006.

The Group's 50% interest in Elektronček, based in Slovenia, was acquired in January 2006. Elektronček trades under the Interblock™ brand name, manufacturing a range of electro-mechanical multi-terminal gaming machines ('MTGMs') including Roulette, Sic-Bo and a new range of G4™ Organic™ products.

Revenue increased 13.2% to \$38.5 million while profit decreased 4.7% to \$10.1 million. In constant currency, revenue increased 14.1% and profit increased 5.7%.

The Elektronček business achieved strong sales in Europe and Asia. In Macau, Elektronček has grown its share of the installed base of MTGMs from 55% to 61%. Sales in the United States and Australia were lower than expected due to ongoing regulatory delays which have hindered the product from gaining traction in these markets. In Australia, although approval was obtained to sell Elektronček products to the NSW club market, the Government has subsequently announced a cap on the number of units that may be installed, which will impede the products' potential.

In 2008, Elektronček will be actively promoting and selling its latest G4™ range of products including the new G4™ Blackjack product which, together with the progressive receipt of regulatory approvals, is expected to be a key driver of sales and profit growth.

#### **PokerTek (16.6% interest)**

In January 2006, the Group signed a distribution agreement with 'PokerTek', Inc. (NASDAQ: PTEK) under which it acquired exclusive rights to offer PokerTek's *PokerPro*® tables, and other *PokerPro*® branded technology solutions, to gaming venues across the globe outside the United States and Canada where PokerTek places product directly. *PokerPro*® is an innovative electronic poker table which delivers more hands per hour, eliminates player and dealer mistakes, and removes the need for dealer tipping. The Group also holds the exclusive rights to distribute *Heads-Up Challenge*® tables in Australia and New Zealand, a new non-gaming product that permits two players to compete against one another using computer screens that eliminate the dealer and speed up the action. This product will be placed in both gaming and non-gaming venues.

*PokerPro*® tables are being sold by the Group in Macau, South Africa, Italy, Bulgaria and Germany and applications for approval to sell *PokerPro*® products are being pursued in a number of other jurisdictions. The business is expected to continue to build momentum as regulatory approvals are received and as *Heads-Up Challenge*® tables are rolled out around the world.



# Remuneration Report

## For the 12 months ended 31 December 2007

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

The remuneration details for the following individuals are specified in the following pages:

### Directors

The following persons were directors of the Company during the financial year:

#### Chairman - non-executive

DJ Simpson

#### Executive directors

PN Oneile – Chief Executive Officer and Managing Director

SCM Kelly\* – Chief Financial Officer and Finance Director

#### Non-executive directors

WM Baker

RA Davis

P Morris

SAM Pitkin

AW Steelman

\* SCM Kelly was appointed an executive director on 20 February 2007. Up to the date of his appointment and for the full year ended 31 December 2006, SCM Kelly held the role of Chief Financial Officer and met the definition of executive key management personnel for that period. Throughout this report, details in relation to SCM Kelly for the full 2007 year are shown under director disclosures. For the full 2006 year, SCM Kelly's details are shown under executive key management personnel disclosures.

## Executive key management personnel

The executives who were responsible for the overall planning, directing and controlling of activities of the Group ('executive key management personnel') during the financial year are as follows:

Name	Position
SJ Parker	Group General Manager, Research & Development and Marketing
GS Phillips	Chief Technology Officer
IH Timmis	Group General Manager, Business and Strategic Development
BJ Yahl	Group General Manager, Commercial and Legal, Company Secretary

All of the above persons were considered executive key management personnel for the full year ended 31 December 2007.

## Other nominated executives

In addition to key management personnel, WP Jowett, Executive General Manager Australasia and TJ Parrott, President and Chief Executive Officer – The Americas, are covered within the definition of section 300A(1)(c) of the *Corporations Act 2001*.

## 1 Remuneration policy (Audited)

### Objectives and principles of remuneration policy

The objective of the Company's remuneration policy and its principles is to ensure that the Company is effectively structured to deliver long-term sustainable value to shareholders by:

- attracting, motivating, rewarding and retaining high calibre staff;
- establishing a pay for performance culture, clearly linking short and long-term cash

and equity-based rewards to achievement of specific and measurable short and long-term business objectives and aligning this performance with the creation of sustainable shareholder value;

- establishing a transparent remuneration framework which is internally equitable yet competitive to the market that takes into account current best practice in executive remuneration trends; and
- recognising the global nature of the business and the additional responsibilities placed on executives required to operate in a heavily regulatory and compliance driven environment.

The principles that underpin the framework comprise:

- external competitiveness;
- equitable internal relativities;
- pay for performance; and
- alignment with shareholders' interests.



## Remuneration Report

The combination of fixed and variable pay components including short and long-term incentive strategies is aligned with these principles to achieve the above objective of the remuneration policy. Senior executive remuneration is by design structured to have a larger proportion of 'at risk' reward to leverage long-term performance. Short-term incentive rewards require achievement of specific Net Operating Profit and Funds Employed targets as measured against a combination of corporate, business and personal objectives. Long-term incentive rewards require achievement of Total Shareholder Return ('TSR') and/or Earnings Per Share Growth ('EPSG') targets versus a comparator group. These specific measures enable the Company to clearly evaluate its performance in delivering long-term sustainable shareholder value creation.

To assist the Remuneration Committee in its role, advice has been obtained from independent external remuneration consultants to structure a market competitive remuneration framework that is aligned with its overall business strategy and objectives.

Details of the Company's key shareholder indicators over the last five years are set out in the following table.

	2007	2006	2005	2004	2003*
Dividends paid in respect of year (cps)	49.0	36.0	30.0	8.0	6.0
Capital return (cps)	-	-	21.0	-	-
Share buy-back (\$m)	52.4	34.6	102.4	10.7	-
Closing share price at 31 December** (\$)	11.25	15.90	12.32	9.95	1.72
Fully diluted earnings per share (cps)	52.8	50.9	51.1	29.2	(22.9)
Net profit after tax after minority interest (\$m)	247.2	239.0	244.3	142.2	(106.0)
Return on shareholders' equity	77.1%	65.7%	69.5%	38.0%	(48.5%)

\* Financial statements for 2003 have not been restated under AIFRS.

\*\* The closing share price for 2004 and prior has not been restated to reflect the capital return of 21 cents per share paid in 2005.

The introduction of the current remuneration policy and principles in 2004 (and as described in this report) has been a positive contributor to the Company's overall performance, assisting the Company to deliver long-term sustainable operational performance for shareholders.

### 2 The Remuneration Committee (Audited)

This committee is chaired by SAM Pitkin and comprises three non-executive directors. The primary responsibilities of this committee include:

- the recruitment, remuneration, retention, succession planning, termination and training policies and procedures for senior management;
- the Company's overall remuneration strategy including remuneration components, performance measurements, business alignment and external competitiveness;
- the Company's superannuation arrangements; and

- making recommendations to the Board on:

- CEO and senior management fixed remuneration framework and levels;
- CEO and senior management performance and equity-based remuneration including performance incentives and hurdles; and
- Chairman and non-executive director fees.



### 3 Non-executive directors (Audited)

The fees paid to non-executive directors reflect the demands and responsibilities associated with their roles and the global scope and highly regulatory environment that the Company operates in. Fees include a provision for the onerous probity requirements placed on non-executive directors by regulators of the global jurisdictions in which the Company operates. The Company's non-executive directors only receive fees (including superannuation) for their services. The only addition to fees is the cost of reasonable expenses which are reimbursed as incurred. Non-executive directors' fees and payments are reviewed annually by the Board. Non-executive directors do not participate in any short-term incentive plans; however, non-executive directors are able to contribute a portion of their remuneration to purchase shares on-market during appropriate trading periods.

Advice has been obtained from independent external remuneration consultants to ensure that the level of directors' fees corresponds with the demands and responsibilities of the positions and is competitive in the external market place.

#### 3.1 Directors' fees

Non-executive directors' fees, including committee fees, are set by the Board within the maximum aggregate amount of A\$1,750,000 approved by shareholders at the Annual General Meeting in May 2004. Current fees for directors effective from 1 July 2007 are set out in the table below. The Chairman does not receive any additional fees for his committee responsibilities. Other non-executive directors who also chair, or are a member of a committee, receive a supplementary fee in addition to their annual remuneration.

Position	Currency	Fee (per annum)
Chairman	A\$	365,000
Australian resident non-executive director	A\$	155,000
US resident non-executive director	US\$	131,549
Chair of Audit Committee	A\$	30,000
US resident Chair of Regulatory and Compliance Committee	US\$	21,218
Chair of Remuneration Committee	A\$	20,000
Chair of Nomination and Governance Committee	A\$	15,500
Member of Audit Committee	A\$	15,000
US resident member of Audit Committee	US\$	12,731
Member of Regulatory and Compliance Committee	A\$	12,500
Member of Remuneration Committee	A\$	10,000
Member of Nomination and Governance Committee	A\$	7,750



## Remuneration Report

The remuneration details of executive and non-executive directors are set out below:

Name	Year	Short-term benefits			Super-annuation	Post-employment benefits	Retirement benefits**	Share-based payments	Total	Remuneration consisting of share-based payments
		Cash salary and fees*	Cash bonus	Non-monetary benefits						
<b>Executive directors</b>										
PN Oneile	2007	1,805,596	1,334,200	62,435	12,908	-	1,549,572	4,764,711	32.5	
	2006	1,737,046	1,295,529	39,105	12,413	-	1,940,261	5,024,354	38.6	
SCM Kelly	2007	605,274	346,409	14,429	12,908	-	569,209	1,548,229	36.8	
	2006	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
<b>Non-executive directors</b>										
DJ Simpson	2007	334,862	-	-	30,138	-	-	365,000	0.0	
	2006	314,220	-	-	28,280	-	-	342,500	0.0	
WM Baker	2007	169,666	-	6,930	1,788	6,003	-	184,387	0.0	
	2006	177,925	-	16,597	1,662	8,641	-	204,825	0.0	
RA Davis	2007	169,037	-	-	15,213	-	-	184,250	0.0	
	2006	155,046	-	-	13,954	-	-	169,000	0.0	
P Morris	2007	200,250	-	-	-	-	-	200,250	0.0	
	2006	178,502	-	-	13,322	-	-	191,824	0.0	
SAM Pitkin	2007	172,018	-	-	15,482	-	-	187,500	0.0	
	2006	163,579	-	-	14,787	-	-	178,366	0.0	
AW Steelman	2007	156,589	-	7,580	4,179	5,695	-	174,043	0.0	
	2006	156,621	-	17,984	4,120	8,198	-	186,923	0.0	
<b>Total</b>	<b>2007</b>	<b>3,613,292</b>	<b>1,680,609</b>	<b>91,374</b>	<b>92,616</b>	<b>11,698</b>	<b>2,118,781</b>	<b>7,608,370</b>	<b>27.8</b>	
	2006	2,882,939	1,295,529	73,686	88,538	16,839	1,940,261	6,297,792	30.8	

\* Amounts shown as cash salary and fees include amounts sacrificed in lieu of other benefits at the discretion of the individual.

\*\* Represents the Consumer Price Index adjustment to frozen allowances. Refer to section 3.2.

### 3.2 Retirement allowances for directors

A resolution was passed at the Annual General Meeting in May 2004 to cease retirement allowances for any directors appointed after May 2003. There currently remain two eligible directors who were appointed prior to May 2003 with existing accrued retirement allowances who have had their entitlements frozen as at 1 June 2004. The frozen allowances are preserved and indexed to the annual change in the Consumer Price Index (All Groups) and may only be paid out when eligible directors actually leave the Board.

### 4 Executive Remuneration (Audited)

Remuneration is made up of fixed and variable remuneration.

#### 4.1 Fixed remuneration

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

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

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

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

Executives do not receive retirement benefits.

#### 4.2 Variable remuneration

##### 4.2.1 Short-term incentive plan

The short-term incentive plan ensures a clear linkage between reward and returns to shareholders by defining key profit and funds employed targets which need to be achieved. The short-term incentive plan applies to those executives who are able to directly influence the Company's performance and increase value for shareholders. The short-term incentive targets are reviewed annually as part of the remuneration review cycle.

The plan rewards performance against overall Company financial targets, performance against business unit financial targets and performance against individual objectives. A combination of these measures applies to all participants in the plan with each individual's ability to influence Company and business unit performance considered when establishing incentive targets and their respective weightings.

These targets are structured so that participants are eligible to receive an incentive payment if the Company or the business unit achieves over 85% of target net operating profit after tax ('NOPAT') and less than 125% of target Funds Employed/Working Capital on a graduated performance scale. Target short-term incentives vary from 10% to 76% of fixed remuneration depending on the role and seniority of the individual. Typically, senior executives have target short-term incentives of in excess of 20% of fixed remuneration. Financial targets are established following Board review and approval of the annual plan for the following year. The various measures, associated range of weightings and payment thresholds as applied to executive directors and executives are detailed below. Above-target incentive payments are provided for performance exceeding target levels.

All incentives require final approval from the Remuneration Committee and the Board prior to payment following any adjustments made at the discretion of the Remuneration Committee and the announcement of the Company's full year results. Actual performance measures, criteria and targets may vary from year to year dependent upon market conditions and other factors which the Board may determine.



<b>Short-term incentive measures</b>	<b>Weighting %</b>	<b>Minimum payment %</b>	<b>Maximum payment %</b>
<b>Financial</b>			
Group – net operating profit after tax and average funds employed	30 – 80	0	200
Business unit – segment profit and average controllable funds employed			
<b>Non-financial</b>			
Key performance objectives	20 – 70	0	150
Total	100		

#### 4.2.2 Long-term incentive plans

The Company has introduced two new long-term incentive plans since 2004 – the Performance Share Plan and the Performance Option Plan. It is intended that either of these plans, or a combination of the two, will be used to provide key executives with a long-term incentive which aligns their interests with those of shareholders. To date, the Company has only offered participation in the Performance Share Plan.

Both of these plans, together with the Employee Share Option Plan, which has been discontinued, and the General Employee Share Plan are described in more detail in the following sections.

#### 4.2.3 Long-term incentive - Performance Share Plan ('PSP')

A long-term incentive plan was implemented in 2004 which offered key executives conditional entitlements to ordinary shares which vest, subject to the Company achieving certain performance targets versus a specified comparator group of companies, on completion of the designated performance period. The Performance Share Rights cannot be transferred, have no voting or dividend rights, and are not quoted on the Australian Securities Exchange.

Key executives are allocated a certain value of participation ('Participation Value') in the PSP, being a designated percentage of their fixed remuneration. This designated percentage, which ranges from 40% to 76%, is determined based on a combination of each executive's level of responsibility, performance, potential and retention risk. The number of Performance Share Rights to be allocated is then determined based on an assessed value of each Performance Share Right for the purposes of remuneration packaging ('Remuneration Value of a Performance Share Right') at the commencement of the performance period – that is, the number of Performance Share Rights issued equals the Participation Value divided by the Remuneration Value of a Performance Share Right.

The Remuneration Value of a Performance Share Right is determined by the Board based on an accounting valuation performed by Deloitte Touche Tohmatsu ('Deloitte'), having taken into account the likelihood that vesting conditions will be met. This Remuneration Value of a Performance Share Right will not be equal to the market value of a share at the commencement of the performance period as a result of Performance Share Rights being contingent rights to shares in the future. The Remuneration Value of a Performance Share Right at the commencement of a performance period is influenced by the Company's share price at the date of grant, volatility of the underlying shares, the risk free rate of return, expected dividend yield, time to maturity and the likelihood that vesting conditions will be met.





At 1 January 2007, for the 2007 grant of Performance Share Rights, the Remuneration Value of a Performance Share Right was determined, in accordance with the above methodology, as \$7.79 per share compared with a closing market price (on 31 December 2006) of an Aristocrat Leisure Limited share of \$15.90.

The comparator group comprises 50 companies of a similar size, based on the market capitalisation of the Company at the start of the performance period, excluding financial services, property trust/investment and resources companies. A participant will be allocated 45% of their offered shares if the Company achieves performance ranked at the 50.1st percentile, and up to 100% of their offered shares at or above the 75th percentile.

The Plan is designed to attract, motivate, reward and retain those key executives who can directly influence the long-term success of the Company. The Plan has been specifically designed to provide an opportunity for participants to acquire equity in the Company in the form of performance shares upon achievement of the prescribed performance measures. In doing so, the Plan reinforces direct alignment between individual performance and reward with the long-term objectives of the Company and delivering sustainable returns to shareholders over a three to five year performance period.

Participation in the Plan, performance measures, the designated performance period and the quantity of the Performance Share Rights offered to each participant is determined by the Remuneration Committee and approved by the Board. It is the Company's intention to make offers under this Plan annually, or at such other times as are appropriate, subject to the ability of the Company to offer such share plans, future directions in executive variable remuneration, and approval of the Board and shareholders, where applicable. The terms of individual plans may vary from offer to offer.

## Performance

measure	Description
1	Total Shareholder Return ('TSR') against the individual TSRs of the specified comparator group.
2	Basic Earnings Per Share Growth ('EPSG') against the individual EPSGs of the specified comparator group.
3	Fully diluted EPSG against the individual EPSGs of the specified comparator group

TSR performance against the individual TSRs of a specified comparator group of companies was initially selected as the sole measure for Series 1 and 2 of the long-term incentive plan. TSR allows the Company's performance to be objectively assessed against a specified comparator group from the external market. For the 2005 and subsequent plans, EPSG was added as another performance measure following discussions with various shareholder representative groups. Both the TSR and EPSG measures are widely recognised as an effective method of assessing comparable shareholder returns and value creation delivered to the Company's shareholders.



## Remuneration Report

Series	Grant date	Performance period	Performance Measure***	Number of participants (at inception)
1A*		1-Jan-04 to 31-Dec-06	1	155
1B**	2-Sep-04	1-Jan-04 to 31-Dec-07	1	155
2*	21-Dec-04	1-Jan-04 to 31-Dec-06	1	1
3A**	1-Jan-05	1-Jan-05 to 31-Dec-07	1	7
3B**			2	7
4A**	17-May-05	1-Jan-05 to 31-Dec-07	1	1
4B**			2	1
5A		1-Jan-06 to 31-Dec-09	1	3
5B	17-Oct-05		3	3
5C		1-Jan-06 to 31-Dec-10	1	3
5D			3	3
6A	1-Jan-06	1-Jan-06 to 31-Dec-08	1	140
6B			3	140
7A	2-May-06	1-Jan-06 to 31-Dec-08	1	1
7B			3	1
8A	1-Jan-07	1-Jan-07 to 31-Dec-09	1	110
8B			3	110
9A	2-May-07	1-Jan-07 to 31-Dec-09	1	2
9B			3	2

\* On 20 February 2007, the Board determined that, based on the Company's performance against the specified performance measures over the performance period, series 1A and 2 would be allocated in full.

\*\* On 26 February 2008, the Board determined that, based on the Company's performance against the specified performance measures over the performance period, the following allocations would be made - Series 1B 100%; Series 3A 0%; Series 3B 83.25%; Series 4A 0% and Series 4B 83.25%. The unallocated balance of each of these series lapsed. These changes will be reflected in 2008 remuneration disclosures.

\*\*\* The performance measures are used to determine actual allocation levels based on the vesting scale.

<b>Number of Performance Share Rights (at inception)</b>	<b>Number invested at 1 January 2007</b>	<b>Number lapsed in year</b>	<b>Number vested in year</b>	<b>Number granted in year</b>	<b>Number invested at 31 December 2007</b>
1,208,723	1,055,172	-	(1,055,172)	-	-
1,208,723	1,055,172	(133,446)	(18,652)	-	903,074
380,000	380,000	-	(380,000)	-	-
26,557	23,781	-	-	-	23,781
26,556	23,781	-	-	-	23,781
34,172	34,172	-	-	-	34,172
34,171	34,171	-	-	-	34,171
14,149	14,149	(4,716)	-	-	9,433
14,149	14,149	(4,716)	-	-	9,433
14,149	14,149	(4,717)	-	-	9,432
14,148	14,148	(4,716)	-	-	9,432
553,129	524,121	(75,800)	-	-	448,321
553,128	524,120	(75,799)	-	-	448,321
99,001	99,001	-	-	-	99,001
99,002	99,002	-	-	-	99,002
440,845	-	(22,276)	-	440,845	418,569
440,845	-	(22,276)	-	440,845	418,569
111,488	-	-	-	114,888	114,888
111,487	-	-	-	114,887	114,887

## Comparator groups

The comparator group for each series of the PSP is shown below:

Comparator group Series 1 and 2	Comparator group Series 3 and 4	Comparator group Series 5, 6 and 7	Comparator group Series 8 and 9
Adelaide Brighton	Alinta	ABC Learning	ABC Learning
Alinta	Amcor	Alinta	Alinta
Amsell	Ansell	Amcor	Amcor
Austar United Communications	APN News & Media	Ansell	APN News & Media
Austereo Group	Australand Property Group	APN News & Media	Auckland Airport
Australand Property Group	Australian Gas Light Company	Auckland Airport	Australian Gas Light Company
Australian Pharmaceutical Industries	AWB	Australian Gas Light Company	Babcock & Brown Infrastructure Group
Australian Pipeline Trust	Billabong International	AWB	Billabong International
Australian Leisure & Hospitality Group	Bluescope Steel	Billabong International	Boral
Baycorp Advantage	Boral	Boral	Brambles Industries
Brickworks	Brambles Industries	Brambles Industries	Coca-Cola Amatil
Burns Philp & Company	Burns Philp & Company	Burns Philp & Company	Cochlear Health
Coates Hire	Coca-Cola Amatil	Carter Holt Harvey	Coles Myer
Cochlear	Coles Myer	Coca-Cola Amatil	Computershare
Corporate Express Australia	Computershare	Cochlear	Consolidated Media Holdings
Crane Group	Consolidated Media Holdings	Coles Myer	CSL
David Jones	CSL	Computershare	CSR
Downer EDi	CSR	Consolidated Media Holdings	Downer EDi
Envestra	Fairfax Media Limited	CSL	Fairfax Media Limited
Futuris Corporation	Flight Centre International	CSR	Fletcher Building
Graincorp	Foodland Associated	DCA Group	Foster's Group
Gunns	Fosters Group	Downer EDi	Goodman Fielder
GWA International	Harvey Norman Holdings	Fairfax Media Limited	Harvey Norman Holdings
Hills Industries	James Hardie Industries N.V.	Fletcher Building	James Hardie Industries N.V.
Incitec Pivot	Leighton Holdings	Foster's Group	Leighton Holdings
Ion	Lend Lease	Harvey Norman Holdings	Lion Nathan
Mcguigan Simeon Wines	Lion Nathan	James Hardie Industries N.V.	Macquarie Airports
Mia Group	Macquarie Airports	Leighton Holdings	Macquarie Communications Infrastructure
National Foods	Macquarie Infrastructure Group	Lion Nathan	Macquarie Infrastructure Group
Novogen	Mayne Group	Macquarie Airports	Mayne Pharma
Nufarm	Metcash Trading	Macquarie Infrastructure Group	Metcash Trading
Onesteel	National Foods	Metcash Trading	News Corporation
Pacifica Group	Onesteel	News Corporation	Orica
Primary Health Care	Orica	Nufarm	Qantas Airways
Ramsay Health Care	Pacific Brands	Orica	Resmed Inc
Reece Australia	Paperlinx	Patrick Corporation	Rinker Group
Resmed Inc	Patrick Corporation	Qantas Airways	Seven Network
Rural Press	Qantas Airways	Rinker Group	Sigma Pharmaceuticals
Seven Network	Resmed Inc	Rural Press	Sky City Entertainment Group
Sigma Pharmaceuticals	Rinker Group	Seven Network	Sonic Healthcare
Sims Group	Rural Press	Sky City Entertainment Group	Symbion Health
Smorgan Steel Group	Sonic Healthcare	Sonic Healthcare	Tabcorp Holdings
Southern Cross Broadcasting	Southcorp	Tabcorp Holdings	Tattersalls
Spotless Group	Tabcorp Holdings	Tattersall's	Telecom Corporation NZ
STW Communication Group	Telecom Corporation NZ	Telecom Corporation NZ	Telstra Corporation
Ten Network Holdings	Ten Network Holdings	Telstra Corporation	Toll Holdings
The Hills Motorway Group	Toll Holdings	Toll Holdings	Transurban Group
Transfield Services	Transurban Group	Transurban Group	Wesfarmers
Unitab	Virgin Blue Holdings	Wesfarmers	West Australian Newspapers Holdings
West Australian Newspaper Holdings	West Australian Newspaper Holdings	Woolworths	Woolworths



#### 4.2.4 Long-term incentive – Performance Option Plan (POP)

The POP was approved by shareholders in May 2005. The POP is an executive incentive scheme designed to drive the continuing improvement in the Company's operating performance. The POP provides for eligible employees to be offered conditional entitlements to options over fully paid ordinary shares in the Company. There have been no grants under the POP to date.

#### 4.2.5 Long-term incentive – Employee Share Option Plan (ESOP)

The ESOP was approved by shareholders in November 1998. New issues under this plan were discontinued during 2004 on the introduction of the Performance Share Plan detailed above, however, the plan will remain in place until all options granted prior to its discontinuance are exercised or lapse.

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

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

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

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

#### 4.2.6 General Employee Share Plan (GESP)

The Company operates an employee share plan, referred to as GESP, which was approved by shareholders at the November 1998 Annual General Meeting. The plan enables eligible employees to gain some equity in the Company through an annual share allocation designed to align the interests of employees with Company objectives and shareholders. The Board determines each year whether offers of qualifying shares will be made. The plan allows for up to a maximum value of A\$1,000 of fully paid ordinary shares to be allocated per employee for no cash consideration and is made to all eligible permanent full-time and part-time employees. Participants in this plan are able to receive dividends and exercise voting rights in respect of shares held under the plan, however, shares must not be withdrawn from the plan or disposed until the earlier of three years after issue or the cessation of employment.

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.

During the year, the Company issued 80,040 shares (2006: 90,455) to 1,160 employees (2006: 1,145) in Australia under this plan. Due to tax complexities certain eligible staff located overseas were issued either a deferred bonus of A\$1,000 cash or a contingent allocation of an equivalent number of shares (51,681 shares to 749 employees; 2006: 47,212 shares to 638 employees) in lieu of a share allocation under the General Employee Share Plan, subject to their continued employment for a period of three years.



#### 4.3 Service agreements

Remuneration and other terms of employment for the Chief Executive Officer and Managing Director, Chief Financial Officer and Finance Director, and each of the executives which make up the key management personnel group and the other nominated executives\* are formalised in service agreements. Key provisions of the agreements relating to remuneration for executive directors, key management personnel and other nominated executives, as at 31 December 2007 are set out in the following table:

Name	PN Oneile	SCM Kelly
<b>Position</b>	Chief Executive Officer and Managing Director	Chief Financial Officer and Finance Director
<b>Start date</b>	1 December 2003	1 September 2003
<b>Contract expiry date</b>	31 December 2008	No fixed term
<b>Fixed remuneration (including superannuation &amp; benefits)</b>	1,850,000	673,947
<b>Short-term incentive target</b>	1,400,000	336,974
<b>Termination benefit (Company initiated)</b>	12 months notice	3 months notice. Severance - 9 months remuneration
<b>Termination benefit (employee initiated)</b>	3 months notice	3 months notice



<b>SJ Parker</b>	<b>GS Phillips</b>	<b>IH Timmis</b>	<b>BJ Yahl</b>	<b>WP Jowett*</b>	<b>TJ Parrott*</b>
Group General Manager, Research & Development and Marketing	Chief Technology Officer	Group General Manager, Business and Strategic Development	Group General Manager, Commercial and Legal, Company Secretary	Executive General Manager Australasia	President & CEO - The Americas
1 December 2002	3 November 2003	28 July 2003	29 March 2004	27 April 1987	18 September 2006
No fixed term	No fixed term	No fixed term	No fixed term	No fixed term	No fixed term
501,429	GBP185,000	421,773	619,887	523,210	USD450,000
250,715	GBP18,500	168,709	309,944	261,605	USD170,000
3 months notice	6 months notice	3 months notice	6 months notice	3 months notice. Severance - 12 months remuneration	3 months notice. Severance - 12 months remuneration
3 months notice	6 months notice	3 months notice	3 months notice	3 months notice	3 months notice

\* Within the definition of section 300A (1)(c) of the *Corporations Act 2001*.

#### 4.4 Details of executive remuneration

Remuneration details of executive key management personnel and other nominated executives of the consolidated entity, including their personally-related entities, are set out below:

Name	Year	Short-term benefits			Post-employment benefits	Share-based payments*	Total	Remuneration consisting of share-based payments
		Cash salary and fees**	Cash bonus	Non-monetary benefits	Superannuation	Options and Performance Share Rights		
		\$	\$	\$	\$	\$	\$	%
<b>Executive key management personnel</b>								
SCM Kelly	2007	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2006	563,420	345,060	16,021	12,413	556,415	1,493,329	37.3
SJ Parker	2007	440,869	238,931	9,423	38,362	282,166	1,009,751	27.9
	2006	360,288	181,340	9,327	30,671	256,068	837,694	30.6
GS Phillips	2007	391,261	33,672	9,851	35,213	253,268	723,265	35.0
	2006	382,467	41,546	9,967	32,841	274,826	741,647	37.1
IH Timmis	2007	342,738	160,780	97,803	30,846	263,072	895,239	29.4
	2006	326,776	141,295	44,391	29,410	252,412	794,284	31.8
BJ Yahl	2007	555,536	286,078	7,235	49,998	337,455	1,236,302	27.3
	2006	525,858	295,267	26,501	47,327	254,746	1,149,699	22.2
<b>Other nominated executives***</b>								
WP Jowett	2007	432,124	303,903	46,889	38,891	325,699	1,147,506	28.4
	2006	400,736	229,828	50,015	36,066	312,547	1,029,192	30.4
TJ Parrott	2007	522,785	107,214	-	-	166,063	796,062	20.9
	2006	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	2007	2,685,313	1,130,578	171,201	193,310	1,627,723	5,808,125	28.02
	2006	2,559,545	1,234,336	156,222	188,728	1,907,014	6,045,845	31.54

\* Share based payments includes shares to the value of A\$1,000 allocated under the General Employee Share Plan ("GESP").

\*\* Amounts shown as cash salary and fees include amounts sacrificed in lieu of other benefits at the discretion of the individual.

\*\*\* Within the definition of section 300A (1)(c) of the Corporations Act 2001.





#### 4.5 Cash bonuses and options

Details of cash bonuses paid and options and performance share rights vested of executive key management personnel and other nominated executives for the year ended 31 December 2007 are set out below:

Name	Year	Bonuses*		Options		Performance Share Rights**	
		Payable %	Forfeited %	Vested %	Forfeited %	Vested %	Forfeited %
<b>Executive Director</b>							
PN Oneile	2007	51.5	48.5	n/a	n/a	100.0	0.0
	2006	58.8	41.2	n/a	n/a	0.0	0.0
SCM Kelly	2007	55.6	44.4	100.0	0.0	n/a	n/a
	2006	n/a	n/a	n/a	n/a	n/a	n/a
<b>Executive key management personnel</b>							
SCM Kelly	2007	n/a	n/a	n/a	n/a	n/a	n/a
	2006	61.8	38.2	100.0	0.0	0.0	0.0
SJ Parker	2007	51.5	48.5	100.0	0.0	100.0	0.0
	2006	60.1	39.9	100.0	0.0	0.0	0.0
GS Phillips	2007	43.4	56.6	100.0	0.0	100.0	0.0
	2006	50.4	49.6	100.0	0.0	0.0	0.0
IH Timmis	2007	51.5	48.5	n/a	n/a	100.0	0.0
	2006	47.2	52.8	n/a	n/a	0.0	0.0
BJ Yahl	2007	49.9	50.1	n/a	n/a	100.0	0.0
	2006	53.7	46.3	n/a	n/a	0.0	0.0
<b>Other nominated executives***</b>							
WP Jowett	2007	61.1	38.9	100.0	0.0	100.0	0.0
	2006	61.3	38.7	100.0	0.0	0.0	0.0
TJ Parrott	2007	30.9	69.1	n/a	n/a	n/a	n/a
	2006	n/a	n/a	n/a	n/a	n/a	n/a

\* Bonuses are accrued in the financial year to which they relate and are paid in the first quarter of the following financial year.

\*\* No Performance Share Rights vested or lapsed during the year ended 31 December 2006. On 20 February 2007 the Board determined that, based on the Company's TSR performance against the individual TSRs of the specified comparator group over the period 1 January 2004 to 31 December 2006, series 1A and 2 would be allocated in full. These are shown as vested in the current year. The level of vesting of series 1B, 3 and 4 determined by the Board on 26 February 2008 will be reflected in the 2008 Remuneration Report.

\*\*\* Within the definition of section 300A (1)(c) of the *Corporations Act 2001*.

#### 4.6 Performance Share Rights provided as remuneration and rights holdings

The numbers of Performance Share Rights in the Company held during the year by any executive director or key management personnel or other nominated executives of the consolidated entity, including their personally related entities, are set out below:

31 December 2007	Series	Performance period expiry date	Value per right at grant date	Balance as at 31 December 2006	Granted during the year as remuneration	Vested and allocated during the year	Balance as at 31 December 2007
<b>Executive directors</b>							
PN Oneile	2	31 Dec 2006	\$8.68	380,000	-	(380,000)	-
	4A	31 Dec 2007	\$6.10	34,172	-	-	34,172
	4B	31 Dec 2007	\$6.10	34,171	-	-	34,171
	7A	31 Dec 2008	\$8.18	99,001	-	-	99,001
	7B	31 Dec 2008	\$13.09	99,002	-	-	99,002
	9A	31 Dec 2009	\$7.79	-	89,859	-	89,859
	9B	31 Dec 2009	\$14.41	-	89,859	-	89,859
SCM Kelly	3A	31 Dec 2007	\$6.10	10,854	-	-	10,854
	3B	31 Dec 2007	\$6.10	10,853	-	-	10,853
	6A	31 Dec 2008	\$6.01	25,123	-	-	25,123
	6B	31 Dec 2008	\$11.25	25,122	-	-	25,122
	9A	31 Dec 2009	\$7.79	-	21,629	-	21,629
	9B	31 Dec 2009	\$14.41	-	21,628	-	21,628
<b>Executive key management personnel</b>							
SJ Parker	1A	31 Dec 2006	\$6.45	38,166	-	(38,166)	-
	1B	31 Dec 2007	\$6.25	38,165	-	-	38,165
	6A	31 Dec 2008	\$6.01	16,138	-	-	16,138
	6B	31 Dec 2008	\$11.25	16,137	-	-	16,137
	8A	31 Dec 2009	\$8.41	-	16,092	-	16,092
	8B	31 Dec 2009	\$15.25	-	16,092	-	16,092
GS Phillips	1A	31 Dec 2006	\$6.45	41,572	-	(41,572)	-
	1B	31 Dec 2007	\$6.25	41,572	-	-	41,572
	6A	31 Dec 2008	\$6.01	13,920	-	-	13,920
	6B	31 Dec 2008	\$11.25	13,920	-	-	13,920
	8A	31 Dec 2009	\$8.41	-	11,786	-	11,786
	8B	31 Dec 2009	\$15.25	-	11,785	-	11,785

31 December 2007	Series	Performance period expiry date	Value per right at grant date	Balance as at 31 December 2006	Granted during the year as remuneration	Vested and allocated during the year	Balance as at 31 December 2007
<b>Executive directors</b>							
IH Timmis	1A	31 Dec 2006	\$6.45	41,628	-	(41,628)	-
	1B	31 Dec 2007	\$6.25	41,627	-	-	41,627
	6A	31 Dec 2008	\$6.01	16,838	-	-	16,838
	6B	31 Dec 2008	\$11.25	16,838	-	-	16,838
	8A	31 Dec 2009	\$8.41	-	13,536	-	13,536
	8B	31 Dec 2009	\$15.25	-	13,535	-	13,535
BJ Yahl	1A	31 Dec 2006	\$6.45	30,000	-	(30,000)	-
	1B	31 Dec 2007	\$6.25	30,000	-	-	30,000
	6A	31 Dec 2008	\$6.01	24,746	-	-	24,746
	6B	31 Dec 2008	\$11.25	24,746	-	-	24,746
	8A	31 Dec 2009	\$8.41	-	19,894	-	19,894
	8B	31 Dec 2009	\$15.25	-	19,893	-	19,893
<b>Other nominated executives</b>							
WP Jowett	1A	31 Dec 2006	\$6.45	46,593	-	(46,593)	-
	1B	31 Dec 2007	\$6.25	46,593	-	-	46,593
	6A	31 Dec 2008	\$6.01	20,516	-	-	20,516
	6B	31 Dec 2008	\$11.25	20,516	-	-	20,516
	8A	31 Dec 2009	\$8.41	-	16,791	-	16,791
	8B	31 Dec 2009	\$15.25	-	16,791	-	16,791
T Parrott	8A	31 Dec 2009	\$8.41	-	22,306	-	22,306
	8B	31 Dec 2009	\$15.25	-	22,306	-	22,306

31 December 2006	Series	Performance period expiry date	Value per right at grant date	Balance as at 31 December 2005	Granted during the year as remuneration	Vested and allocated during the year	Balance as at 31 December 2006
<b>Executive director</b>							
PN Oneile	2*	31 Dec 2006	\$8.68	380,000	-	-	380,000
	4A	31 Dec 2007	\$6.10	34,172	-	-	34,172
	4B	31 Dec 2007	\$6.10	34,171	-	-	34,171
	7A	31 Dec 2008	\$8.18	-	99,001	-	99,001
	7B	31 Dec 2008	\$13.09	-	99,002	-	99,002
<b>Executive key management personnel</b>							
SCM Kelly	3A	31 Dec 2007	\$6.10	10,854	-	-	10,854
	3B	31 Dec 2007	\$6.10	10,853	-	-	10,853
	6A	31 Dec 2008	\$6.01	-	25,123	-	25,123
	6B	31 Dec 2008	\$11.25	-	25,122	-	25,122
SJ Parker	1A*	31 Dec 2006	\$6.45	38,166	-	-	38,166
	1B	31 Dec 2007	\$6.25	38,165	-	-	38,165
	6A	31 Dec 2008	\$6.01	-	16,138	-	16,138
	6B	31 Dec 2008	\$11.25	-	16,137	-	16,137
GS Phillips	1A*	31 Dec 2006	\$6.45	41,572	-	-	41,572
	1B	31 Dec 2007	\$6.25	41,572	-	-	41,572
	6A	31 Dec 2008	\$6.01	-	13,920	-	13,920
	6B	31 Dec 2008	\$11.25	-	13,920	-	13,920
IH Timmis	1A*	31 Dec 2006	\$6.45	41,628	-	-	41,628
	1B	31 Dec 2007	\$6.25	41,627	-	-	41,627
	6A	31 Dec 2008	\$6.01	-	16,838	-	16,838
	6B	31 Dec 2008	\$11.25	-	16,837	-	16,837
BJ Yahl	1A*	31 Dec 2006	\$6.45	30,000	-	-	30,000
	1B	31 Dec 2007	\$6.25	30,000	-	-	30,000
	6A	31 Dec 2008	\$6.01	-	24,746	-	24,746
	6B	31 Dec 2008	\$11.25	-	24,746	-	24,746

31 December 2006	Series	Performance period expiry date	Value per right at grant date	Balance as at 31 December 2005	Granted during the year as remuneration	Vested and allocated during the year	Balance as at 31 December 2006
<b>Other nominated executives***</b>							
WP Jowett	1A*	31 Dec 2006	\$6.45	46,593	-	-	46,593
	1B	31 Dec 2007	\$6.25	46,593	-	-	46,593
	6A	31 Dec 2008	\$6.01	-	20,516	-	20,516
	6B	31 Dec 2008	\$11.25	-	20,516	-	20,516

\* On 20 February 2007 the Board determined that, based on the Company's TSR performance against the individual TSRs of the specified comparator group over the period 1 January 2004 to 31 December 2006, series 1A and 2 would be allocated in full. This vesting is shown in the 2007 year.

\*\* The level of vesting of series 1B, 3 and 4 determined by the Board on 26 February 2008 will be reflected in the 2008 Remuneration Report.

\*\*\* Within the definition of section 300A (1)(c) of the *Corporations Act 2001*.

#### 4.6.1 Accounting valuation of Performance Share Rights

An independent accounting valuation for each tranche of Performance Share Rights at their respective grant dates has been performed by Deloitte. In undertaking the valuation of the rights, Deloitte has used a Total Shareholder Return model (TSR) and an Earnings Per Share Growth (EPSG) model. These models are described below.

#### TSR model

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

#### EPSG model

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

For the purposes of remuneration packaging, the TSR accounting valuation as at the commencement of the performance period is adopted for determining the total number of Performance Share Rights to be allocated as this valuation best reflects the fair value of Performance Share Rights to each executive at that time. The requirements of Accounting Standard AASB 2 in relation to the treatment of non-market vesting conditions such as EPSG and share based remuneration requiring shareholder approval results in accounting expense and disclosures differing from the value allocated for the purposes of remuneration packaging.

#### 4.7 Options provided as remuneration and option holdings

No options were issued during the year.

There were 537,500 (2006: 1,205,000) outstanding options as at 31 December 2007, representing 0.12% (2006: 0.26%) of the issued share capital at that date.

Details of options over ordinary shares in the Company provided as remuneration to any key management personnel or other nominated executives of the consolidated entity are set out below. When exercisable, each option is convertible into one ordinary share of the Company.



31 December 2007	Note	Series	Expiry date	Exercise price*
<b>Executive director</b>				
SCM Kelly	3	29C	1 Sep 2008	\$2.4503
	4	29D	1 Sep 2008	\$2.9503
	1	31A	1 Sep 2009	\$6.7016
	2	31B	1 Sep 2009	\$7.2016
	3	31C	1 Sep 2009	\$7.7016
	4	31D	1 Sep 2009	\$8.2016
<b>Specified executives</b>				
SJ Parker	5	28	26 Aug 2008	\$1.3497
GS Phillips	5	30	3 Nov 2008	\$2.2177
<b>Other nominated executives</b>				
WP Jowett	5	26	7 Mar 2007	\$5.7431
	5	26	7 Mar 2007	\$5.7431
		28	26 Aug 2008	\$1.3497



Balance as at 31 December 2006	Exercised during the year	Balance as at 31 December 2007	Vested during the year	Fair value at exercise date \$	Vested and exercisable at the end of the year
125,000	125,000	-	125,000	1,659,963	-
125,000	-	125,000	-	-	-
125,000	125,000	-	-	1,128,550	-
125,000	125,000	-	125,000	719,800	-
125,000	-	125,000	-	-	-
125,000	-	125,000	-	-	-
100,000	50,000	50,000	50,000	719,015	-
100,000	50,000	50,000	50,000	661,615	-
-	-	-	12,500	-	-
-	-	-	12,500	-	-
100,000	50,000	50,000	50,000	750,015	-

31 December 2006	Note	Series	Expiry date	Exercise price*
<b>Executive key management personnel</b>				
SCM Kelly	2	29B	1 September 2008	\$1.9503
	3	29C	1 September 2008	\$2.4503
	4	29D	1 September 2008	\$2.9503
	1	31A	1 September 2009	\$6.7016
	2	31B	1 September 2009	\$7.2016
	3	31C	1 September 2009	\$7.7016
	4	31D	1 September 2009	\$8.2016
SJ Parker	5	28	26 August 2008	\$1.3497
GS Phillips	5	30	3 November 2008	\$2.2177
<b>Other nominated executives**</b>				
WP Jowett	5	26	7 March 2007	\$5.7431
	5	28	26 August 2008	\$1.3497

\* The option exercise price has been adjusted for the 21 cent capital return paid in July 2005. Where options were exercised prior to the capital return the exercise price was 21 cents higher than shown above.

\*\* Within the definition of section 300A (1)(c) of the *Corporations Act 2001*.

#### Notes to the table:

- 1 – Options are exercisable 18 months after grant date.
- 2 – Options are exercisable 30 months after grant date.
- 3 – Options are exercisable 42 months after grant date.
- 4 – Options are exercisable 54 months after grant date.
- 5 – Options are exercisable in 4 equal tranches at intervals of 18, 30, 42 and 54 months after the grant date.





Balance as at 31 December 2005	Exercised during the year	Balance as at 31 December 2006	Vested during the year	Fair value at exercise date \$	Vested and exercisable at the end of the year
125,000	125,000	-	125,000	1,349,963	-
125,000	-	125,000	-	-	-
125,000	-	125,000	-	-	-
125,000	-	125,000	-	-	125,000
125,000	-	125,000	-	-	-
125,000	-	125,000	-	-	-
125,000	-	125,000	-	-	-
150,000	50,000	100,000	50,000	570,015	-
150,000	50,000	100,000	50,000	566,115	-
25,000	25,000	-	25,000	179,298	-
150,000	50,000	100,000	50,000	571,015	-

#### 4.7.1 Valuation of options

An independent valuation of each tranche of options at their respective grant date has been performed by Deloitte. In undertaking the valuation of the options, Deloitte has used a TSR model, a modified version of the Merton Reiner Rubinstein Barrier Option model. It is called a 'Barrier' model because it takes into account that the options are subject to a performance hurdle. Deloitte has advised that this model is more appropriate than the Black Scholes or Binomial models for valuing this type of option. This pricing model takes into account factors such as the Company's share price at the date of the grant, volatility of the underlying share price, the risk free rate of return, expected dividend yield and time to maturity.

The value of options has been allocated equally over the period from grant date to vesting date. Details of the ESOP including grant dates and vesting conditions are set out in note 32 of the financial statements.

#### 4.8 General Employee Share Plan provided as remuneration

The numbers of shares held under the GESP during the year ended 31 December 2007, and the comparative year, by any of the key management personnel or other nominated executives of the consolidated entity, including their personally related entities, are set out in the following tables:



31 December 2007	Balance as at 31 December 2006	Shares issued/ granted during the year	Shares vested during the year	Balance as at 31 December 2007
<b>Executive directors</b>				
PN Oneile	-	-	-	-
SCM Kelly	431	(263)	-	168
<b>Executive key management personnel</b>				
SJ Parker	431	(263)	69	237
GS Phillips*	337	(263)	69	143
IH Timmis	431	(263)	69	237
BJ Yahl	168	-	69	237
<b>Other nominated executives**</b>				
WP Jowett	431	(263)	69	237
TJ Parrott	-	-	69	69

31 December 2006	Balance as at 31 December 2005	Shares issued/ granted during the year	Shares vested during the year	Balance as at 31 December 2006
<b>Executive Director</b>				
PN Oneile	-	-	-	-
<b>Executive key management personnel</b>				
SCM Kelly	352	79	-	431
SJ Parker	951	79	(599)	431
GS Phillips*	263	74	-	337
IH Timmis	352	79	-	431
BJ Yahl	89	79	-	168
<b>Other nominated executives**</b>				
WP Jowett	951	79	(599)	431

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

\*\* Within the definition of section 300A (1)(c) of the *Corporations Act 2001*.



## 5 Shareholdings (Audited)

The numbers of shares (excluding those unvested under the GESP and the PSP) in the Company held during the year ended 31 December 2007, and the comparative year, by each director and executive key management personnel of the consolidated entity, 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 individual director or executive and any entity under the joint or several control of the individual director or executive they are shown as 'beneficially held'. Shares held by those who are defined by AASB 124 *Related Party Disclosures* as close members of the family of the individual director or executive are shown as 'non-beneficially held'.



31 December 2007	Type	Balance as at 31 December 2006	Options exercised, Performance shares and GESP shares vested	Other Net Changes during the year	Balance as at 31 December 2007
<b>Executive directors</b>					
PN Oneile	Beneficially held	-	380,000	-	380,000
	Non-beneficially held	6,000	-	-	6,000
SCM Kelly*	Beneficially held	325,000	375,263	-	700,263
	Non-beneficially held	-	-	-	-
<b>Non-executive directors</b>					
DJ Simpson	Beneficially held	106,000	-	-	106,000
	Non-beneficially held	-	-	-	-
WM Baker	Beneficially held	4,700	-	-	4,700
	Non-beneficially held	-	-	-	-
RA Davis	Beneficially held	3,449	-	3,205	6,654
	Non-beneficially held	-	-	-	-
P Morris	Beneficially held	658	-	8,830	9,488
	Non-beneficially held	12,560	-	-	12,560
SAM Pitkin	Beneficially held	572	-	1,489	2,061
	Non-beneficially held	7,000	-	4,100	11,100
AW Steelman	Beneficially held	16,000	-	6,834	22,834
	Non-beneficially held	4,505	-	-	4,505
<b>Executive key management personnel</b>					
SJ Parker	Beneficially held	80,599	88,429	-	169,028
	Non-beneficially held	-	-	-	-
GS Phillips	Beneficially held	103,201	91,835	(69,123)	125,913
	Non-beneficially held	-	-	-	-
IH Timmis	Beneficially held	-	41,891	(41,628)	263
	Non-beneficially held	-	-	-	-
BJ Yahl	Beneficially held	-	30,000	-	30,000
	Non-beneficially held	-	-	-	-

\* SCM Kelly retains an interest in a Zero Cost Collar (ZCC) arrangement over 125,000 shares, entered into on 5 March 2007 with an expiry of 10 March 2008. This ZCC has the effect of protecting the value of the shares at a level below the share price at the time the contract was entered into and enabling participation in price gains to nominated levels above the share price at the time the contract was entered into. This contract is scheduled to expire within an authorised trading window.



31 December 2006	Type	Balance as at 31 December 2005	Options exercised, Performance shares and GESP shares vested	Net Changes during the year	Balance as at 31 December 2006
<b>Executive director</b>					
PN Oneile	Beneficially held	-	-	-	-
	Non-beneficially held	6,000	-	-	6,000
<b>Non-executive directors</b>					
DJ Simpson	Beneficially held	106,000	-	-	106,000
	Non-beneficially held	-	-	-	-
WM Baker	Beneficially held	4,700	-	-	4,700
	Non-beneficially held	-	-	-	-
RA Davis	Beneficially held	1,200	-	2,249	3,449
	Non-beneficially held	-	-	-	-
P Morris	Beneficially held	-	-	658	658
	Non-beneficially held	12,560	-	-	12,560
SAM Pitkin	Beneficially held	-	-	572	572
	Non-beneficially held	6,000	-	1,000	7,000
AW Steelman	Beneficially held	16,000	-	-	16,000
	Non-beneficially held	4,505	-	-	4,505
<b>Executive key management personnel</b>					
SCM Kelly	Beneficially held	200,000	125,000	-	325,000
	Non-beneficially held	-	-	-	-
SJ Parker	Beneficially held	50,000	50,000	(19,401)	80,599
	Non-beneficially held	-	-	-	-
GS Phillips	Beneficially held	169,867	50,000	(116,666)	103,201
	Non-beneficially held	-	-	-	-
IH Timmis	Beneficially held	-	-	-	-
	Non-beneficially held	-	-	-	-
BJ Yahl	Beneficially held	-	-	-	-
	Non-beneficially held	-	-	-	-

Shareholdings of directors and executive key management personnel reported as 'non-beneficially held' include those that have been disclosed under representation made to them by the parties within the AASB 124 definition of personally related entities. Directors and executive key management personnel have relied upon the representations made as they have no control or influence over the financial affairs of the personally related entities to substantiate the shareholdings declared. In the event that a personally related entity declines to provide shareholding details, the shareholding of that personally related entity is assumed to be nil.

#### **5.1 Loans to directors and executive key management personnel**

No directors or executive key management personnel held any loans with the Company during the financial year.

#### **5.2 Other transactions with directors and executive key management personnel**

Refer to Note 35 of the financial statements for details of related party transactions with directors and executive key management personnel.

#### **6 Indemnity of officers**

The Company's Constitution provides that: "the Company must indemnify every person who is or has been a director, secretary or executive officer of the Company". The liabilities covered by those indemnities are those arising as a result of the indemnified party serving or having served as a director, secretary or executive officer of the Company or of its subsidiaries but are restricted so as not to cover: (i) liability in respect of conduct involving a lack of good faith; (ii) conduct which an indemnified party knows to be wrongful; and (iii) liability which arises out of a personal matter of the indemnified party. The Company maintains a Directors and Officers insurance policy, the premium paid and the terms of cover secured by that premium are confidential.



**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

Darling Park Tower 2  
201 Sussex Street  
GPO Box 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
[www.pwc.com/au](http://www.pwc.com/au)  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999

### Auditors' Independence Declaration

As lead auditor for the audit of Aristocrat Leisure Limited for the year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



**R L Gavin**  
Partner

26 February 2008  
Sydney





# Corporate Governance Statement

## For the 12 months ended 31 December 2007

The Board is committed to maintaining the highest standards of corporate governance. The Board has chosen to early adopt the revised *Corporate Governance Principles and Recommendations* published by the ASX Corporate Governance Council, and believes that its corporate governance principles and policies comply with the Principles and Recommendations.

Set out below is a summary of Aristocrat's (the 'Company') corporate governance principles which were in place throughout the 2007 reporting period. For ease of reference, this Statement has been prepared and presented in a format consistent with the abovenamed publication.

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

### *Board roles and responsibilities*

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

- review and approval of Company strategy;
- performance management with specific responsibility for the monitoring of Company performance and overall conduct;
- selection, appointment, remuneration and performance evaluation of the Chief Executive Officer ('CEO') and Chief Financial Officer ('CFO');
- evaluation of the principal risks of the Company and continued monitoring of appropriate risk management and reporting systems;
- establishment and monitoring of policies to ensure compliance with the legal and regulatory regimes to which the Company

is subject and to ensure the highest standards of corporate conduct; and

- promotion of open and proper communication between the Company and its stakeholders.

### *Delegation to senior executives*

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

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

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

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

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

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

## Principle 2 – Structure the Board to add value

### *Board composition*

The Board has determined that its optimal size is between seven and nine members. As at 31 December 2007, the Board comprises of six independent non-executive directors and two executive directors. Details including the term of office, qualifications and experience, and information on other directorships held by each member of the Board, can be found in the Directors' Report.

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

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

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

### *Continuing education of directors*

A continuing education process for directors through ongoing management presentations and tutorials from external experts takes place during the year permitting directors to pose questions about the Group and factors impacting on the business or likely to impact on the business.



### **Board meetings**

The Board meets regularly and during 2007 the Board met a total of 12 times which included two two-day meetings focused on strategy and budget. The number of meetings attended by each director is tabled in the Directors' Report. Executive management is regularly invited to attend and present at Board meetings. During the year the non-executive directors also held meetings without the presence of executive management.

### **Director independence**

During Board meetings, the Board assesses each of the non-executive directors against specific criteria to decide whether they are independent. Directors are considered to be independent if they meet the following criteria:

- they are not a substantial (5% or greater) shareholder of the Company or an officer of a substantial shareholder of the Company;
- they have not been employed in an executive capacity in the last three years by the Company or a subsidiary of the Company;
- they have not been employed as a principal of a material professional advisor to the Company during the past three years;
- they are not a material supplier or customer of the Company or any subsidiary of the Company;
- they have no material contractual relationship with the Company (other than as a director); and
- they are free from any interest, business or personal, which could or could reasonably be perceived to materially interfere with the director's ability to act in the best interests of the Company.

In determining whether or not a material relationship exists with a third party such as a supplier, professional advisor or customer, the Board considers that relationship to be material if it meets the following criteria:

- where the customer accounts for more than 5% of the Company's consolidated gross revenue per annum;
- if the Company accounts for more than 5% of the supplier's consolidated revenue; or
- where the total value of any contract or relationship between the Company and the director (other than as a director of the Company) exceeds A\$1 million.

Having considered these criteria, the Board was of the view that there were no relationships affecting the independent status of any non-executive director at 31 December 2007 or throughout the year.

### **Independent professional advice**

Any director may seek independent external advice in relation to any Board matter at the expense of the Company with the prior consent of the Chair.

Whenever practicable, the advice should be commissioned in the joint names of the director and the Company and a copy of the advice should be made available to the entire Board.

### **Chair of the Board**

The Chair is selected by the Board and is an independent non-executive director. The Chair and the office of the CEO are not held by the same person. The Chair is responsible for the leadership of the Board, ensuring effectiveness in all aspects of its role including:

- setting Board meeting agendas;
- conducting and leading Board meetings;

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

### **Board committees**

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

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

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

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

### **Audit Committee**

The committee comprises four independent non-executive directors. The committee is chaired by an independent chair who is not the Chair of the Board. The current committee members are Mrs P Morris (Chair), Mr RA Davis, Mr DJ Simpson and Mr AW Steelman. The committee is scheduled to meet four times throughout the year. During the year in addition to scheduled committee meetings, separate meetings also took place between the Chair of the committee and both the Company's external and internal auditors. The number of actual committee meetings and attendance by members is contained in the Directors' Report.

The committee responsibilities include:

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

#### ***Nomination and Governance Committee***

The committee comprises three independent non-executive directors. The current committee members are Mr RA Davis (Chair), Mrs P Morris and Mr DJ Simpson. The committee is scheduled to meet three times per year. The number of actual committee meetings and attendance at meetings by members is contained in the Directors' Report.

The committee responsibilities include:

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

#### ***Regulatory and Compliance Committee***

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

The committee responsibilities include:

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

#### ***Remuneration Committee***

The committee comprises three independent non-executive directors. The current committee members are Ms SAM Pitkin (Chair), Mrs P Morris and Mr DJ Simpson. The committee is scheduled to meet four times per year. The number of actual committee meetings and attendance at meetings by members is contained in the Directors' Report.

The committee responsibilities include:

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

#### ***Nomination, selection and appointment process of new directors***

Recommendations for the nomination of new directors are made by the Nomination and Governance Committee. Generally, external consultants are used to identify potential directors. Those nominated are assessed by the committee against a range of criteria including professional skills, experience, qualifications and background including probity and integrity. Any non-executive director appointed during the year will stand for election by shareholders at the next Annual General Meeting of the Company.



Formal letters of appointment are issued to those joining the Board and individual service agreements are entered into with all directors. All new directors undergo an induction program which includes being provided with a director's handbook, a copy of the strategic plan for the Company together with latest budgets/forecasts and meetings with senior management including the CEO and his direct reports.

### **Other directorships**

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

### **Performance evaluation for the Board, Board committees and individual directors**

The Board performance evaluation process involves the non-executive directors collectively undertaking a review at least once every year of the performance of the Board and its committees.

Board performance as a whole is reviewed by reference to the core competency criteria set out in the evaluation process, while committee performance is reviewed in the context of the objectives and responsibilities set out in the relevant charter of each committee. These reviews were undertaken during the fourth quarter of 2007.

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

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

During the year, the Board commissioned a report by an independent third party consultant to review Board processes and procedures and to benchmark its performance against best practice. No matters of significance were identified in this report.

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

#### **Code of Conduct**

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

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

The Code is available on the Company's website, [www.aristocratgaming.com](http://www.aristocratgaming.com).

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

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

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

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

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

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

#### **“Tip-offs Anonymous” program**

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

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

#### **Securities Trading Policy**

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

- announcement of the half year and full year results;
- the Annual General Meeting; and
- the issue of any prospectus by the Company.

During the year, the Board amended the Securities Trading Policy to provide for a share trading window to open where any half year or full year profit guidance is released to the ASX where the Board determines, at its discretion, that such guidance is sufficiently comprehensive that a window can be opened.

The Company prohibits the hedging of unvested options and unvested Performance Share Rights at all times, irrespective of trading windows.

The policy can be found on the Company’s website, [www.aristocratgaming.com](http://www.aristocratgaming.com).

## **Principle 4 – Safeguard integrity in financial reporting**

### **Audit Committee**

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

### **Selection of auditor**

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

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

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

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

### **Auditor independence**

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

The Charter does not allow the following services to be provided by the internal or external auditors:

- bookkeeping or other services related to accounting records or financial statements;
- financial information systems design and implementation;
- business valuation services (including appraisals or fairness opinions);
- management or human resource functions; and
- actuarial, investment advisory or banking services.

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

### **Non-audit services provided**

Non-audit services provided by the external auditor are disclosed and explained in both the Directors’ Report and Note 34 to the financial statements.

The Board is satisfied that the nature and scope of these services did not compromise auditor independence. When making this assessment, the Board had regard to relevant provisions in the *Corporations Act* and the Company’s Charter of Auditor Independence. The auditor’s independence declaration for the year ended 31 December 2007 has been received and is attached to the Directors’ Report.



### Principle 5 – Make timely and balanced disclosure

The Company has written policies dealing with the Company's disclosure obligations and responsibilities under both the ASX Listing Rules and the *Corporations Act*. The Company's policy on continuous disclosure is available on the Company's website [www.aristocratgaming.com](http://www.aristocratgaming.com).

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

- to immediately advise the ASX of any information which a reasonable person would expect to have a material effect on the price of the Company's securities subject to the exceptions set out in Listing Rule 3.1A. The CEO, CFO and the Group General Manager, Commercial and Legal confer regularly to determine if any announcement should be made to the ASX in accordance with the principles in Listing Rule 3.1A;
- the Chair, CEO, CFO and Group General Manager, Commercial and Legal are the only persons authorised to talk to the media, analysts or shareholders;
- any employee who comes into possession of information which is likely to affect the price of the Company's securities or which has the capacity to affect the Company's profit or balance sheet totals by 5% or more, must immediately consult the CEO or the Company Secretary who will decide, in consultation with the Chair (where appropriate), whether an announcement is required;
- the establishment of the Senior Executive and Risk Review Committee which normally meets monthly to review risks to which the Company is exposed in the light of the continuous disclosure responsibilities; and
- there is an established protocol and signoff procedure for all intended announcements.

### Principle 6 – Respect the rights of shareholders

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

The Company promotes effective communication with shareholders and encourages effective participation at general meetings to ensure a high level of accountability and discussion of the Company's strategy, goals and performance. The Company also invites the external auditor to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. The Company maintains a website ([www.aristocratgaming.com](http://www.aristocratgaming.com)) which is regularly updated with all recent announcements to the ASX, annual reports, briefing materials, and presentations to investors and analysts. The Corporate Governance section of the website allows shareholders direct access to the Board charter, committee charters and key governance policies.

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

The Company's Shareholder Communication Policy is available on the Company's website [www.aristocratgaming.com](http://www.aristocratgaming.com).

### Principle 7 – Recognise and manage risk

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

Elements of the Company's risk management system include:

- a formal risk management policy which is based on Australian Standard AS 4360:2004 *Risk Management*. The Company's Risk Management Policy is available on the Company's website at [www.aristocratgaming.com](http://www.aristocratgaming.com);
- well-defined roles and accountabilities of the Board, Audit Committee, Executive and Risk Committee and internal audit function;
- the training of key executives and managers in the area of risk and the requirements of the Company's Risk Management Policy;
- formal risk identification workshops and meetings across the business to identify and rate material business risks. These risks include but are not limited to: operational, compliance, strategic, reputation or brand, technological, product or service quality, human resources, financial reporting and market related risks;
- the rating of risks for the likelihood of occurrence, possible consequence and the level of current controls and strategies which exist to manage the risk;

- formal risk management updates on the Company's management of its material business risks including changes to the Company's risk profile, are provided to the Board on a monthly basis.
- a dedicated 'Group Risk & Audit Team' is responsible for assisting management in implementing the Board's Risk Management Policies;
- the monthly review of risks by the Executive and Risk Review Committee;
- the establishment of an internal audit function which is independent of the external auditor and has direct access to the Board and management;
- the internal audit function provides assurance to the Board by carrying out analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control system;
- the development of a risk-based internal audit plan;
- an organisation structure with well-defined scopes of responsibility, clear lines of accountability and appropriate levels of delegated authority and approval limits;
- detailed financial policies and procedures in the areas of expenditure authorisations, credit, treasury and required internal controls;
- annual budgeting and monthly reporting systems for all operating units;
- a group-wide regulatory compliance program covering licensure, environment, occupational health and safety and employment practices;
- a comprehensive insurance program; and
- a confidential Tip-offs Anonymous program deployed worldwide.

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

#### **Certification from the CEO and the CFO**

The Board received a written certification on 26 February 2008 from both the CEO and the CFO that the declaration provided in accordance with section 295A of the *Corporations Act* (the integrity of financial statements) is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

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

#### **Principle 8 – Remunerate fairly and responsibly**

##### **Remuneration Committee**

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

##### **Remuneration of non-executive directors**

Details of the principles and amounts of remuneration of non-executive directors are set out in the Directors' Report.

##### **Remuneration of executive directors and senior executives and their link with corporate performance**

Details of the principles and amounts of the Company's executive fixed and variable remuneration schemes including their link with Company performance are provided in the Directors' Report.

#### **Equity based remuneration**

The Company has in place the following equity based remuneration plans:

- Performance Option Plan ('POP') – Established 2005;
- Performance Share Plan ('PSP') – Established 2004; and
- Employee Share Option Plan ('ESOP') – Established 1998.

The POP is an executive incentive scheme designed to drive the continuing improvement in the Company's performance. The POP provides for eligible employees to be offered conditional entitlements to options over fully paid shares in the Company. The POP was approved by shareholders at the 2005 Annual General Meeting of the Company.

The PSP was implemented in 2004. Annual approval from shareholders has been obtained for the participation of the CEO, Mr PN Oneile and the CFO, Mr SCM Kelly in the PSP. Shareholder approval was not required under the ASX Listing Rules or *Corporations Act* for the other participants. The PSP which replaced the older ESOP is more stringent than the ESOP plan as it includes a vesting scale and tougher performance hurdles. A more detailed description of equity-based remuneration is provided in the Directors' Report.



# Five Year Summary

<b>12 months ended 31 December:</b>	<b>2007</b>	2006	2005	2004	2003 (i)	
\$'000(except where indicated)						
<b>Profit and loss items</b>						
Revenue from operating activities (ii)	<b>1,121,969</b>	1,074,534	1,296,323	1,132,854	995,226	
EBITDA	<b>368,693</b>	366,707	398,111	265,914	(39,352)	
Depreciation and amortisation	<b>36,435</b>	31,415	39,735	35,901	44,675	
EBIT	<b>332,258</b>	335,292	358,376	230,013	(84,027)	
Net interest revenue/(expense)	<b>(6,027)</b>	(2,364)	5,571	(4,555)	(15,768)	
Profit/(loss) from ordinary activities before income tax expense	<b>326,231</b>	332,928	363,947	225,458	(99,795)	
Income tax expense	<b>78,295</b>	92,873	119,626	83,286	6,245	
Profit/(loss) from ordinary activities after income tax expense	<b>247,936</b>	240,055	244,321	142,172	(106,040)	
Minority interest	<b>(764)</b>	(1,057)	-	-	-	
Net profit attributable to members of Aristocrat Leisure Limited	<b>247,172</b>	238,998	244,321	142,172	(106,040)	
Total dividend paid - parent entity only	<b>182,827</b>	149,947	66,746	33,210	43,477	
<b>Balance sheet items</b>						
Contributed equity	<b>1,291</b>	53,633	88,240	282,449	265,733	
Reserves	<b>(101,635)</b>	(85,131)	(41,928)	(34,391)	(70,091)	
Retained earnings	<b>420,470</b>	395,420	305,245	126,430	23,036	
Minority interest	<b>675</b>	1,047	-	-	-	
Total equity	<b>320,801</b>	364,969	351,557	374,488	218,678	
Cash and cash equivalents	<b>80,618</b>	123,496	359,532	285,973	103,993	
Other current assets	<b>354,334</b>	288,321	378,966	305,103	327,661	
Property, plant and equipment	<b>103,004</b>	117,846	116,455	117,462	109,496	
Intangible assets	<b>128,212</b>	146,392	76,183	72,636	70,640	
Other non-current assets	<b>159,730</b>	201,907	136,284	127,221	120,297	
Total assets	<b>825,898</b>	877,962	1,067,420	908,395	732,087	
Current payables and other liabilities	<b>203,243</b>	209,547	354,294	225,106	233,402	
Current borrowings	<b>45,000</b>	-	175,808	166,383	1,375	
Current tax liabilities and provisions	<b>74,283</b>	71,191	116,798	81,944	55,338	
Non-current borrowings	<b>147,459</b>	164,287	-	-	172,844	
Non-current provisions	<b>18,008</b>	20,039	18,292	19,401	17,292	
Other non-current liabilities	<b>17,104</b>	47,929	50,671	41,073	33,158	
Total liabilities	<b>505,097</b>	512,993	715,863	533,907	513,409	
Net assets	<b>320,801</b>	364,969	351,557	374,488	218,678	
<b>Other information</b>						
Employees at year end	Number	<b>2,219</b>	2,282	2,140	2,080	2,039
Return on Aristocrat shareholders' equity	%	<b>77.1</b>	65.5	69.5	38.0	(48.5)
Basic earnings per share	Cents	<b>53.0</b>	51.2	51.4	29.9	(22.9)
Net tangible assets per share	\$	<b>0.41</b>	0.47	0.59	0.63	0.31
Total dividends per share - ordinary	Cents	<b>49.0</b>	36.0	30.0	8.0	6.0
Dividend payout ratio	%	<b>92.8</b>	70.7	58.7	27.3	(26.2)
Issued shares at year end	'000	<b>464,296</b>	467,713	470,536	476,898	470,226
Net (cash)/debt (iii)	\$'000	<b>111,841</b>	40,791	(183,724)	(119,590)	70,226
Net cash (debt)/equity	%	<b>(34.9)</b>	(11.2)	52.3	31.9	(32.1)

(i) The comparative year 2003 has been prepared under previous AGAAP and has not been amended for the adoption of AIFRS.

(ii) Revenue from operating activities as per Note 5 to the financial statements.

(iii) Current and non-current borrowings net of cash and cash equivalents.



# Financial Statements

# Financial Statements

For the 12 months ended 31 December 2007

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

Aristocrat Leisure Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is: Aristocrat Leisure Limited  
71 Longueville Road  
Lane Cove NSW 2066  
Australia.

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

The financial report was authorised for issue by the directors on 26 February 2008. The Company has the power to amend and reissue the financial report.

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

<b>Income statements</b>	<b>65</b>
<b>Balance sheets</b>	<b>66</b>
<b>Statements of changes in equity</b>	<b>67</b>
<b>Statements of cash flows</b>	<b>68</b>
<b>Notes to the financial statements</b>	<b>69</b>
<b>1</b> Summary of significant accounting policies	69
<b>2</b> Financial risk management	80
<b>3</b> Critical accounting estimates and judgements	83
<b>4</b> Segment information	84
<b>5</b> Profit from ordinary activities	87
<b>6</b> Income tax expense	89
<b>7</b> Dividends	91
<b>8</b> Cash and cash equivalents	92
<b>9</b> Receivables	92
<b>10</b> Inventories	95
<b>11</b> Financial assets	95
<b>12</b> Other assets	96
<b>13</b> Current assets - non-current assets classified as held for sale	97
<b>14</b> Property, plant and equipment	97
<b>15</b> Deferred tax assets	98
<b>16</b> Intangible assets	99
<b>17</b> Payables	100
<b>18</b> Borrowings	101
<b>19</b> Provisions	103
<b>20</b> Other liabilities	103
<b>21</b> Contributed equity	104
<b>22</b> Reserves and retained earnings	105
<b>23</b> Minority interest	107
<b>24</b> Events occurring after reporting date	107
<b>25</b> Contingent liabilities	107
<b>26</b> Commitments	109
<b>27</b> Subsidiaries	110
<b>28</b> Partial sale of subsidiary	111
<b>29</b> Business combinations	112
<b>30</b> Interest in jointly controlled entity	113
<b>31</b> Employee benefits	114
<b>32</b> Share-based payments	114
<b>33</b> Key management personnel disclosures	121
<b>34</b> Remuneration of auditors	128
<b>35</b> Related parties	129
<b>36</b> Earnings per share	131
<b>37</b> Reconciliation of profit from ordinary activities after income tax to net cash flow from operating activities	132
<b>38</b> Deed of cross guarantee	133
<b>Directors' declaration</b>	<b>135</b>
<b>Independent audit report to the members</b>	<b>136</b>



## Income statements

For the 12 months ended 31 December 2007

	Notes	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
Revenue from operating activities	5	1,121,969	1,074,534	-	-
Cost of revenue from operating activities		(470,443)	(431,599)	-	-
<b>Gross profit</b>		<b>651,526</b>	642,935	-	-
Other revenue and other income	5	23,381	20,176	198,702	108,346
Research and development costs		(104,158)	(95,206)	-	-
Sales and marketing costs		(107,108)	(95,713)	-	-
General and administration costs		(131,576)	(125,354)	(136)	(1,216)
Realised exchange differences arising from the partial settlement of a long-term loan which formed part of the net investment in a foreign operation	5	-	(5,975)	-	-
Finance costs		(14,447)	(15,085)	-	(7,695)
Share of net profits of jointly controlled entity	30	8,613	7,150	-	-
<b>Profit from ordinary activities before income tax expense</b>		<b>326,231</b>	332,928	<b>198,566</b>	99,435
Income tax (expense)/credit	6	(78,295)	(92,873)	1,888	17
<b>Profit from ordinary activities after income tax expense</b>		<b>247,936</b>	240,055	<b>200,454</b>	99,452
Profit is attributable to:					
Members of Aristocrat Leisure Limited		247,172	238,998	200,454	99,452
Minority interest	23	764	1,057	-	-
		<b>247,936</b>	240,055	<b>200,454</b>	99,452
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company</b>		<b>Cents</b>	Cents		
Basic earnings per share	36	53.0	51.2		
Diluted earnings per share	36	52.8	50.9		

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

## Balance sheets

For the 12 months ended 31 December 2007

	Notes	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
<b>Current assets</b>					
Cash and cash equivalents	8	80,618	123,496	38	30
Receivables	9	251,657	204,416	22,785	63,200
Inventories	10	61,357	69,902	-	-
Financial assets	11	9,053	7,606	-	-
Other assets	12	4,816	1,797	-	-
		407,501	407,217	22,823	63,230
Non-current assets classified as held for sale	13	27,451	4,600	-	-
<b>Total current assets</b>		<b>434,952</b>	411,817	<b>22,823</b>	63,230
<b>Non-current assets</b>					
Receivables	9	20,324	53,613	64,161	86,608
Financial assets	11	98,878	106,088	31,186	21,649
Property, plant and equipment	14	103,004	117,846	-	-
Deferred tax assets	15	40,528	42,206	1,030	1,033
Intangible assets	16	128,212	146,392	-	-
<b>Total non-current assets</b>		<b>390,946</b>	466,145	<b>96,377</b>	109,290
<b>Total assets</b>		<b>825,898</b>	877,962	<b>119,200</b>	172,520
<b>Current liabilities</b>					
Payables	17	177,467	190,429	3,479	3,479
Borrowings	18	45,000	-	-	-
Current tax liabilities		14,506	46,417	18,624	49,794
Provisions	19	59,777	24,774	40,827	-
Other liabilities	20	25,776	19,118	-	-
<b>Total current liabilities</b>		<b>322,526</b>	280,738	<b>62,930</b>	53,273
<b>Non-current liabilities</b>					
Borrowings	18	147,459	164,287	-	-
Provisions	19	18,008	20,039	-	-
Other liabilities	20	17,104	47,929	-	-
<b>Total non-current liabilities</b>		<b>182,571</b>	232,255	-	-
<b>Total liabilities</b>		<b>505,097</b>	512,993	<b>62,930</b>	53,273
<b>Net assets</b>		<b>320,801</b>	364,969	<b>56,270</b>	119,247
<b>Equity</b>					
Contributed equity	21	1,291	53,633	1,291	53,633
Reserves	22(a)	(101,635)	(85,131)	49,921	37,355
Retained earnings	22(b)	420,470	395,420	5,058	28,259
<b>Parent entity interest</b>		<b>320,126</b>	363,922	<b>56,270</b>	119,247
<b>Minority interest</b>	23	675	1,047	-	-
<b>Total equity</b>		<b>320,801</b>	364,969	<b>56,270</b>	119,247

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

# Statements of changes in equity

For the 12 months ended 31 December 2007

	Notes	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
<b>Total equity at the beginning of the financial year</b>		<b>364,969</b>	351,557	<b>119,247</b>	187,621
Net movement in foreign currency translation reserve	22(a)(i)	(14,589)	2,468	-	-
Net movement in available-for-sale investments revaluation reserve	22(a)(iv)	(3,024)	(4,303)	-	-
<b>Net income recognised directly in equity</b>		<b>(17,613)</b>	(1,835)	-	-
<b>Profit for the financial year</b>		<b>247,936</b>	240,055	<b>200,454</b>	99,452
<b>Total recognised income and expense for the financial year</b>		<b>230,323</b>	238,220	<b>200,454</b>	99,452
<b>Transactions with equity holders in their capacity as equity holders</b>					
Shares bought back on-market and cancelled (including transaction costs)	21	(52,432)	(34,607)	(52,432)	(34,607)
Shares issued in lieu of unclaimed dividend payments	21	90	-	90	-
		(52,342)	(34,607)	(52,342)	(34,607)
Net movement in share-based payments reserve	22(a)(ii)	(7,287)	(4,974)	12,566	16,728
Net movement in share-based payments trust reserve	22(a)(iii)	8,396	(36,394)	-	-
Equity dividends	7	(222,122)	(148,823)	(223,655)	(149,947)
Retained earnings at date of acquisition of minority interest	23	-	456	-	-
Dividend paid to minority shareholder	23	(1,020)	(508)	-	-
Net movement in reserves attributable to minority interest	23	(116)	42	-	-
		(274,491)	(224,808)	(263,431)	(167,826)
<b>Total equity at the end of the financial year</b>		<b>320,801</b>	364,969	<b>56,270</b>	119,247
<b>Total recognised income and expense for the financial year is attributable to:</b>					
Members of Aristocrat Leisure Limited		229,443	237,238	200,454	99,452
Minority interest		880	982	-	-
		<b>230,323</b>	238,220	<b>200,454</b>	99,452

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

# Statements of cash flows

For the 12 months ended 31 December 2007

	Notes	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers (inclusive of goods and services tax)		1,179,924	1,264,880	-	-
Payment to suppliers and employees (inclusive of goods and services tax)		(857,328)	(944,952)	(135)	(32)
		<b>322,596</b>	319,928	<b>(135)</b>	(32)
Other income	5	3,062	617	-	-
Interest received		8,397	11,295	231	8,346
Finance costs paid		(15,133)	(11,713)	-	(4,395)
Income taxes paid		(96,765)	(115,355)	-	-
<b>Net cash inflow from operating activities</b>	37	<b>222,157</b>	204,772	<b>96</b>	3,919
<b>Cash flows from investing activities</b>					
Payment for purchase of controlled entity, net of cash acquired	29(b)	-	(70,620)	-	-
Payment for property, plant and equipment		(52,243)	(35,319)	-	-
Payments for investment in jointly controlled entity	30(a)	(3,072)	(59,639)	-	-
Payments for available-for-sale financial assets		-	(23,217)	-	-
Payment for patents, trademarks and computer technology		(1,658)	(2,386)	-	-
Loan to non-related party		-	(8,984)	-	-
Loans from related parties		-	-	232,052	343,583
Proceeds from partial sale of share in subsidiary	28	-	8,217	-	-
Loan repayments from non-related party		995	487	-	-
Proceeds from sale of property, plant and equipment		1,663	1,044	-	-
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(54,315)</b>	(190,417)	<b>232,052</b>	343,583
<b>Cash flows from financing activities</b>					
Proceeds from issue and exercise of options under the Employee Share Option Plan	32(d)	3,029	7,125	3,029	7,125
Shares purchased by the Trust	22(a)(iii)	(17,971)	(55,980)	-	-
Payments for shares bought back		(52,432)	(34,592)	(52,432)	(34,592)
Repayments of borrowings		-	(210,069)	-	(170,068)
Proceeds from borrowings		45,000	204,287	-	-
Dividend paid	7	(181,567)	(148,823)	(182,737)	(149,947)
Dividends paid to minority shareholder	23	(1,020)	(508)	-	-
<b>Net cash outflow from financing activities</b>		<b>(204,961)</b>	(238,560)	<b>(232,140)</b>	(347,482)
<b>Net (decrease)/increase in cash and cash equivalents held</b>		<b>(37,119)</b>	(224,205)	<b>8</b>	20
Cash and cash equivalents at the beginning of the financial year		123,496	359,532	30	10
Effects of exchange rate changes on cash and cash equivalents		(5,759)	(11,831)	-	-
<b>Cash and cash equivalents at the end of the financial year</b>	8	<b>80,618</b>	123,496	<b>38</b>	30

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

# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 1. Summary of significant accounting policies

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

### (a) Basis of preparation

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

#### **Compliance with IFRS**

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

#### **Adoption of new accounting standard**

The Group has adopted AASB 7 *Financial Instruments: Disclosures* and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no effect on the profit and loss or the financial position of the Group.

#### **Historical cost convention**

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

#### **Critical accounting estimates**

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

### (b) Principles of consolidation

#### (i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Aristocrat Leisure Limited ('Company' or 'parent entity') as at 31 December 2007 and the results of all subsidiaries for the year then ended. Aristocrat Leisure Limited and its subsidiaries together are referred to in this financial report as the Group.

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

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

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

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

#### (ii) Jointly controlled entities

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

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



# Notes to the financial statements

For the 12 months ended 31 December 2007

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

### (c) Segment reporting

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

### (d) Foreign currency translation

#### (i) Functional and presentation currency

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

#### (ii) Transactions and balances

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

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

#### (iii) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

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

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

### (e) Revenue recognition

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

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

##### *Platform/machine sales*

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

##### *Value Added Customer Agreements*

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

##### *Value Added Service Agreements*

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



#### **Long-term contracts**

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

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

##### **Participation revenue**

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

##### **Rental**

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

##### **Service revenue**

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

##### **Revenue in advance**

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

#### **(f) Income tax**

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

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

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

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

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

#### **(g) Tax consolidation legislation**

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

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

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

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

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



# Notes to the financial statements

For the 12 months ended 31 December 2007

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

### (h) Leases

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

### (i) Business combinations

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

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

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

### (j) Impairment of assets

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

### (k) Cash and cash equivalents

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

### (l) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. The collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

### (m) Inventories

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

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

#### (ii) Contract work in progress

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

**(n) Intellectual property rights**

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

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

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

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

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

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

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

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

**(ii) Loans and receivables**

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

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group management has the positive intention and ability to hold to maturity.

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

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments 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.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

# Notes to the financial statements

For the 12 months ended 31 December 2007

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

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

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

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes the fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

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

### (q) Derivatives

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

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

#### (i) Fair value hedges

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

#### (ii) Cash flow hedges

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

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

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

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

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

### (r) Fair value estimation

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

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



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

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

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

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

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

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

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

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

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

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

### **(t) Intangible assets**

#### **(i) Goodwill**

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

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

#### **(ii) Computer technology**

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

#### **(iii) Trademarks and licences**

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



# Notes to the financial statements

For the 12 months ended 31 December 2007

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

### (t) Intangible assets *continued*

#### (iv) Research and development

Research expenditure is expensed as incurred.

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

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

As at balance date, there are no capitalised development costs.

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

### (u) Payables

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

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

### (v) Borrowings

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

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

### (w) Borrowing costs

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

### (x) Provisions

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

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

#### (i) Progressive jackpot liabilities

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

**(ii) Warranties**

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

**(iii) Make good allowances**

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

**(y) Employee benefits - payable**

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

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

**(ii) Retirement benefit obligations**

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

**(iii) Share-based payments**

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

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

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

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

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

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

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

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

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

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

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



# Notes to the financial statements

For the 12 months ended 31 December 2007

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

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

#### (iv) Bonus plans

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

- there are formal terms in the plan for determining the amount of the benefits;
- the amounts to be paid are determined before the time of completion of the financial statements; or
- past practice gives clear evidence of the amount of the obligation.

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

#### (v) Employee benefit on-costs

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

#### (vi) Termination benefits

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

### (z) Employee benefits – provision

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

### (aa) Contributed equity

Ordinary shares are classified as contributed equity.

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

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

### (ab) Dividends

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

### (ac) Earnings per share

#### (i) Basic earnings per share

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

#### (ii) Diluted earnings per share

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



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

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

AASB 8 *Operating Segments*, effective on or after 1 January 2009. This replaces AASB 114 *Segment Reporting* and applies to listed companies only. It requires an entity to report financial and descriptive information about its reportable segments. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. The Group has not determined at this stage the impact of adopting this standard.

AASB 101 (Revised) *Presentation of Financial Statements*, effective on or after 1 January 2009. The main revision introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements. The amendments are expected to only affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts under the current AASB 101. The Group has not determined at this stage whether to present the new statement of comprehensive income as a single statement or two statements.

AASB 123 (Revised) *Borrowing Costs*, effective on or after 1 January 2009. The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset must be capitalised. The Group has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Group's financial report.

AASB Interpretation 11 *Scope of AASB 2 Share-based Payment*, effective on or after 1 January 2008. This addresses whether certain types of share-based payment transactions with employees (or other suppliers of good and services) should be accounted for as equity-settled or as cash-settled transactions under AASB 2. It also specifies the accounting in a subsidiary's financial statements for share-based payment arrangements involving equity instruments of the parent. This is consistent with the Group's existing accounting policies for share-based payments, so the amendments are not expected to have any impact on the Group's financial report.

#### **(ae) Rounding of amounts**

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



# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 2. Financial risk management

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

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

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

### (a) Market risk

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

The Group's main interest rate risk arises from floating rate borrowings drawn under bank debt facilities. If deemed necessary, the Group has the ability to manage floating interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Under the Group Treasury policy, the mix between fixed and floating rate debt is reviewed on a regular basis. The Group had floating rate AUD and USD denominated borrowings during 2007 (2006: floating rate USD denominated borrowings only). There were no interest rate swaps in place at the end of the period (2006: nil).

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

#### *Group sensitivity*

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

#### (ii) Foreign exchange risk

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

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

The Group's foreign exchange hedging policy is to reduce the foreign exchange risk associated with transactional exposures, primarily over a 12-month horizon. External foreign exchange contracts are designated at the Group level as hedges of foreign exchange risk on specific foreign currency denominated transactions.

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

#### *Group sensitivity*

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

#### (iii) Price risk

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

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

#### *Group sensitivity*

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

**(iv) Summarised sensitivity analysis**

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

	Carrying amount \$000	Interest rate risk				Foreign exchange risk				Price risk			
		-1%		+1%		-10%		+10%		-10%		+10%	
		Profit \$000	Equity \$000	Profit \$000	Equity \$000	Profit \$000	Equity \$000	Profit \$000	Equity \$000	Profit \$000	Equity \$000	Profit \$000	Equity \$000
<b>2007</b>													
<b>Financial assets</b>													
Cash and cash equivalents	80,618	(775)	-	775	-	-	4,738	-	(3,876)	-	-	-	-
Receivables	265,001	-	-	-	-	(8,329)	19,989	6,814	(16,355)	-	-	-	-
Loans - other	6,980	(63)	-	63	-	(635)	-	776	-	-	-	-	-
Financial assets:													
Equity securities available-for-sale, current	7,623	(76)	-	76	-	-	847	-	(693)	-	-	-	-
Equity securities available-for-sale, non-current*	15,890	-	-	-	-	-	1,766	-	(1,445)	-	(1,589)	-	1,589
Debt securities held-to-maturity	12,674	(127)	-	127	-	-	1,408	-	(1,152)	-	-	-	-
Investment in jointly controlled entity	71,744	-	-	-	-	-	922	-	(754)	-	-	-	-
<b>Financial liabilities</b>													
Payables	177,467	-	-	-	-	(290)	(9,805)	237	8,022	-	-	-	-
Borrowings	192,459	1,925	-	(1,925)	-	-	(16,384)	-	13,405	-	-	-	-
Progressive jackpot liabilities	18,911	189	-	(189)	-	-	(2,101)	-	1,719	-	-	-	-
<b>Total increase/(decrease)</b>		<b>1,073</b>	<b>-</b>	<b>(1,073)</b>	<b>-</b>	<b>(9,254)</b>	<b>1,380</b>	<b>7,827</b>	<b>(1,129)</b>	<b>-</b>	<b>(1,589)</b>	<b>-</b>	<b>1,589</b>

\* Investment in PokerTek.

	Carrying amount \$000	Interest rate risk				Foreign exchange risk				Price risk			
		-1%		+1%		-10%		+10%		-10%		+10%	
		Profit \$000	Equity \$000	Profit \$000	Equity \$000	Profit \$000	Equity \$000	Profit \$000	Equity \$000	Profit \$000	Equity \$000	Profit \$000	Equity \$000
<b>2006</b>													
<b>Financial assets</b>													
Cash and cash equivalents	123,496	(1,217)	-	1,217	-	-	7,269	-	(5,947)	-	-	-	-
Receivables	250,391	-	-	-	-	(7,954)	17,203	6,128	(14,076)	-	-	-	-
Loans - other	7,638	(69)	-	69	-	(694)	-	849	-	-	-	-	-
Financial assets:													
Equity securities available-for-sale, current	6,012	(60)	-	60	-	-	668	-	(547)	-	-	-	-
Equity securities available-for-sale, non-current*	18,914	-	-	-	-	-	2,102	-	(1,719)	-	(1,891)	-	1,891
Debt securities held-to-maturity	14,496	(145)	-	145	-	-	1,610	-	(1,318)	-	-	-	-
Investment in jointly controlled entity	74,272	-	-	-	-	-	2	-	(1)	-	-	-	-
<b>Financial liabilities</b>													
Payables	190,429	-	-	-	-	(700)	(10,274)	1,337	8,406	-	-	-	-
Borrowings	164,287	1,643	-	(1,643)	-	-	(14,935)	-	18,254	-	-	-	-
Progressive jackpot liabilities	19,397	194	-	(194)	-	-	(2,155)	-	1,763	-	-	-	-
<b>Total increase/(decrease)</b>		<b>346</b>	<b>-</b>	<b>(346)</b>	<b>-</b>	<b>(9,348)</b>	<b>1,490</b>	<b>8,314</b>	<b>4,815</b>	<b>-</b>	<b>(1,891)</b>	<b>-</b>	<b>1,891</b>

\* Investment in PokerTek.

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

# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 2. Financial risk management *continued*

### (b) Credit risk

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

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

### (c) Liquidity risk

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

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

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

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

	Less than 1 year \$'000	Between 1 and 5 year(s) \$'000	Over 5 years \$'000
<b>Group – 2006</b>			
Payables	190,429	–	–
Borrowings	–	164,287	–
Progressive jackpot liabilities	6,494	6,042	6,861

	Less than 1 year \$'000	Between 1 and 5 year(s) \$'000	Over 5 years \$'000
<b>Parent entity – 2007</b>			
Payables	3,479	–	–

	Less than 1 year \$'000	Between 1 and 5 year(s) \$'000	Over 5 years \$'000
<b>Parent entity – 2006</b>			
Payables	3,479	–	–

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

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

### (d) Fair value estimation

Refer to Note 1(f).

## Note 3. Critical accounting estimates and judgements

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

### **Critical accounting estimates and assumptions**

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

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



# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 4. Segment information

### Primary reporting – geographical segments

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

	Australia \$'000	North America \$'000	South America \$'000	Japan \$'000	New Zealand \$'000	Other \$'000	Total continuing operations \$'000	Inter-segment eliminations/ unallocated \$'000	Consolidated \$'000
<b>Assets and liabilities</b>									
Segment assets	480,997	213,481	30,633	77,480	5,106	131,333	939,030	(246,726)	692,304
Unallocated assets									133,594
Total assets									825,898
Segment liabilities	119,705	77,123	1,880	31,929	2,218	24,794	257,649	-	257,649
Unallocated liabilities									247,448
Total liabilities									505,097
Investments in associates									-

### Other segment information

Acquisition of property, plant and equipment, intangible assets and other non-current segment assets	10,981	33,430	909	594	31	8,451	54,396	-	54,396
Depreciation and amortisation expense	10,288	16,495	251	1,505	562	7,334	36,435	-	36,435
Other non-cash expenses	23,383	1,940	789	8,132	96	1,195	35,535	-	35,535

2006	Australia \$'000	North America \$'000	South America \$'000	Japan \$'000	New Zealand \$'000	Other \$'000	Total continuing operations \$'000	Inter-segment eliminations/ unallocated \$'000	Consolidated \$'000
<b>Revenue</b>									
Sales to external customers	275,999	564,780	27,505	50,358	26,566	129,326	1,074,534	–	1,074,534
Inter-segment sales	100,516	–	–	–	–	–	100,516	(100,516)	–
Total sales revenue	376,515	564,780	27,505	50,358	26,566	129,326	1,175,050	(100,516)	1,074,534
Other income (excluding interest)	141	454	5	7	–	6,848	7,455	–	7,455
Total segment revenue/income (excluding interest)	376,656	565,234	27,510	50,365	26,566	136,174	1,182,505	(100,516)	1,081,989
Interest income									12,721
Total consolidated revenue									1,094,710
<b>Result</b>									
Segment result	295,137	17,303	11,988	(11,448)	650	13,786	327,416	726	328,142
Share of net profits of jointly controlled entity									7,150
Net interest expense									(2,364)
Profit before income tax expense									332,928
Income tax expense									(92,873)
Net profit after tax									240,055

	Australia \$'000	North America \$'000	South America \$'000	Japan \$'000	New Zealand \$'000	Other \$'000	Total continuing operations \$'000	Inter-segment eliminations/ unallocated \$'000	Consolidated \$'000
<b>Assets and liabilities</b>									
Segment assets	515,022	232,097	28,662	84,211	6,985	108,765	975,742	(233,172)	742,570
Unallocated assets									135,392
Total assets									877,962
Segment liabilities	158,280	84,099	3,040	33,720	2,557	13,939	295,635	–	295,635
Unallocated liabilities									217,358
Total liabilities									512,993
Investments in associates									–

#### Other segment information

Acquisition of property, plant and equipment, intangible assets and other non-current segment assets	10,360	19,734	2,015	1,493	674	85,781	120,057	–	120,057
Depreciation and amortisation expense	11,515	14,720	173	1,194	399	3,414	31,415	–	31,415
Other non-cash expenses	10,745	(1,397)	2,181	6,532	87	342	18,490	–	18,490



# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 4. Segment information *continued*

### Secondary reporting – business segments

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

### Accounting policies

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

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

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

### Inter-segment transfers

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

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

### Head office expenses

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



	Notes	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
--	-------	----------------	--------------------------------	----------------	---------------------------------

## Note 5. Profit from ordinary activities

### (a) Revenue from operating activities

Sale of goods	1(e)(i)	875,988	821,338	-	-
Gaming operations and services	1(e)(ii)	245,981	253,196	-	-
		<b>1,121,969</b>	1,074,534	-	-

### (b) Other revenue and other income

Interest		8,420	12,721	233	8,346
Dividends		-	-	198,469	100,000
Other revenue		8,420	12,721	198,702	108,346
Foreign exchange gains	5(d)	6,613	607	-	-
Gain on disposal of property, plant and equipment	5(e)	5,286	12	-	-
Gain on partial sale of subsidiary	28	-	6,219	-	-
Other income		3,062	617	-	-
Other income		14,961	7,455	-	-
Total other revenue and other income		<b>23,381</b>	20,176	198,702	108,346

### (c) Expenses

#### (i) Depreciation and amortisation

Depreciation and amortisation of property, plant and equipment					
- Buildings		518	521	-	-
- Leasehold improvements		2,252	2,140	-	-
- Plant and equipment		27,737	24,275	-	-
Total depreciation and amortisation of property, plant and equipment	14	<b>30,507</b>	26,936	-	-
Amortisation of intangible assets					
- Computer technology		5,799	4,350	-	-
- Copyrights, patents, trademarks and licensing rights		129	129	-	-
Total amortisation of intangible assets	16	<b>5,928</b>	4,479	-	-
Total depreciation and amortisation	37	<b>36,435</b>	31,415	-	-

#### (ii) Employee benefits expense

Salaries and wages		206,983	198,437	-	-
Superannuation costs		10,168	9,528	-	-
Post-employment benefits other than superannuation		6,236	1,748	-	-
Share-based payments expense	32(e)	9,398	9,604	-	1,145
Employee benefits expense		<b>232,785</b>	219,317	-	1,145

# Notes to the financial statements

For the 12 months ended 31 December 2007

	Notes	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
<b>Note 5. Profit from ordinary activities <i>continued</i></b>					
<b>(c) Expenses <i>continued</i></b>					
<b>(iii) Lease payments</b>					
Rental expense relating to operating leases					
– Minimum lease payments		11,860	12,004	–	–
<b>(iv) Other significant items</b>					
Other charges/(credits) against assets					
– Bad and doubtful debts – trade debtors		423	(2,532)	–	–
– Write down of inventories to net realisable value		18,390	12,467	–	–
– Legal costs		20,127	19,553	–	–
<b>(d) Net foreign exchange gain/(loss)</b>					
Foreign exchange gain		6,613	607	–	–
Foreign exchange loss		(4)	(749)	–	–
Realised exchange differences arising from the partial settlement of a long-term loan which formed part of the net investment in a foreign operation		–	(5,975)	–	–
Net foreign exchange gain/(loss)		6,609	(6,117)	–	–
<b>(e) Net gain/(loss) on disposal of property, plant and equipment</b>					
Gain on disposal of property, plant and equipment		5,286	12	–	–
Loss on disposal of property, plant and equipment		(2,620)	(852)	–	–
Net gain/(loss) on disposal of property, plant and equipment	37	2,666	(840)	–	–

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

## Note 6. Income tax expense

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

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

Current income tax	76,542	83,930	27	(697)
Deferred income tax	6,189	9,580	2	695
Adjustments in respect of current income tax of previous years	(4,436)	(637)	(1,917)	(15)
Income tax expense/(credit)	78,295	92,873	(1,888)	(17)
Deferred income tax expense included in income tax expense comprises:				
Decrease in deferred tax asset	6,859	9,936	2	695
Decrease in deferred tax liabilities	(670)	(356)	-	-
Deferred income tax expense included in income tax expense	6,189	9,580	2	695

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

Profit from ordinary activities before income tax expense	326,231	332,928	198,566	99,435
Tax at the Australian tax rate of 30% (2006: 30%)	97,869	99,878	59,570	29,831
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Research and development	(2,180)	(2,159)	-	-
Share-based payments	262	330	-	-
Non-taxable dividends	459	336	(59,541)	(30,000)
Share of net profits in jointly controlled entity	(2,577)	(2,146)	-	-
Profit on partial sale of subsidiary	-	(1,866)	-	-
Sale of land and buildings not taxable	(1,530)	-	-	-
Overseas exempt income	(8,694)	-	-	-
Other	647	2,219	-	172
	84,256	96,592	29	3
Difference in overseas tax rates	195	(28)	-	-
Difference in exchange rates on overseas tax rates	621	-	-	-
Tax losses not recognised	1,932	2,701	-	-
Decrease in deferred tax liability due to land and buildings held for sale and recognition of capital tax losses	(3,005)	-	-	-
Adjustments in respect of current income tax of previous years:				
Current income tax	(4,436)	(637)	(1,917)	(15)
Deferred income tax	(1,268)	(5,755)	-	(5)
Income tax expense/(credit)	78,295	92,873	(1,888)	(17)
Average effective tax rate	24.00%	27.90%	(0.95%)	(0.02%)

### (c) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit but directly debited or credited to equity				
Current income tax – credited directly to equity	1,420	1,942	-	-
Net deferred tax – debited directly to equity	-	(3,603)	-	-
Aggregate current and deferred tax arising in the reporting period directly credited/(debited) to equity	1,420	(1,661)	-	-



# Notes to the financial statements

For the 12 months ended 31 December 2007

	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
--	----------------	--------------------------------	----------------	---------------------------------

## Note 6. Income tax expense *continued*

### (d) Revenue and capital tax losses

Unused gross tax losses for which no deferred tax asset has been recognised	24,249	9,692	-	-
Unused gross capital tax losses for which no deferred tax asset has been recognised	72,521	484	72,521	484
	<b>96,770</b>	10,176	<b>72,521</b>	484
Potential tax benefit	<b>28,517</b>	2,846	<b>21,756</b>	145

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

### (e) Unrecognised temporary differences

Deferred tax assets on general temporary differences	71	103	-	-
Deferred tax assets on land held for sale	-	1,140	-	-
	<b>71</b>	1,243	-	-

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

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

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

### (f) Tax consolidation legislation

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

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

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Aristocrat Leisure Limited for any current tax payable assumed and are compensated by Aristocrat Leisure Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Aristocrat Leisure Limited under the tax consolidation legislation. The funding amounts are determined by reference to the tax funding agreement which applies a group allocation approach, taking into account a combination between the 'stand alone tax payer' and a 'separate tax payer within a group'. There are no equity adjustments arising from the implementation of UIG 1052 *Tax Consolidation Accounting*.

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

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

## Note 7. Dividends

### Ordinary shares

#### Final dividends paid during the year

– 2006 - 24.0 cents, 100% franked on tax paid at 30%, per fully paid share paid on 23 March 2007	111,562	–	112,224	–
– 2005 - 20.0 cents, 100% franked on tax paid at 30%, per fully paid share paid on 24 March 2006	–	93,330	–	93,821

#### Interim dividends paid during the year

– 2007 - 14.0 cents, 100% franked on tax paid at 30%, per fully paid share paid on 18 September 2007	64,493	–	65,001	–
– 2006 - 12.0 cents, 100% franked on tax paid at 30%, per fully paid share paid on 19 September 2006	–	55,493	–	56,126

#### Supplementary unfranked dividend provided during the year

– 2007 - 10.0 cents, unfranked, per fully paid share payable on 7 January 2008	46,067	–	46,430	–
--	--------	---	--------	---

Total dividends paid and provided during the year	222,122	148,823	223,655	149,947
---	---------	---------	---------	---------

Dividends paid were satisfied as follows:

Paid in cash	141,314	149,947	141,314	149,947
Shares issued in lieu of unclaimed dividend payments	90	–	90	–
Dividend received by Aristocrat Employee Equity Plan Trust	(1,170)	(1,124)	–	–
Paid through the Dividend Reinvestment Plan	41,423	–	41,423	–
	181,657	148,823	182,827	149,947

#### Dividends not recognised at year end

Since the end of the year, the directors have recommended the payment of a final dividend of 25.0 cents (2006: 24.0 cents) per fully paid ordinary share, 100% franked (2006: 100% franked). The aggregate amount of the proposed final dividend expected to be paid on 31 March 2008 out of retained profits at 31 December 2007, but not recognised as a liability at the end of the year is:

	116,074	112,251
--	---------	---------

### Franked dividends

	Consolidated		Parent entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Estimated franking credits expected to be available for subsequent financial years based on a tax rate of 30% (2006: 30%)	–	–	80,896	95,617

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that may be prevented from being distributed in subsequent financial years.

### Dividend Reinvestment Plan

The directors have determined that the Dividend Reinvestment Plan will operate in respect of the 2007 final dividend for shareholders in Australia and New Zealand.

# Notes to the financial statements

For the 12 months ended 31 December 2007

	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
Cash at bank and in hand	55,946	59,787	38	30
Short-term deposits	24,672	63,709	-	-
	<b>80,618</b>	123,496	<b>38</b>	30

## Note 8. Cash and cash equivalents

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

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group. Short-term deposits bear floating interest rates between 3.70% and 6.75% (2006: between 4.85% and 6.35%) per annum.

## Note 9. Receivables

### Current

Trade receivables	216,497	192,341	-	-
Provision for doubtful debts	(6,954)	(7,164)	-	-
	<b>209,543</b>	185,177	-	-
Tax related amounts receivable from wholly-owned entities*	-	-	22,685	63,100
Other receivables	39,493	17,749	100	100
Loan to non-related parties - secured	2,621	1,490	-	-
	<b>251,657</b>	204,416	<b>22,785</b>	63,200

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

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

### Non-current

Trade receivables	13,866	45,182	-	-
Receivable from wholly-owned entities**	-	-	64,161	86,608
Other receivables	2,099	2,283	-	-
Loan to non-related parties - secured	4,359	6,148	-	-
	<b>20,324</b>	53,613	<b>64,161</b>	86,608

\*\* Refer to Note 35 for terms and conditions relating to receivables from wholly-owned entities.

### (a) Trade receivables – current

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

	Total \$'000	Current \$'000	0-30 days \$'000	31-60 days \$'000	61-90 days \$'000	91+ days \$'000
<b>2007 Consolidated</b>	<b>216,497</b>	<b>179,562</b>	<b>34,054</b>	<b>1,454</b>	<b>575</b>	<b>852</b>
Parent entity	-	-	-	-	-	-
2006 Consolidated	192,341	150,661	37,435	4,309	913	(977)
Parent entity	-	-	-	-	-	-

As of 31 December 2007, trade receivables of \$2,119,000 (2006: \$2,664,000) were past due and considered impaired and trade receivables of \$34,816,000 (2006: \$39,016,000) were past due but not impaired.

	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
--	----------------	--------------------------------	----------------	---------------------------------

## Note 9. Receivables *continued*

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

Movements in the provision for doubtful debts are as follows:

At 1 January	(7,164)	(10,204)	–	–
Charge for the year	(2,253)	2,243	–	–
Transfer to non-current receivables	1,737	–	–	–
Foreign currency exchange differences	687	680	–	–
Receivables written off during the year as uncollectible	39	117	–	–
<b>At 31 December</b>	<b>(6,954)</b>	<b>(7,164)</b>	<b>–</b>	<b>–</b>

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

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

A provision for doubtful debts of \$1,737,000 has been recognised against the non-current receivables (2006: \$1,896,000). There are no other non-current receivables that are impaired or past due but not impaired.

### (c) Other receivables – current

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

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

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

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

This represents a loan issued to a third party on the partial sale of a subsidiary in the African operations (refer to Note 35). The loan is for a term of seven years with annual principal and interest payments due in March of each year. The annual interest rate is the South African prime bank overdraft rate less one percent. The annual repayments are funded from the dividend payment by the African operations to the minority shareholders.

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

Details regarding foreign exchange and interest rate risk exposure are disclosed in Note 2.

### (g) Fair value risk – current

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

# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 9. Receivables *continued*

### (h) Fair value – non-current

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

### (i) Interest rate and foreign currency risk

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

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
US Dollars	127,894	115,182	–	–
Australian Dollars	87,676	97,618	86,946	149,808
Other*	56,411	45,229	–	–
	<b>271,981</b>	258,029	<b>86,946</b>	149,808
Current receivables	251,657	204,416	22,785	63,200
Non-current receivables	20,324	53,613	64,161	86,608
	<b>271,981</b>	258,029	<b>86,946</b>	149,808

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

Details regarding interest rate and foreign exchange risk exposure are disclosed in Note 2.

### (j) Credit risk

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

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Trade receivables* with guarantees	17,160	5,389	–	–
Trade receivables* without guarantees	206,249	224,970	–	–
	<b>223,409</b>	230,359	–	–

\* Includes current and non-current trade receivables.



	Notes	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
--	-------	----------------	--------------------------------	----------------	---------------------------------

## Note 10. Inventories

### Current

Raw materials and stores – at cost		45,918	44,339	-	-
Provision for obsolescence		(26,900)	(22,276)	-	-
		19,018	22,063	-	-
Work in progress		2,054	543	-	-
Finished goods – at cost		40,340	55,172	-	-
Provision for obsolescence		(6,696)	(13,200)	-	-
		33,644	41,972	-	-
Contract work in progress		2,160	649	-	-
Inventories in transit – at cost		4,481	4,675	-	-
		61,357	69,902	-	-

### Inventory expense

Inventories recognised as an expense during the year ended 31 December 2007 amounted to \$321,271,256 (2006: \$302,638,398).

## Note 11. Financial assets

### Current

Equity securities available-for-sale	11(a)	7,623	6,012	-	-
Debt securities held-to-maturity		1,430	1,594	-	-
		9,053	7,606	-	-

### Non-current

Debt securities held-to-maturity		11,244	12,902	-	-
Equity securities available-for-sale	11(a)	15,890	18,914	-	-
Investment in unlisted controlled entities*		-	-	31,186	21,649
Investment in jointly controlled entity	30(c)	71,744	74,272	-	-
		98,878	106,088	31,186	21,649

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

### (a) Equity securities available-for-sale

Balance at the beginning of the year		24,926	6,085	-	-
Additions		1,611	23,144	-	-
Revaluation	22(a)(iv)	(3,024)	(4,303)	-	-
Balance at the end of the year		23,513	24,926	-	-

### (b) Investment in jointly controlled entity

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

# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 11. Financial assets *continued*

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

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

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

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

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

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

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

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

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

The investment in a jointly controlled entity is subject to foreign exchange risk. Details regarding foreign exchange risk exposure on this investment are disclosed in Note 2.

		Consolidated		Parent entity	
	Notes	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

## Note 12. Other assets

Intellectual property rights	1(n)	4,816	1,797	-	-
------------------------------	------	-------	-------	---	---

	Notes	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
Land and buildings	14	27,451	4,600	-	-
		27,451	4,600	-	-

The Group has commenced the process of selling its surplus land and buildings in Australia. Land and buildings totalling \$4,600,000 classified as held for sale in the prior year were sold during 2007. The expected timeframe for commencement of the sale of assets held for sale at 31 December 2007 is October 2008.

## Note 14. Property, plant and equipment

### Land and buildings

Land and buildings – at deemed cost	8,116	36,864	-	-
Leasehold improvements – at cost	18,190	17,761	-	-
Accumulated amortisation	(12,059)	(10,268)	-	-
	6,131	7,493	-	-
Total land and buildings	14,247	44,357	-	-

### Plant and equipment

Plant and equipment owned – at cost	191,652	177,072	-	-
Accumulated depreciation	(102,895)	(103,583)	-	-
Total plant and equipment	88,757	73,489	-	-
	103,004	117,846	-	-

### Reconciliations

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

	Land and buildings \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Total \$'000
<b>Consolidated</b>				
Carrying amount at 1 January 2006	42,408	7,257	66,790	116,455
Additions	260	2,959	33,719	36,938
Disposals	-	(285)	(1,604)	(1,889)
Additions through acquisition of entity	-	-	1,340	1,340
Transfer to current asset – non-current asset held for sale	(4,600)	-	-	(4,600)
Depreciation and amortisation	(521)	(2,140)	(24,275)	(26,936)
Foreign currency exchange movements	(683)	(298)	(2,481)	(3,462)
Carrying amount at 31 December 2006	36,864	7,493	73,489	117,846
Additions	149	1,358	51,231	52,738
Disposals	-	-	(3,691)	(3,691)
Transfer to current asset – non-current asset held for sale	(27,451)	-	-	(27,451)
Depreciation and amortisation	(518)	(2,252)	(27,737)	(30,507)
Foreign currency exchange differences	(928)	(468)	(4,535)	(5,931)
Carrying amount at 31 December 2007	8,116	6,131	88,757	103,004



# Notes to the financial statements

For the 12 months ended 31 December 2007

	Notes	Consolidated		Parent entity	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

## Note 15. Deferred tax assets

The balance comprises temporary differences attributable to:

Accruals and other provisions		<b>10,361</b>	13,051	<b>1,044</b>	1,044
Doubtful debts		<b>529</b>	1,070	-	-
Deferred revenue		<b>1,024</b>	1,120	-	-
Employee benefits		<b>10,828</b>	9,223	-	-
Convertible subordinated bonds		<b>892</b>	-	-	-
Plant, equipment and intangible assets		<b>6,132</b>	6,948	-	-
Land and buildings		-	(3,005)	-	-
Prepayments		<b>(603)</b>	(177)	-	-
Provision for stock obsolescence		<b>8,525</b>	8,002	-	-
Share-based equity		<b>(4,816)</b>	(8,981)	-	-
Overseas tax obligations		<b>1,794</b>	873	-	-
Unrealised gains and losses		<b>(1,081)</b>	1	<b>(17)</b>	(17)
Tax losses		<b>8,020</b>	11,377	-	-
Other		<b>4,353</b>	9,466	<b>3</b>	6
Gross deferred tax assets		<b>45,958</b>	48,968	<b>1,030</b>	1,033
Identifiable intangible assets on acquisition of subsidiary		<b>(5,430)</b>	(6,762)	-	-
Net deferred tax assets		<b>40,528</b>	42,206	<b>1,030</b>	1,033

### Movements

Opening balance at 1 January		<b>42,206</b>	62,844	<b>1,033</b>	1,728
Charged to the income statement	6(a)	<b>(6,189)</b>	(9,580)	<b>(2)</b>	(695)
Charged to equity (share-based equity and foreign currency exchange differences)		<b>5,103</b>	(3,603)	<b>(1)</b>	-
Identifiable intangible assets on acquisition of subsidiary	29	-	(7,455)	-	-
Foreign exchange currency movements		<b>(592)</b>	-	-	-
Closing balance at 31 December		<b>40,528</b>	42,206	<b>1,030</b>	1,033

	Notes	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
--	-------	----------------	--------------------------------	----------------	---------------------------------

## Note 16. Intangible assets

Goodwill		92,023	102,501	-	-
Copyrights, patents, trademarks and licensing rights		1,584	1,588	-	-
Accumulated amortisation		(1,197)	(1,072)	-	-
		387	516	-	-
Computer technology		64,192	66,594	-	-
Accumulated amortisation		(28,390)	(23,219)	-	-
		35,802	43,375	-	-
		128,212	146,392	-	-

	Goodwill \$'000	Copyrights, patents, trademarks and licensing rights \$'000	Computer technology \$'000	Total \$'000
--	--------------------	---	----------------------------------	-----------------

### Consolidated

Carrying amount at 1 January 2006		71,662	645	3,876	76,183
Additions		-	-	2,386	2,386
Additions on acquisition of subsidiary	29	37,298	-	42,030	79,328
Amortisation charge		-	(129)	(4,350)	(4,479)
Foreign currency exchange differences		(6,459)	-	(567)	(7,026)
Carrying amount at 31 December 2006		102,501	516	43,375	146,392
Additions		-	-	1,658	1,658
Additions on acquisition of subsidiary	29	-	-	-	-
Amortisation charge		-	(129)	(5,799)	(5,928)
Foreign currency exchange differences		(10,478)	-	(3,432)	(13,910)
<b>Carrying amount at 31 December 2007</b>		<b>92,023</b>	<b>387</b>	<b>35,802</b>	<b>128,212</b>

### (a) Impairment tests for goodwill

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

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

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

	2007 \$'000	2006 \$'000
North America	59,105	65,850
Other – South Africa	754	817
Other – ACE Interactive	32,164	35,834
	92,023	102,501

#### (ii) Jointly controlled entity

	2007 \$'000	2006 \$'000
Other – Elektronček	63,618	67,972

In the financial years ended 31 December 2006 and 2007, the recoverable amount of all the Group's CGUs were determined based upon a value-in-use calculation.



# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 16. Intangible assets *continued*

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

#### (i) Value-in-use

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

- financial budgets and strategic plans, approved by management, to 2010 for South Africa, ACE Interactive and Elektronček and to 2008 for North America, with growth rates thereafter of 10% per annum for South Africa and Elektronček, 15% per annum for North America and no growth for ACE Interactive, assumed until 2012.
- a pre-tax annual discount rate of:

	2007	2006
North America	15.6%	14.7%
Other – South Africa	18.6%	18.6%
Other – ACE Interactive	15.4%	15.2%
Other – Elektronček	14.6%	14.7%

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

	2007	2006
North America	3.0%	3.0%
Other – South Africa	3.0%	3.0%
Other – ACE Interactive	0.0%	5.0%
Other – Elektronček	3.0%	3.0%

- an allocation of head office assets.

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

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

With regard to the assessment of the value-in-use of the CGUs, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the CGUs to materially exceed their recoverable amounts.

### (d) Impairment charge

The annual impairment test indicates no impairment charge is required for the CGUs in either 2007 or 2006.

	2007	Consolidated	2007	Parent entity
	\$'000	2006	\$'000	2006
		\$'000		\$'000

## Note 17. Payables

Trade creditors	51,277	62,552	–	–
Other creditors	126,190	127,877	3,479	3,479
	177,467	190,429	3,479	3,479

### (a) Foreign currency risk

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

US Dollars	58,104	63,095	–	–
Australian Dollars	82,295	89,824	3,479	3,479
Other*	37,068	37,510	–	–
	177,467	190,429	3,479	3,479

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

### (b) Fair value

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

	Notes	Consolidated		Parent entity	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

## Note 18. Borrowings

### Current

#### Secured

Bank loans		45,000	-	-	-
		45,000	-	-	-

### Non-current

#### Secured

Bank loans		147,459	164,287	-	-
		147,459	164,287	-	-

### (a) Financing arrangements

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

#### Credit standby arrangements

Total facilities					
- Bank overdraft	(i)	5,000	5,000	-	-
- Bank loans	(ii)	400,000	300,000	-	-
- Letter of credit	(iii)	226,860	252,749	-	-
- Other	(iv)	16,200	16,988	-	-
		648,060	574,737	-	-
Used at balance date					
- Bank overdraft		-	-	-	-
- Bank loans		192,459	164,287	-	-
- Letter of credit		-	-	-	-
- Other		-	-	-	-
		192,459	164,287	-	-
Unused at balance date					
- Bank overdraft		5,000	5,000	-	-
- Bank loans		207,541	135,713	-	-
- Letter of credit		226,860	252,749	-	-
- Other		16,200	16,988	-	-
		455,601	410,450	-	-

(i) The bank overdraft facility is subject to annual review.

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

#### Syndicated Facility

- Facility A and C - totalling \$100 million tranche maturing 29 April 2008. The facility is reviewed annually with extension by mutual agreement.

- Facility B - \$200 million tranche maturing 2 May 2009.

The committed bank facility which was amended on 2 May 2006, is secured by a negative pledge that imposes certain covenants on the Group. The Group was in compliance with the imposed covenants at balance date.

The borrowings are at a floating rate. The borrowings are drawn under Facility B of the facility, which matures on 2 May 2009.

#### Bilateral Facility

- \$100 million cash advance facility maturing 23 July 2008.

The committed bank facility was entered into on 26 July 2007 and remains on exactly the same terms and conditions as the Syndicated Facility referred to above, other than borrowing under this facility being limited to Australian companies.

The borrowings are at a floating rate with the facility maturing on 23 July 2008.

As referred to in Note 24, refinancing of the Group's debt facilities has occurred subsequent to year end.

(iii) The letter of credit facility matures 29 April 2008. The facility is reviewed annually with extension by mutual agreement.

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



# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 18. Borrowings *continued*

### (b) Forward exchange contracts

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

	Weighted average exchange rate	Maturity profile		Net fair value gain/(loss)* \$'000
		1 year or less \$'000	1 to 7 year(s) \$'000	
AUD/USD	0.8296	54,557	916	2,994
AUD/JPY	96.6700	3,163	–	53
AUD/EUR	0.5963	7,515	–	6
AUD/NZD	1.1402	1,849	–	(5)
AUD/ZAR	6.0307	4,643	5,665	490
Total		71,727	6,581	3,538

\* Refer to Note 1(d)(ii). The net fair value of the derivatives above is included in receivables.

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

#### (i) On-balance sheet

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

#### (ii) Off-balance sheet

At 31 December 2007, there were no off-balance sheet financial assets or liabilities, other than those potential liabilities which may arise from certain contingencies disclosed in Note 25.

### (d) Foreign currency risk

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

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
US Dollars	147,459	164,287	–	–
Australian Dollars	45,000	–	–	–
	192,459	164,287	–	–

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



	Notes	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
--	-------	----------------	--------------------------------	----------------	---------------------------------

## Note 19. Provisions

### Current

Dividend*	7	40,465	–	40,827	–
Employee benefits	1(y)	9,229	8,273	–	–
Deferred settlement	30	–	6,653	–	–
Make good allowances	1(x)(iii)	230	233	–	–
Progressive jackpot liabilities	1(x)(i)	7,667	6,494	–	–
Warranties	1(x)(ii)	2,186	3,121	–	–
		<b>59,777</b>	24,774	<b>40,827</b>	–

\* \$5.6 million of the supplementary unfranked dividend, payable 7 January 2008, was settled by the purchase of shares under the Dividend Reinvestment Plan.

### Non-current

Employee benefits	1(y)	5,385	6,036	–	–
Make good allowances	1(x)(iii)	1,379	1,100	–	–
Progressive jackpot liabilities	1(x)(i)	11,244	12,903	–	–
		<b>18,008</b>	20,039	–	–

### Movements in provisions

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

	Make good allowances \$'000	Progressive jackpot liabilities \$'000	Warranties \$'000	Total \$'000
Consolidated - current and non-current				
Carrying amount at 1 January 2007	1,333	19,397	3,121	23,851
Payments	–	(337)	(3)	(340)
Additional provisions recognised	307	1,841	2,088	4,236
Reversal of provisions recognised	–	–	(3,007)	(3,007)
Foreign currency exchange differences	(31)	(1,990)	(13)	(2,034)
Carrying amount at 31 December 2007	1,609	18,911	2,186	22,706

## Note 20. Other liabilities

	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
--	----------------	--------------------------------	----------------	---------------------------------

### Current

#### Unsecured

Deferred revenue	25,776	19,118	–	–
------------------	--------	--------	---	---

### Non-current

#### Unsecured

Deferred revenue	11,441	41,912	–	–
Other	5,663	6,017	–	–
	<b>17,104</b>	47,929	–	–



# Notes to the financial statements

For the 12 months ended 31 December 2007

	Notes	2007 Shares	Parent entity 2006 Shares	2007 \$'000	Parent entity 2006 \$'000
--	-------	----------------	---------------------------------	----------------	---------------------------------

## Note 21. Contributed equity

Ordinary shares, fully paid		<b>464,295,501</b>	467,713,246	<b>1,291</b>	53,633
<b>Movements in ordinary share capital</b>					
Ordinary shares at the beginning of the year	(a)	<b>467,713,246</b>	470,535,639	<b>53,633</b>	88,240
Shares bought back on-market and cancelled	(b)	<b>(3,423,820)</b>	(2,912,848)	<b>(52,432)</b>	(34,607)
General Employee Share Plan issues	(c)	–	90,455	–	–
Shares issued in lieu of unclaimed dividend payments		<b>6,075</b>	–	<b>90</b>	–
Ordinary shares at the end of the financial year		<b>464,295,501</b>	467,713,246	<b>1,291</b>	53,633

### (a) Ordinary shares

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

On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

### (b) Shares bought back on-market and cancelled

On 8 December 2005, the Company commenced a \$100 million on-market share buy-back program. At 31 December 2007, the Company had purchased 3,423,820 (2006: 2,912,848) shares under the program. The shares were acquired at an average price of \$15.31 (2006: \$11.93) per share with prices ranging from \$14.70 to \$15.80 per share.

### (c) General Employee Share Plan

Information concerning the General Employee Share Plan is set out in Note 32(b).

### (d) Capital management

The Group's and the parent entity's overall strategic capital management objective is to maintain a conservative funding structure, which provides sufficient flexibility to fund the operational demands of the business and to underwrite any strategic opportunities. The Company continues to monitor and evaluate its projected organic growth combined with tight controls over working capital and a continued focus on cash flow management; it intends to bring a more optimal level of gearing onto the balance sheet. The Group looks to achieve the maximum equity rating while maintaining an appropriate (investment grade) credit rating. The Group holds a credit rating of 'BBB minus' (S&P).

The Group's capital management objectives will be effected through:

- an ongoing flow of fully franked dividends which, subject to the Group's franking ability, are expected to approximate 60% to 70% of annual earnings;
- the payment of supplementary unfranked dividends totalling 20 cents per share per annum, payable as two supplementary unfranked dividends of 10 cents each, payable in January and July each year, commencing January 2008; and
- an on-market share buy-back program of up to \$100 million per annum over a three to five year timeframe, commencing January 2008.

The Group expects to continue the payment of supplementary unfranked dividends on an ongoing basis and to complete the proposed on-market share buy-back program over the planned time horizon, subject to its overall earnings performance, prevailing economic circumstances, alternative strategic demands on funds or alternative, more effective, capital management opportunities becoming available.

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

	2007	2006
Gearing ratio (gross debt/bank EBITDA*)	<b>0.5x</b>	0.4x
Interest coverage ratio (Bank EBITDA*/interest expense)	<b>29.0x</b>	28.3x

\* Bank EBITDA = EBITDA + interest received



	Notes	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
--	-------	----------------	--------------------------------	----------------	---------------------------------

## Note 22. Reserves and retained earnings

### (a) Reserves

Foreign currency translation reserve	(i)	(57,648)	(43,059)	-	-
Share-based payments reserves	(ii),(iii)	(36,660)	(37,769)	49,921	37,355
Available-for-sale investments revaluation reserve	(iv)	(7,327)	(4,303)	-	-
		<b>(101,635)</b>	(85,131)	<b>49,921</b>	37,355

### Movements

#### (i) Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency exchange differences arising from the translation of foreign operations, the translation of transactions that hedge the Company's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in foreign operations. Refer to Note 1d(iii).

Foreign currency translation reserve at the beginning of the financial year		(43,059)	(45,527)	-	-
Realised exchange differences on net investment in subsidiaries (post-income tax)		-	5,975	-	-
Exchange differences on partial sale of subsidiary	28	-	370	-	-
Net exchange differences on translation of foreign controlled entities, net investment in foreign operations and related hedges		(14,589)	(3,877)	-	-
Net movement in foreign currency translation reserve		(14,589)	2,468	-	-
Foreign currency translation reserve at the end of the financial year		(57,648)	(43,059)	-	-

#### (ii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of all shares, options and rights both issued and issued but not exercised under the various employee share plans.

Share-based payments reserve at the beginning of the financial year		18,095	23,069	37,355	20,627
Share-based payments expense		9,528	9,487	9,537	9,604
Employee Share Option Plan issues*		3,029	7,124	3,029	7,124
Issues from the Trust to satisfy vested shares		(26,395)	(23,540)	-	-
Share-based tax adjustment		6,551	1,955	-	-
Net movement in share-based payments reserve		(7,287)	(4,974)	12,566	16,728
Share-based payments reserve at the end of the financial year		10,808	18,095	49,921	37,355

\* Represents the proceeds received from employees on the exercise of share options. The shares have been issued to the employees from shares purchased through the Aristocrat Employee Equity Plan Trust.

# Notes to the financial statements

For the 12 months ended 31 December 2007

	Notes	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
--	-------	----------------	--------------------------------	----------------	---------------------------------

## Note 22. Reserves and retained earnings *continued*

### (a) Reserves *continued*

#### (iii) Share-based payments trust reserve

The share-based payments trust reserve is used to recognise the cost, post-income tax, of shares purchased through the Aristocrat Employee Equity Plan Trust.

Share-based payments trust reserve at the beginning of the financial year		<b>(55,864)</b>	(19,470)	-	-
Purchases		<b>(17,971)</b>	(55,980)	-	-
Tax effect on the purchases		<b>(28)</b>	(3,954)	-	-
Issues from the Trust to satisfy vested shares		<b>26,395</b>	23,540	-	-
Net movement in share-based payments trust reserve		<b>8,396</b>	(36,394)	-	-
Share-based payments trust reserve at the end of the financial year*		<b>(47,468)</b>	(55,864)	-	-
* Represents 3,630,078 shares (2006: 4,680,500).					
Total share-based payments reserves					
Total share-based payments reserves at the beginning of the financial year		<b>(37,769)</b>	3,599	<b>37,355</b>	20,627
Net movement in share-based payments reserves		<b>1,109</b>	(41,368)	<b>12,566</b>	16,728
Total share-based payments reserve at the end of the financial year		<b>(36,660)</b>	(37,769)	<b>49,921</b>	37,355

#### (iv) Available-for-sale investments revaluation reserve

The available-for-sale investments revaluation reserve is used to recognise the changes in the fair value and foreign currency exchange differences arising on translation of equities classified as available-for-sale financial assets as described in Note 1p(iv). Amounts are recognised in the income statement when the associated assets are sold or impaired.

Total available-for-sale investments revaluation reserve at the beginning of the financial year		<b>(4,303)</b>	-	-	-
Net movement in available-for-sale investments revaluation reserve		<b>(3,024)</b>	(4,303)	-	-
Total available-for-sale investments revaluation reserves at the end of the financial year		<b>(7,327)</b>	(4,303)	-	-

### (b) Retained earnings

Retained earnings at the beginning of the financial year		<b>395,420</b>	305,245	<b>28,259</b>	78,754
Net profit attributable to members of Aristocrat Leisure Limited		<b>247,172</b>	238,998	<b>200,454</b>	99,452
Dividends paid or provided for	7	<b>(222,122)</b>	(148,823)	<b>(223,655)</b>	(149,947)
Retained earnings at the end of the financial year		<b>420,470</b>	395,420	<b>5,058</b>	28,259



	Notes	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
Outside equity interest in controlled entity comprises:					
Retained earnings	28	1,005	456	-	-
Profit from ordinary activities after income tax expense		764	1,057	-	-
Dividend paid		(1,020)	(508)	-	-
Retained earnings		749	1,005	-	-
Reserves		(74)	42	-	-
		675	1,047	-	-

## Note 23. Minority interest

Outside equity interest in controlled entity comprises:

Retained earnings	28	1,005	456	-	-
Profit from ordinary activities after income tax expense		764	1,057	-	-
Dividend paid		(1,020)	(508)	-	-
Retained earnings		749	1,005	-	-
Reserves		(74)	42	-	-
		675	1,047	-	-

## Note 24. Events occurring after reporting date

Other than the refinancing of the Group's debt facilities, referred to in the Management Discussion and Analysis, there has not arisen, in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## Note 25. Contingent liabilities

The Group and parent entity have contingent liabilities at 31 December 2007 in respect of the following matters:

- (i) a contingent liability exists in relation to a guarantee given by the Company in respect of loans, advances, hire purchase and leasing facilities extended to a controlled entity, Aristocrat Technologies Australia Pty Ltd;
- (ii) a number of controlled entities within the Group are parties to civil actions. The directors are of the opinion that no material loss will arise as a result of these actions;
- (iii) under the terms of currently held service contracts, termination benefits may be required to be paid by the Company or a controlled entity to senior executives, at the option of the individual parties to the agreements depending on individual circumstances. The amounts, which may be paid, depend upon the specific circumstances in which termination occurs;
- (iv) group proceedings against the Company are continuing in the Federal Court of Australia. The proceedings, commenced on behalf of shareholders who acquired shares in the period from 19 February 2002 to 26 May 2003, relate to the parent entity's disclosure of information relating to its financial performance during that period. The group seeks unspecified damages, declarations, interest and costs. The proceedings are being defended.

A hearing in relation to the claim made by Dorajay took place in October 2007 and judgement is reserved. That hearing also dealt with issues common to all group members, but group members apart from Dorajay have not yet provided details of their claims (including the quantum of loss claimed) to the Company or the Court and the reserved judgement will not finally determine those claims. The fact that group members apart from Dorajay have not yet provided details of their claims (including the quantum of loss claimed) means that it is not possible for the Company to provide a reliable estimate of its potential exposure to group members. The lawyers acting for Dorajay and some group members have made statements that the quantum of damages claimed by the group members for whom they act could be in the range of \$200 million to \$400 million. It is noted, however, that those lawyers do not act for all potential group members;

- (v) the Company issued USD130 million of 5% convertible subordinated bonds ('bonds') due 31 May 2006 on 31 May 2001 and 7 June 2001. The Indenture permits the Company to call for the redemption of the bonds after the Company's shares have traded for a period of more than 20 trading days during a period of 30 consecutive trading days at a price exceeding 140% of the conversion price.

Consistent with its view of the parties' agreement, the Company took the steps on 20 December 2004 which it believed necessary and sufficient to call for the redemption of the bonds in accordance with the Indenture, thereby terminating bondholder conversion rights. On the same day, the Company commenced legal action in the United States District Court for the Southern District of New York (the 'District Court'), seeking a declaration from the Court that (1) an exchange rate error should be corrected and the Indenture reformed to reflect the intended rate; and (2) the call for redemption of the bonds terminated the rights of the bondholders to convert. Various bondholders subsequently intervened in the case.

# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 25. Contingent liabilities *continued*

On 12 August 2005, the District Court issued an Opinion and Order that the exchange rate should be corrected and that bondholder conversion rights had not been terminated as of 20 December 2004. In so holding, the Court adopted an interpretation of the Indenture not argued by the Company or the bondholders. The Court otherwise deferred ruling on various counterclaims.

On 30 May 2006, the District Court issued a further Opinion deciding a summary judgement motion filed by the bondholders. The Court granted the motion insofar as it requested a declaration that the Company was in breach of the Indenture for failing to deliver shares to the bondholders but it denied the bondholders' petition for a specific performance remedy that would have required Aristocrat to deliver shares of its common stock to the bondholders, rather than a cash damages amount determined by the Court. The Court further held that the bondholders would be entitled to prejudgement interest on the damage amounts ultimately awarded at a statutorily prescribed rate of 9%.

The Company intends to appeal the Court's 12 August 2005 Order and certain aspects of the District Court's 30 May 2006 Opinion upon entry of final judgement. As of the date of this report, it is not possible to comment on when final judgement will be entered or when that appeal will take place.

During 2006, the Company entered into 'Receipt and Release Agreements' with all but three of the bondholders. Under these agreements, the Company paid those bondholders a sum representing an amount equal to their respective pro-rata shares of the principal amount of the bonds. The Company also entered into an agreement with one bondholder under which the Company resolved that bondholder's claim by paying a total of approximately USD1.1 million, being principal and interest to maturity (30 May 2006). An amount of USD0.5 million, equal to the remaining principal, was subsequently deposited in Court. The Company funded these payments, totalling approximately USD130 million, from cash and bank facilities;

- (vi) Aristocrat Leisure Limited, Aristocrat International Pty Ltd and Aristocrat Technologies Australia Pty Ltd 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 38. During the financial year ended 31 December 2006, Aristocrat (Asia) Pty Limited and Aristocrat (Macau) Pty Limited were added to the deed of cross guarantee;
- (vii) a complaint was served in February 2004 on Aristocrat Leisure Limited, Aristocrat Technologies Australia Pty Ltd and Aristocrat Technologies, Inc. ('Aristocrat') on behalf of a US-based individual. In March 2004, the individual passed away and the administrator for his estate has been substituted as the plaintiff. In February 2005, the Federal District Court, Reno granted an order releasing Aristocrat Leisure Limited from the case;

The plaintiff is seeking unspecified compensation and damages against the Company and third party defendants in the gaming industry. The plaintiff alleges, among other things, that the Company's Hyperlink progressive jackpot gaming machines infringe a US patent and that the Company misappropriated trade secrets of the plaintiff. Another party has made claim to ownership of the patent being asserted as well as to other patents.

The proceedings are being defended. As of the date of this report, it is not possible to determine the likely outcome of these proceedings;

- (viii) the Company and its controlled entities have a contingent liability at 31 December 2007 of \$380,486 (2006: \$380,486) in respect of a guarantee facility provided by Commonwealth Bank of Australia;
- (ix) under the terms of severance agreements with a former Executive Director, a controlled entity is obliged to fund certain costs of a motor vehicle provided to the former Executive Director for an indefinite period. The estimated annual cost of providing the motor vehicle and associated benefits amounts to \$56,952 (2006: \$60,952); and
- (x) on adoption of tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Aristocrat Leisure Limited.



	2007	Consolidated	2007	Parent entity
	\$'000	2006	\$'000	2006
		\$'000		\$'000

## Note 26. Commitments

### Capital commitments

Capital equipment and other commitments contracted at the balance date but not recognised as liabilities, payable within one year

	364	2,011	-	-
--	-----	-------	---	---

### Lease commitments

#### Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year	10,105	6,911	-	-
Later than one year but not later than five years	42,127	34,905	-	-
Later than five years	63,094	55,469	-	-
Commitments not recognised in the financial statements	115,326	97,285	-	-



# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 27. Subsidiaries

	Notes	Country of incorporation	2007 %	Equity holding 2006 %
<b>Ultimate parent entity</b>				
Aristocrat Leisure Limited		Australia	–	–
<b>Controlled entities</b>				
Aristocrat (Holdings) Pty Limited	(b)	Australia	100	–
Aristocrat Technologies Australia Pty Limited	(a)	Australia	100	100
ASSPA Pty Limited	(c)	Australia	100	100
Aristocrat Technology Gaming Systems Pty Limited	(c)	Australia	100	100
Aristocrat Technical Services Pty Limited	(c)	Australia	100	100
Aristocrat Properties Pty Limited	(c)	Australia	100	100
Aristocrat International Pty Limited	(a)	Australia	100	100
Aristocrat Leisure Cyprus Limited	(b)	Cyprus	100	100
ACEI AB	(b)	Sweden	100	100
ACE Interactive Software Norway AS	(b)	Norway	100	100
Aristocrat Gaming LLC	(b)	Russia	100	100
Aristocrat (Argentina) Pty Limited	(b)	Australia	100	100
Al(Puerto Rico) Pty Limited <i>(formerly known as Aristocrat (Puerto Rico) Pty Limited)</i>	(b)	Australia	100	100
Aristocrat (Latin America) Pty Limited	(b)	Australia	100	–
Aristocrat (Asia) Pty Limited	(a)	Australia	100	100
Aristocrat (Macau) Pty Limited	(a)	Australia	100	100
Aristocrat (Philippines) Pty Limited	(b)	Australia	100	100
Aristocrat (Malaysia) Pty Limited	(b)	Australia	100	100
Aristocrat (Cambodia) Pty Limited	(b)	Australia	100	100
Aristocrat (Singapore) Pty Limited	(b)	Australia	100	100
Aristocrat Leisure Technology Development (Beijing) Co. Limited	(b)	China	100	–
Aristocrat Technologies Europe (Holdings) Limited	(b)	UK	100	100
Aristocrat Technologies Europe Limited	(b)	UK	100	100
ASSPA (UK) Limited	(b)	UK	100	100
Aristocrat Technologies LLC	(b)	Russia	100	100
Aristocrat Technologies Spain S.L.	(b)	Spain	100	100
Aristocrat Technologies NZ Limited	(b)	New Zealand	100	100
Aristocrat Technologies, Inc.	(b)	USA	100	100
Aristocrat Technologies Canada, Inc.	(c)	Canada	100	100
Aristocrat Funding Corporation	(c)	USA	100	100
Aristocrat Argentina S.A.	(c)	Argentina	100	100
Aristocrat Funding Corporation Pty Limited	(c)	Australia	100	100
Aristocrat CA	(c)	Venezuela	100	100
Aristocrat Africa (Pty) Limited	(b)	South Africa	72	72
Aristocrat Technologies Africa (Pty) Limited	(b)	South Africa	72	72
Aristocrat Technologies KK	(b) & (c)	Japan	100	100
Aristocrat Hanbai KK	(b) & (c)	Japan	100	100
<b>Other controlled entities</b>				
Aristocrat Employee Equity Plan Trust	(d)	Australia	100	100
Aristocrat Funding GP	(b)	USA	100	100

(a) These controlled entities have been granted relief from the necessity to prepare accounts in accordance with Class Orders issued by the Australian Securities & Investments Commission. For further information, refer to Note 38.

(b) Controlled entities audited by other PricewaterhouseCoopers firms.

(c) Controlled entities for which statutory audits are not required at 31 December 2007 under relevant local legislation.

(d) The Trust is a special purpose entity which is consolidated because it meets the following criteria:

- the activity of the Trust which is to purchase and issue shares for the various employee share plans are being conducted on behalf of the Group according to its specific business needs and the Group obtains benefits from the Trust's operation;
- the Group has the decision making powers to obtain the majority of the benefits of the activities of the Trust; and
- the Group has rights to obtain the majority of the benefits of the Trust and is exposed to the risks incidental to ownership of the special purpose entity.





## Note 28. Partial sale of subsidiary

There were no sales of subsidiaries during 2007.

The following partial sale of a subsidiary occurred during 2006.

On 26 June 2006, a wholly-owned entity of Aristocrat Leisure Limited completed the sale of a 28% interest in its African operations to a local company, Yabohle Investments (Pty) Ltd, being a consortium led by Matemeku Investments (Pty) Limited.

	Notes	2006 \$'000
Details of the partial sale are as follows:		
<b>Consideration</b>		
Cash proceeds		8,217
Cost of sale		(1,172)
Cash and cash equivalents		7,045
<b>Book value of portion of net assets sold</b>		
Current assets		
Cash assets		503
Receivables		1,069
Inventories		693
Non-current assets		
Receivables		183
Property, plant and equipment		201
Deferred tax assets		171
Intangible assets		245
Current liabilities		
Payables (includes intercompany)		(2,721)
Current tax liabilities		181
Provisions		(31)
Other		(38)
Portion of net assets disposed	23	456
Portion of foreign currency translation reserve disposed	22(a)(i)	370
Total net assets sold		826
Gain on partial sale of subsidiary	5	6,219
Cash and cash equivalents		7,045

# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 29. Business combinations

There were no acquisitions during 2007.

The following acquisition occurred during 2006.

### ACE Interactive

On 5 May 2006, a wholly-owned entity of Aristocrat Leisure Limited acquired all of the issued shares in the Scandinavian-based high technology gaming company, Essnet Interactive AB.

The acquired business contributed revenues of \$2,409,000 and a net loss of \$6,803,000 to the Group for the period from 5 May 2006 to 31 December 2006. Disclosure of pre-acquisition consolidated revenue and consolidated profit for the year ended 31 December 2006 would be impractical due to the legal and operating structure of Essnet Interactive AB within the seller's legal structure up to the date of sale.

#### (a) Summary of acquisition

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	2006 \$'000
Purchase consideration (refer to (b) below):	
Cash paid	70,512
Direct costs relating to the acquisition	699
Total purchase consideration	71,211
Fair value of net identifiable assets acquired (refer to (c) below)	(33,913)
Goodwill	37,298

The goodwill is attributable to the Group's future cash flows from the sale of ACE Interactive's server-based video lottery product offerings.

#### (b) Purchase consideration

Outflow of cash to acquire subsidiary, net of cash acquired:

- Cash consideration	71,211
- Cash balance acquired	(591)
Outflow of cash	70,620

#### (c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount \$'000	Fair value \$'000
Cash	591	591
Trade receivables	138	138
Other receivables	216	216
Inventories	3,044	554
Other current assets	135	135
Plant and equipment	1,340	1,340
Intangible assets: computer technology	15,403	42,030
Trade creditors	(3,570)	(3,570)
Deferred tax liabilities	(66)	(66)
Other liabilities	-	(7,455)
Net assets	17,231	33,913
Net identifiable assets acquired	17,231	33,913



## Note 30. Interest in jointly controlled entity

### Elektronček

On 27 January 2006, a wholly-owned entity of Aristocrat Leisure Limited acquired 50% of the issued shares in Elektronček d.d. ('Elektronček'), which manufactures a range of electro-mechanical multi-terminal gaming products.

#### (a) Summary of acquisition

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	\$'000
Purchase consideration:	
Cash paid in 2006	59,110
Direct costs relating to the acquisition	529
	59,639
Deferred settlement (initial estimate on acquisition)	6,848
Adjustment on settlement of deferred amount	(3,776)
Net deferred settlement paid in 2007	3,072
Total purchase consideration	62,711
Fair value of net identifiable assets/(liabilities) acquired	(907)
Goodwill	63,618

The goodwill is attributable to Elektronček's strong market position and profitability in the increasingly popular multi-terminal segment of the gaming market and therefore for the future cash flows generated from this business.

#### (b) Group's share of results of jointly controlled entity

	2007 \$'000	2006 \$'000
Revenue from ordinary activities	38,542	39,006
Expenses from ordinary activities	(29,040)	(26,148)
Profit from ordinary activities before income tax expense	9,502	12,858
Income tax expense relating to ordinary activities	(1,627)	(3,448)
Profit from ordinary activities after income tax expense	7,875	9,410
Unrealised profits on related party transactions	738	(2,260)
Net profits - accounted for using the equity method	8,613	7,150

#### (c) Interest in jointly controlled entity

	2007 \$'000	2006 \$'000
Carrying amount at the beginning of the year	74,272	-
Investment in jointly controlled entity	(3,776)	66,487
Share of jointly controlled entity's net profit after tax	8,613	7,150
Share of jointly controlled entity's reserves	41	63
Movement in foreign currency exchange translation reserve	955	572
Dividend declared	(8,361)	-
Carrying amount at the end of the year	71,744	74,272
Share of movement in jointly controlled entity's assets and liabilities:	2007 \$'000	2006 \$'000
Current assets	3,234	10,787
Non-current assets	(760)	319
	2,474	11,106
Current liabilities	6,070	509
Non-current liabilities	420	(2,236)
	6,490	(1,727)
Net assets	8,964	9,379



# Notes to the financial statements

For the 12 months ended 31 December 2007

	Notes	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
Employee benefits and related on-cost liabilities					
Included in payables - current	17	38,223	39,598	-	-
Provision for employee benefits - current	19	9,229	8,273	-	-
Provision for employee benefits - non-current	19	5,385	6,036	-	-
Aggregate employee benefits and related on-cost liabilities		52,837	53,907	-	-

## Note 31. Employee benefits

## Note 32. Share-based payments

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

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

The PSP is a long-term employee share scheme that provides for eligible employees to be offered conditional entitlements to fully paid ordinary shares in the parent entity ('Performance Share Rights'). Performance Share Rights issued under the PSP are identical in all respects other than performance conditions and periods, which are detailed below.

As at 31 December 2007, 200 employees (2006: 188) were entitled to 3,211,469 (2006: 3,909,090) Performance Share Rights under this plan.

### Accounting fair value of Performance Share Rights granted

The assessed accounting fair values of Performance Share Rights granted during the financial years ended 31 December 2007 and 31 December 2006 are as follows:

Performance Share Right series	Performance period start date	Performance period expiry date	Performance condition*	Accounting valuation date	Accounting valuation** \$
<b>Issued 2007</b>					
Series 8A	1-Jan-07	31-Dec-09	TSR	1-Jan-07	7.79
Series 8B	1-Jan-07	31-Dec-09	ESPG	1-Jan-07	14.41
Series 9A	1-May-07	31-Dec-09	TSR	2-May-07	8.41
Series 9B	1-May-07	31-Dec-09	ESPG	2-May-07	15.25
<b>Issued 2006</b>					
Series 6A	1-Jan-06	31-Dec-08	TSR	1-Jan-06	6.01
Series 6B	1-Jan-06	31-Dec-08	ESPG	1-Jan-06	11.25
Series 7A***	1-Jan-06	31-Dec-08	TSR	2-May-06	8.18
Series 7B***	1-Jan-06	31-Dec-08	ESPG	2-May-06	13.09

\* TSR - Total Shareholder Return; ESGP - Earnings Per Share Growth

\*\* In accordance with accounting standards, the accounting valuation, as independently determined by Deloitte Touche Tohmatsu ('Deloitte'), of a Performance Share Right with a market vesting condition (for example, TSR) incorporates the likelihood that the vesting condition will be met. Whereas, the accounting valuation, as independently determined by Deloitte, of a Performance Share Right with a non-market vesting condition (for example, ESGP) does not take into account the likelihood that the vesting condition will be met. Accordingly, the accounting value of a Performance Share Right with a TSR vesting condition is lower than that with an ESGP vesting condition.

\*\*\* In accordance with accounting standards, as these Performance Share Rights were granted to a director, the accounting valuation as determined by Deloitte, has been performed at the date of approval by shareholders.



**(a) Performance Share Plan ('PSP') *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 a Total Shareholder Return ('TSR') model and an Earnings Per Share Growth ('EPSG') model.

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

Deloitte has developed a Monte-Carlo Simulation-based model which incorporates the impact of performance hurdles and the vesting scale on the value of the share rights. This pricing model takes into account such factors as the Company's share price at the date of grant, volatility of the underlying share price, expected dividend yield, risk free rate of return and time to maturity.

The accounting valuation of the rights has been allocated equally over the vesting period (either three, four or five years).

The model inputs for share rights granted during the year ended 31 December 2007 included:

- (a) share rights are granted for no consideration and have a three to five year life;
- (b) exercise price: zero consideration;
- (c) the grant date and expiry dates: refer to tables below;
- (d) share price at grant date:  
2007: series 8A - \$15.79 and series 9A - \$16.43; and  
2006: series 6A - \$12.32 and series 7A - \$14.00;
- (e) price volatility of the Company's shares:  
2007: series 8A - 29.75% and series 9A - 29.54%; and  
2006: series 6A - 27.28% and series 7A - 30.38%;
- (f) dividend yield:  
2007: series 8A - 3.10% and series 9A - 2.83%; and  
2006: series 6A - 3.03% and series 7A - 3.00%;
- (g) risk-free interest rate:  
2007: series 8A - 6.45% and series 9A - 6.40%; and  
2006: series 6A - 5.61% and series 7A - 6.04%.

**(ii) Earnings Per Share Growth ('EPSG') model**

Deloitte has utilised the Black-Scholes Generalised model to determine the fair value of share rights. This pricing model takes into account such factors as the Company's share price at the date of grant, volatility of the underlying share price, expected dividend yield, risk free rate of return and time to maturity.

The accounting valuation of the rights has been allocated equally over the vesting period (ranging from three to five years).

The model inputs for share rights granted during the year ended 31 December 2007 included:

- (a) share rights are granted for no consideration and have a three to five year life;
- (b) exercise price: zero consideration;
- (c) the grant date and expiry dates: refer to tables below;
- (d) share price at grant date:  
2007: series 8B - \$15.79 and series 9B - \$16.43; and  
2006: series 6B - \$12.32 and series 7B - \$14.00;
- (e) price volatility of the Company's shares:  
2007: series 8B - 29.75% and series 9B - 29.54%; and  
2006: series 6B - 27.28% and series 7B - 30.38%;
- (f) dividend yield:  
2007: series 8B - 3.10% and series 9B - 2.83%; and  
2006: series 6B - 3.03% and series 7B - 3.00%;
- (g) risk-free interest rate:  
2007: series 8B - 6.45% and series 9B - 6.40%; and  
2006: series 6B - 5.61% and series 7B - 6.04%.

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

# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 32. Share-based payments *continued*

### (a) Performance Share Plan ('PSP') *continued*

Performance Share Rights are detailed in the tables below:

#### Consolidated and parent entity – 2007

Right series	Grant date	Performance period expiry date	Rights at start of year Number	Add: new rights issued Number	Less: rights exercised Number	Less: rights lapsed Number	Rights at end of year Number
<b>PSP</b>							
Series 1A	2-Sep-04	31-Dec-06	1,055,172	–	1,055,172	–	–
Series 1B	2-Sep-04	31-Dec-07	1,055,172	–	18,652	133,446	903,074
Series 2	21-Dec-04	31-Dec-06	380,000	–	380,000	–	–
Series 3A	1-Jan-05	31-Dec-07	23,781	–	–	–	23,781
Series 3B	1-Jan-05	31-Dec-07	23,781	–	–	–	23,781
Series 4A	17-May-05	31-Dec-07	34,172	–	–	–	34,172
Series 4B	17-May-05	31-Dec-07	34,171	–	–	–	34,171
Series 5A	17-Oct-05	31-Dec-09	14,149	–	–	4,716	9,433
Series 5B	17-Oct-05	31-Dec-09	14,149	–	–	4,716	9,433
Series 5C	17-Oct-05	31-Dec-10	14,149	–	–	4,717	9,432
Series 5D	17-Oct-05	31-Dec-10	14,148	–	–	4,716	9,432
Series 6A	1-Jan-06	31-Dec-08	524,121	–	–	75,800	448,321
Series 6B	1-Jan-06	31-Dec-08	524,120	–	–	75,799	448,321
Series 7A	2-May-06	31-Dec-08	99,001	–	–	–	99,001
Series 7B	2-May-06	31-Dec-08	99,002	–	–	–	99,002
Series 8A	1-Jan-07	31-Dec-09	–	440,845	–	22,276	418,569
Series 8B	1-Jan-07	31-Dec-09	–	440,845	–	22,276	418,569
Series 9A	1-May-07	31-Dec-09	–	111,488	–	–	111,488
Series 9B	1-May-07	31-Dec-09	–	111,487	–	–	111,487
			<b>3,909,088</b>	<b>1,104,665</b>	<b>1,453,824</b>	<b>348,462</b>	<b>3,211,467</b>

#### Consolidated and parent entity – 2006

Right series	Grant date	Performance period expiry date	Rights at start of year Number	Add: new rights issued Number	Less: rights exercised Number	Less: rights lapsed Number	Rights at end of year Number
<b>PSP</b>							
Series 1A	2-Sep-04	31-Dec-06	1,155,932	–	–	100,760	1,055,172
Series 1B	2-Sep-04	31-Dec-07	1,155,932	–	–	100,760	1,055,172
Series 2	21-Dec-04	31-Dec-06	380,000	–	–	–	380,000
Series 3A	1-Jan-05	31-Dec-07	23,781	–	–	–	23,781
Series 3B	1-Jan-05	31-Dec-07	23,781	–	–	–	23,781
Series 4A	17-May-05	31-Dec-07	34,172	–	–	–	34,172
Series 4B	17-May-05	31-Dec-07	34,171	–	–	–	34,171
Series 5A	17-Oct-05	31-Dec-09	14,149	–	–	–	14,149
Series 5B	17-Oct-05	31-Dec-09	14,149	–	–	–	14,149
Series 5C	17-Oct-05	31-Dec-10	14,149	–	–	–	14,149
Series 5D	17-Oct-05	31-Dec-10	14,148	–	–	–	14,148
Series 6A	1-Jan-06	31-Dec-08	–	553,130	–	29,009	524,121
Series 6B	1-Jan-06	31-Dec-08	–	553,127	–	29,007	524,120
Series 7A	2-May-06	31-Dec-08	–	99,001	–	–	99,001
Series 7B	2-May-06	31-Dec-08	–	99,002	–	–	99,002
			<b>2,864,364</b>	<b>1,304,260</b>	<b>–</b>	<b>259,536</b>	<b>3,909,088</b>



## (b) General Employee Share Plan ('GESP')

The General Employee Share Plan is designed to provide employees with shares in the parent entity under the provisions of section 139CD of the *Australian Income Tax Assessment Act*.

During the year, the Company issued 80,040 shares (2006: 90,455) to 1,160 employees (2006: 1,145) in Australia under this plan. Due to tax complexities, certain eligible staff located overseas were issued either a deferred bonus of A\$1,000 cash or a contingent allocation of an equivalent number of shares (51,681 shares to 749 employees; 2006: 47,212 shares to 638 employees) in lieu of a share allocation under the General Employee Share Plan, subject to their continued employment for a period of three years.

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 Stock Exchange during the five days immediately before the date of the offer.

	Weighted average market price \$	2007 Number	Consolidated 2006 Number	2007 Number	Parent entity 2006 Number
Shares issued under the Plan to participating employees on:					
30-Jun-07*	14.47	80,040	–	–	–
30-Jun-06	12.64	–	90,455	–	90,455
		80,040	90,455	–	90,455

\*Issued from the Aristocrat Employee Equity Plan Trust.

## (c) Long-term Performance Option Plan ('POP')

The Long-term Performance Option Plan, an executive incentive scheme to drive the continuing improvement in the Company's performance, was approved at the Annual General Meeting of the Company in May 2005. The POP provides for eligible employees to be offered conditional entitlements to options over fully paid ordinary shares in the Company, such that shares may, on exercise of such options, be allocated to eligible employees, subject to meeting performance criteria specified by the Board within a set performance period.

Performance options will have an exercise price based on the value of the underlying fully paid shares at grant with vesting to the eligible employee dependent on the satisfaction of performance criteria and within a performance period specified by the Board of Directors (the 'Performance Criteria' and 'Performance Period', respectively).

If the Performance Criteria are satisfied at the end of the Performance Period, the POP provides for shares to be allocated and registered in the name of the eligible employee on exercise of the option and payment of the exercise price, subject to disposal restrictions, until the eligible employee is entitled to have the disposal restrictions lifted, in accordance with the rules of the POP. Shares allocated under the POP may be forfeited by the Company, but only in limited circumstances such as where eligible employees act fraudulently or dishonestly.

The POP rules permit the Company, in its discretion, to issue or acquire on-market shares which are then registered in the name of the eligible employee or in the name of an agent or trustee on behalf of the eligible employee prior to the eligible employee becoming entitled to be allocated the shares, that is, prior to Performance Criteria being satisfied and the option being exercised. These are called unallocated shares. Rights to unallocated shares (and the associated options) will expire and they will be forfeited and sold if the Performance Criteria are not satisfied.

There have been no invitations issued to participate in this Plan.

# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 32. Share-based payments *continued*

### (d) Employee Share Option Plan ('ESOP')

The Employee Share Option Plan was established to issue options over ordinary shares in the parent entity to employees of the Group.

As at 31 December 2007, five employees (2006: 13) were entitled to 537,500 (2006: 1,205,000) options under this plan.

The Employee Share Option Plan was discontinued in 2004. Options issued pursuant to the plan are exercisable subject to the Employee Share Option Plan rules.

Options are detailed in the tables below:

#### Consolidated and parent entity – 2007

Option series	Notes	Grant date	Expiry date	Exercise price \$*	Options at start of year Number	Less: options exercised Number	Less: options lapsed Number	Options at end of year Number
<b>ESOP</b>								
Series 26	(a)	7-Mar-02	7-Mar-07	5.7431	85,000	85,000	–	–
Series 27	(a)	2-Jul-02	2-Jul-07	5.2002	45,000	45,000	–	–
Series 28	(a)	26-Aug-03	26-Aug-08	1.3497	225,000	112,500	–	112,500
Series 29C	(b)	1-Sep-03	1-Sep-08	2.4503	125,000	125,000	–	–
Series 29D	(b)	1-Sep-03	1-Sep-08	2.9503	125,000	–	–	125,000
Series 30	(a)	3-Nov-03	3-Nov-08	2.2177	100,000	50,000	–	50,000
Series 31A	(b)	1-Sep-04	1-Sep-09	6.7016	125,000	125,000	–	–
Series 31B	(b)	1-Sep-04	1-Sep-09	7.2016	125,000	125,000	–	–
Series 31C	(b)	1-Sep-04	1-Sep-09	7.7016	125,000	–	–	125,000
Series 31D	(b)	1-Sep-04	1-Sep-09	8.2016	125,000	–	–	125,000
					<b>1,205,000</b>	<b>667,500</b>	<b>–</b>	<b>537,500</b>
* The option exercise price has been adjusted for the \$0.21 per share capital return paid in July 2005.								
Weighted average exercise price					\$4.69	\$4.54	–	\$4.87

The weighted average share price at the date of exercise of those options exercised during the year ended 31 December 2007 was \$16.44.

The weighted average remaining contractual life of options outstanding as at 31 December 2007 was 1.15 years.

No options were forfeited during the period covered by the above table.

#### Notes:

- (a) Options are exercisable in four equal tranches at intervals of 18 months, 30 months, 42 months and 54 months after grant date.
- (b) Options under Tranche A are exercisable 18 months after grant date.  
Options under Tranche B are exercisable 30 months after grant date.  
Options under Tranche C are exercisable 42 months after grant date.  
Options under Tranche D are exercisable 54 months after grant date.





(d) Employee Share Option Plan ('ESOP') *continued*

Consolidated and parent entity – 2006

Option series	Notes	Grant date	Expiry date	Exercise price \$*	Options at start of year Number	Less: options exercised Number	Less: options lapsed Number	Options at end of year Number
<b>ESOP</b>								
Series 21	(a)	20-Jul-01	20-Jul-06	6.3303	106,750	106,750	–	–
Series 22	(a)	13-Aug-01	13-Aug-06	6.5720	50,000	50,000	–	–
Series 24	(a)	25-Oct-01	25-Oct-06	6.1415	15,000	–	15,000	–
Series 25	(a)	18-Dec-01	18-Dec-06	6.0928	1,250	1,250	–	–
Series 26	(a)	7-Mar-02	7-Mar-07	5.7431	987,500	872,500	30,000	85,000
Series 27	(a)	2-Jul-02	2-Jul-07	5.2002	140,000	95,000	–	45,000
Series 28	(a)	26-Aug-03	26-Aug-08	1.3497	562,500	187,500	150,000	225,000
Series 29B	(b)	1-Sep-03	1-Sep-08	1.9503	125,000	125,000	–	–
Series 29C	(b)	1-Sep-03	1-Sep-08	2.4503	125,000	–	–	125,000
Series 29D	(b)	1-Sep-03	1-Sep-08	2.9503	125,000	–	–	125,000
Series 30	(a)	3-Nov-03	3-Nov-08	2.2177	150,000	50,000	–	100,000
Series 31A	(b)	1-Sep-04	1-Sep-09	6.7016	125,000	–	–	125,000
Series 31B	(b)	1-Sep-04	1-Sep-09	7.2016	125,000	–	–	125,000
Series 31C	(b)	1-Sep-04	1-Sep-09	7.7016	125,000	–	–	125,000
Series 31D	(b)	1-Sep-04	1-Sep-09	8.2016	125,000	–	–	125,000
					2,888,000	1,488,000	195,000	1,205,000
* The option exercise price has been adjusted for the \$0.21 per share capital return paid in July 2005.								
Weighted average exercise price					\$4.58	\$4.79	\$2.39	\$4.69

The weighted average share price at the date of exercise of those options exercised during the year ended 31 December 2006 was \$13.26.

The weighted average remaining contractual life of options outstanding as at 31 December 2006 was 1.52 years.

No options were forfeited during the period covered by the above table.

**Notes:**

(a) Options are exercisable in four equal tranches at intervals of 18 months, 30 months, 42 months and 54 months after grant date.

(b) Options under Tranche A are exercisable 18 months after grant date.

Options under Tranche B are exercisable 30 months after grant date.

Options under Tranche C are exercisable 42 months after grant date.

Options under Tranche D are exercisable 54 months after grant date.

## Notes to the financial statements

For the 12 months ended 31 December 2007

### Note 32. Share-based payments *continued*

#### (d) Employee Share Option Plan ('ESOP') *continued*

Options exercised during the financial year and number of shares issued to employees on the exercise of options are detailed below:

Consolidated and parent entity

2007			2006		
Exercise date	Value of shares at issue date* \$	Number	Exercise date	Value of shares at issue date* \$	Number
<b>ESOP</b>			<b>ESOP</b>		
12-Feb-07	10.50	7,500	3-Mar-06	8.23	403,750
26-Feb-07	11.63	15,000	6-Mar-06	7.79	95,000
26-Feb-07	11.68	5,000	14-Mar-06	6.82	103,750
26-Feb-07	11.68	2,500	24-Mar-06	8.96	22,500
26-Feb-07	12.22	20,000	29-Mar-06	7.66	10,000
1-Mar-07	11.01	15,000	5-Apr-06	8.34	153,750
2-Mar-07	13.28	125,000	10-May-06	7.95	22,500
2-Mar-07	9.03	125,000	1-Jun-06	8.58	58,750
2-Mar-07	14.38	50,000	15-Jun-06	6.36	19,250
2-Mar-07	9.99	40,000	20-Jun-06	6.27	3,750
7-Mar-07	15.00	50,000	14-Sep-06	7.39	332,500
7-Mar-07	11.15	25,000	18-Sep-06	7.33	32,500
21-Mar-07	15.20	12,500	20-Sep-06	7.67	22,500
29-May-07	13.23	50,000	27-Sep-06	8.39	90,000
28-Aug-07	5.76	125,000	4-Oct-06	8.09	87,500
			16-Oct-06	8.09	10,000
			20-Oct-06	7.83	5,000
			4-Dec-06	9.73	10,000
			19-Dec-06	10.28	5,000
		<b>667,500</b>			<b>1,488,000</b>

\* The value reflected above is the intrinsic value of the option, which is calculated as the market price less the exercise price on the date of exercise of the option.

There are been no options exercised since the end of the financial year.

#### (d) Employee Share Option Plan ('ESOP') *continued*

	2007 Number	Consolidated 2006 Number	2007 Number	Parent entity 2006 Number
Options vested at the reporting date	130,000	210,000	130,000	210,000

	2007 \$	Consolidated 2006 \$	2007 \$	Parent entity 2006 \$
Aggregate proceeds received from employees on the exercise of options and recognised in reserves	3,029,086	7,124,591	3,029,086	7,124,591
Value of shares issued to employees on the exercise of options as at their issue date	7,257,389	11,759,555	7,257,389	11,759,555

	2007 \$'000	Consolidated 2006 \$'000	2007 \$'000	Parent entity 2006 \$'000
--	----------------	--------------------------------	----------------	---------------------------------

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

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

Share rights issued under Performance Share Plan	8,000	8,092	-	-
Shares issued under General Employee Share Plan	1,158	1,145	-	1,145
Options issued under Employee Share Option Plan	240	367	-	-
	9,398	9,604	-	1,145

## Note 33. Key management personnel disclosures

### Directors

The following persons were directors of the Company during the financial year:

<b>Chairman - non-executive</b>	DJ Simpson
<b>Executive directors</b>	PN Oneile - Chief Executive Officer and Managing Director SCM Kelly - Chief Financial Officer and Finance Director*
<b>Non-executive directors</b>	WM Baker RA Davis P Morris SAM Pitkin AW Steelman.

\* SCM Kelly was appointed an executive director on 20 February 2007. Up to the date of his appointment and for the full year ended 31 December 2006, SCM Kelly held the role of Chief Financial Officer and met the definition of executive key management personnel for that period. Throughout this report, details in relation to SCM Kelly for the full 2007 year are shown under director disclosures. For the full 2006 year SCM Kelly's details are shown under executive key management personnel disclosures.

### Executive key management personnel

The executives who are responsible for the overall planning, directing and controlling of activities of the Group ('executive key management personnel') during the financial year are as follows:

Name	Position
SJ Parker	Group General Manager, Research & Development and Marketing
GS Phillips	Chief Technology Officer
IH Timmis	Group General Manager, Business and Strategic Development
BJ Yahl	Group General Manager, Commercial and Legal and Company Secretary.

All of the above persons were considered executive key management personnel for the full year ended 31 December 2007.

# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 33. Key management personnel disclosures *continued*

### Remuneration

The Company has taken advantage of the relief provided by Australian Securities & Investments Commission Class Order 06/50 and has transferred the detailed remuneration disclosures to the Remuneration Report, presented in the Directors' Report which is separately attached.

### Performance Share Plan rights provided as remuneration and rights holdings

The numbers of Performance Share Rights in the Company held during the financial year by any key management personnel of the Group, including their personally related entities, are set out below:

2007	Series	Performance period expiry date	Per right at grant date \$	Balance as at 31 Dec 2006 Number	Granted/(vested) during the year Number	Balance as at 31 Dec 2007 Number
<b>Executive directors</b>						
PN Oneile	2	31-Dec-06	8.68	380,000	(380,000)	-
	4A	31-Dec-07	6.10	34,172	-	34,172
	4B	31-Dec-07	6.10	34,173	-	34,173
	7A	31-Dec-08	8.18	99,001	-	99,001
	7B	31-Dec-08	13.09	99,002	-	99,002
	9A	31-Dec-09	7.79	-	89,859	89,859
SCM Kelly	9B	31-Dec-09	14.41	-	89,859	89,859
	3A	31-Dec-07	6.10	10,854	-	10,854
	3B	31-Dec-07	6.10	10,853	-	10,853
	6A	31-Dec-08	6.01	25,123	-	25,123
	6B	31-Dec-08	11.25	25,122	-	25,122
	9A	31-Dec-09	7.79	-	21,629	21,629
	9B	31-Dec-09	14.41	-	21,628	21,628
<b>Executive key management personnel</b>						
SJ Parker	1A	31-Dec-06	6.45	38,166	(38,166)	-
	1B	31-Dec-07	6.25	38,165	-	38,165
	6A	31-Dec-08	6.01	16,138	-	16,138
	6B	31-Dec-08	11.25	16,137	-	16,137
	8A	31-Dec-09	8.41	-	16,092	16,092
	8B	31-Dec-09	15.25	-	16,092	16,092
GS Phillips	1A	31-Dec-06	6.45	41,572	(41,572)	-
	1B	31-Dec-07	6.25	41,572	-	41,572
	6A	31-Dec-08	6.01	13,920	-	13,920
	6B	31-Dec-08	11.25	13,920	-	13,920
	8A	31-Dec-09	8.41	-	11,786	11,786
	8B	31-Dec-09	15.25	-	11,785	11,785
IH Timmis	1A	31-Dec-06	6.45	41,628	(41,628)	-
	1B	31-Dec-07	6.25	41,627	-	41,627
	6A	31-Dec-08	6.01	16,838	-	16,838
	6B	31-Dec-08	11.25	16,837	-	16,837
	8A	31-Dec-09	8.41	-	13,536	13,536
	8B	31-Dec-09	15.25	-	13,535	13,535
BJ Yahl	1A	31-Dec-06	6.45	30,000	(30,000)	-
	1B	31-Dec-07	6.25	30,000	-	30,000
	6A	31-Dec-08	6.01	24,746	-	24,746
	6B	31-Dec-08	11.25	24,746	-	24,746
	8A	31-Dec-09	8.41	-	19,894	19,894
	8B	31-Dec-09	15.25	-	19,893	19,893



Performance Share Plan rights provided as remuneration and rights holdings *continued*

2006	Series	Performance period expiry date	Per right at grant date \$	Balance as at 31 Dec 2005 Number	Granted/(vested) during the year Number	Balance as at 31 Dec 2006 Number
<b>Executive director</b>						
PN Oneile	2	31-Dec-06	8.68	380,000	–	380,000
	4A	31-Dec-07	6.10	34,172	–	34,172
	4B	31-Dec-07	6.10	34,171	–	34,171
	7A	31-Dec-08	8.18	–	99,001	99,001
	7B	31-Dec-08	13.09	–	99,002	99,002
<b>Executive key management personnel</b>						
SCM Kelly	3A	31-Dec-07	6.10	10,854	–	10,854
	3B	31-Dec-07	6.10	10,853	–	10,853
	6A	31-Dec-08	6.01	–	25,123	25,123
	6B	31-Dec-08	11.25	–	25,122	25,122
SJ Parker	1A	31-Dec-06	6.45	38,166	–	38,166
	1B	31-Dec-07	6.25	38,165	–	38,165
	6A	31-Dec-08	6.01	–	16,138	16,138
	6B	31-Dec-08	11.25	–	16,137	16,137
GS Phillips	1A	31-Dec-06	6.45	41,572	–	41,572
	1B	31-Dec-07	6.25	41,572	–	41,572
	6A	31-Dec-08	6.01	–	13,920	13,920
	6B	31-Dec-08	11.25	–	13,920	13,920
IH Timmis	1A	31-Dec-06	6.45	41,628	–	41,628
	1B	31-Dec-07	6.25	41,627	–	41,627
	6A	31-Dec-08	6.01	–	16,838	16,838
	6B	31-Dec-08	11.25	–	16,837	16,837
BJ Yahl	1A	31-Dec-06	6.45	30,000	–	30,000
	1B	31-Dec-07	6.25	30,000	–	30,000
	6A	31-Dec-08	6.01	–	24,746	24,746
	6B	31-Dec-08	11.25	–	24,746	24,746



# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 33. Key management personnel disclosures *continued*

### Options provided as remuneration and option holdings

Details of options over ordinary shares in the Company provided as remuneration to any key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of the Company.

2007	Note	Series	Expiry date	Exercise price \$	Balance as at 31 Dec 2006 Number	Exercised during the year Number	Balance as at 31 Dec 2007 Number	Vested during the year Number	Value at exercise date** \$	Vested and exercisable at the end of the year Number
<b>Executive key management personnel</b>										
SCM Kelly	3	29C	1-Sep-08	2.45	125,000	125,000	-	125,000	1,659,963	-
	4	29D	1-Sep-08	2.95	125,000	-	125,000	-	-	-
	1	31A	1-Sep-09	6.70	125,000	125,000	-	-	1,128,550	-
	2	31B	1-Sep-09	7.20	125,000	125,000	-	125,000	719,800	-
	3	31C	1-Sep-09	7.70	125,000	-	125,000	-	-	-
	4	31D	1-Sep-09	8.20	125,000	-	125,000	-	-	-
SJ Parker	5	28	26-Aug-08	1.35	100,000	50,000	50,000	50,000	719,015	-
GS Phillips	5	30	3-Nov-08	2.22	100,000	50,000	50,000	50,000	661,615	-

2006	Note	Series	Expiry date	Exercise price \$	Balance as at 31 Dec 2005 Number	Exercised during the year Number	Balance as at 31 Dec 2006 Number	Vested during the year Number	Value at exercise date** \$	Vested and exercisable at the end of the year Number
<b>Executive key management personnel</b>										
SCM Kelly	2	29B	1-Sep-08	1.95	125,000	125,000	-	125,000	1,349,693	-
	3	29C	1-Sep-08	2.45	125,000	-	125,000	-	-	-
	4	29D	1-Sep-08	2.95	125,000	-	125,000	-	-	-
	1	31A	1-Sep-09	6.70	125,000	-	125,000	-	-	125,000
	2	31B	1-Sep-09	7.20	125,000	-	125,000	-	-	-
	3	31C	1-Sep-09	7.70	125,000	-	125,000	-	-	-
	4	31D	1-Sep-09	8.20	125,000	-	125,000	-	-	-
SJ Parker	5	28	26-Aug-08	1.35	150,000	50,000	100,000	50,000	570,015	-
GS Phillips	5	30	3-Nov-08	2.22	150,000	50,000	100,000	50,000	566,115	-

\* The option exercise price has been adjusted for the 21 cent capital return paid in July 2005. Where options were exercised prior to the capital return, the exercise price was 21 cents higher than shown above.

\*\* The value reflected above is the intrinsic value of the option, which is calculated as the market price less the exercise price on the date of exercise of the option.

#### Notes:

- 1 – Options are exercisable 18 months after grant date.
- 2 – Options are exercisable 30 months after grant date.
- 3 – Options are exercisable 42 months after grant date.
- 4 – Options are exercisable 54 months after grant date.
- 5 – Options are exercisable in four equal tranches at intervals of 18, 30, 42 and 54 months after the grant date.



## General Employee Share Plan ('GESP') provided as remuneration

The numbers of shares held under the General Employee Share Plan during the financial year by any of the key management personnel of the Group, including their personally related entities, are set out below:

	Balance as at 31 Dec 2006	Shares issued/granted during the year	Shares vested during the year	Balance as at 31 Dec 2007
<b>Executive key management personnel</b>				
SCM Kelly	431	–	(263)	168
SJ Parker	431	69	(263)	237
GS Phillips*	337	69	(263)	143
IH Timmis	431	69	(263)	237
BJ Yahl	168	69	–	237

\* As an overseas employee, GS Phillips was granted a contingent right to 69 shares during the year in lieu of a share allocation under the General Employee Share Plan, subject to continued employment for a period of three years.

	Balance as at 31 Dec 2005	Shares issued/granted during the year	Shares vested during the year	Balance as at 31 Dec 2006
<b>Executive key management personnel</b>				
SCM Kelly	352	79	–	431
SJ Parker	951	79	(599)	431
GS Phillips*	263	74	–	337
IH Timmis	352	79	–	431
BJ Yahl	89	79	–	168

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

## Shareholdings

The numbers of shares (excluding those unvested under the General Employee Share Plan and the Performance Share Plan) in the Company held during the financial year by each key management personnel of the Group, 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 individual key management personnel and any entity under the joint or several control of the individual key management personnel, they are shown as 'beneficially held'. Shares held by those who are defined by AASB 124 *Related Party Disclosures* as close members of the family of the individual key management personnel are shown as 'non-beneficially held'.

	Balance as at 31 Dec 2006	Options exercised, PSP and GESP shares vested	Net other changes during the year	Balance as at 31 Dec 2007
<b>Executive directors</b>				
<b>PN Oneile</b>				
– beneficially held	–	380,000	–	380,000
– non-beneficially held	6,000	–	–	6,000
<b>SCM Kelly</b>				
– beneficially held	325,000	375,263	–	700,263
<b>Non-executive directors</b>				
<b>DJ Simpson</b>				
– beneficially held	106,000	–	–	106,000
<b>WM Baker</b>				
– beneficially held	4,700	–	–	4,700
<b>RA Davis</b>				
– beneficially held	3,449	–	3,205	6,654



# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 33. Key management personnel disclosures *continued*

### Shareholdings *continued*

	Balance as at 31 Dec 2006	Options exercised, PSP and GESP shares vested	Net other changes during the year	Balance as at 31 Dec 2007
<b>Non-executive directors <i>continued</i></b>				
<b>P Morris</b>				
– beneficially held	658	–	8,830	9,488
– non-beneficially held	12,560	–	–	12,560
<b>SAM Pitkin</b>				
– beneficially held	572	–	1,489	2,061
– non-beneficially held	7,000	–	4,100	11,100
<b>AW Steelman</b>				
– beneficially held	16,000	–	6,834	22,834
– non-beneficially held	4,505	–	–	4,505
<b>Executive key management personnel</b>				
<b>SJ Parker</b>				
– beneficially held	80,599	88,429	–	169,028
<b>GS Phillips</b>				
– beneficially held	103,201	91,835	(69,123)	125,913
<b>IH Timmis</b>				
– beneficially held	–	41,891	(41,628)	263
<b>BJ Yahl</b>				
– beneficially held	–	30,000	–	30,000
	Balance as at 31 Dec 2005	Options exercised, PSP and GESP shares vested	Net other changes during the year	Balance as at 31 Dec 2006
<b>Executive director</b>				
PN Oneile				
– non-beneficially held	6,000	–	–	6,000
<b>Non-executive directors</b>				
DJ Simpson				
– beneficially held	106,000	–	–	106,000
WM Baker				
– beneficially held	4,700	–	–	4,700
RA Davis				
– beneficially held	1,200	–	2,249	3,449
P Morris				
– beneficially held	–	–	658	658
– non-beneficially held	12,560	–	–	12,560
SAM Pitkin				
– beneficially held	–	–	572	572
– non-beneficially held	6,000	–	1,000	7,000
AW Steelman				
– beneficially held	16,000	–	–	16,000
– non-beneficially held	4,505	–	–	4,505
<b>Executive key management personnel</b>				
SCM Kelly				
– beneficially held	200,000	125,000	–	325,000
SJ Parker				
– beneficially held	50,000	50,000	(19,401)	80,599
GS Phillips				
– beneficially held	169,867	50,000	(116,666)	103,201
IH Timmis				
– beneficially held	–	–	–	–
BJ Yahl				
– beneficially held	–	–	–	–





## Shareholdings *continued*

Options exercised during the year by key management personnel are shown below:

		Exercise date	Options exercised Number	Paid per share \$	Unpaid per share \$
<b>Executive key management personnel</b>					
SCM Kelly	2007	5-Mar-07	125,000	\$2.45	–
		5-Mar-07	125,000	\$6.70	–
		28-Aug-07	125,000	\$7.20	–
SJ Parker	2006	28-Feb-06	125,000	\$1.95	–
		5-Mar-07	50,000	\$1.35	–
GS Phillips	2007	28-Feb-06	50,000	\$1.35	–
		25-May-07	50,000	\$2.22	–
	2006	31-May-06	50,000	\$2.22	–

Shareholdings of directors and key management personnel reported as 'non-beneficially held' include those that have been disclosed under representation made to them by the parties within the AASB 124 definition of personally related entities. Directors and key management personnel have relied upon the representations made as they have no control or influence over the financial affairs of the personally related entities to substantiate the shareholdings declared. In the event that a personally related entity declines to provide shareholding details, the shareholding of that personally related entity is assumed to be nil.

### Loans to key management personnel

No key management personnel held any loans with the Company during the financial year.

### Other transactions with key management personnel

Refer to Note 35 for details of related party transactions with key management personnel.



# Notes to the financial statements

For the 12 months ended 31 December 2007

	2007	Consolidated 2006	2007	Parent entity 2006
	\$	\$	\$	\$

## Note 34. Remuneration of auditors

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

### Assurance services

#### Audit services

Fees paid to PricewaterhouseCoopers Australian firm:

– Audit and review of financial reports and other audit work  
under the *Corporations Act 2001*

428,339	444,461	–	–
---------	---------	---	---

Fees paid to related practices of PricewaterhouseCoopers Australian firm

730,044	491,000	–	–
---------	---------	---	---

#### Total remuneration for audit services

1,158,383	935,461	–	–
-----------	---------	---	---

#### Other assurance services

Fees paid to PricewaterhouseCoopers Australian firm

87,985	10,000	–	–
--------	--------	---	---

Fees paid to related practices of PricewaterhouseCoopers Australian firm

98,037	97,337	–	–
--------	--------	---	---

#### Total remuneration for other assurance services

186,022	107,337	–	–
---------	---------	---	---

#### Total remuneration for assurance services

1,344,405	1,042,798	–	–
-----------	-----------	---	---

### Advisory services

Fees paid to PricewaterhouseCoopers Australian firm:

– Legal and compliance

13,318	9,900	–	–
--------	-------	---	---

#### Total remuneration for advisory services

13,318	9,900	–	–
--------	-------	---	---

Audit fees for the parent entity were paid by a subsidiary.



## Note 35. Related parties

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

There were no transactions with directors and other key management personnel during the year ended 31 December 2007.

The only transaction during the year ended 31 December 2006 was the sale of gaming machines of \$898,531 provided on normal terms and conditions to venues owned by National Leisure & Gaming Limited, of which SAM Pitkin held the position of non-executive chairman.

### (b) Wholly-owned group

The wholly-owned group consists of the parent entity and its wholly-owned controlled entities set out in Note 27.

All transactions between entities within the wholly-owned group during the years ended 31 December 2007 and 31 December 2006 have been eliminated on consolidation.

Transactions between the Company and other entities in the wholly-owned group during the years ended 31 December 2007 and 31 December 2006 consisted of:

- (i) the payment of dividends to the Company; and
- (ii) a tax sharing and funding agreement.

The above transactions were made on normal commercial terms and conditions and at market rates. In the prior year, there were loans advanced and repaid. There were no fixed terms for the repayment of principal on loans advanced by the Company. The average interest rate charged on the loan to Aristocrat International Pty Ltd in 2006 was 6.376% per annum.

	2007 \$	Parent entity 2006 \$
<b>Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly-owned group</b>		
Interest revenue	-	7,609,370
Dividend revenue	<b>198,468,716</b>	100,000,000
Foreign exchange losses in relation to intercompany loan	-	3,074,868
<b>Aggregate net amount receivable from entities in the wholly-owned group at balance date</b>		
<b>Current</b>		
Tax related amounts receivable from wholly-owned entities	<b>22,684,866</b>	63,100,692
<b>Non-current</b>		
Receivable from wholly-owned entities	<b>64,160,889</b>	86,607,945



# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 35. Related parties *continued*

### (c) Transactions with related parties

The following transactions occurred with related parties:

	2007	Consolidated 2006	2007	Parent entity 2006
	\$	\$	\$	\$
<b>Jointly controlled legal entity</b>				
<b>Revenue</b>				
Service fee	175,030	55,087	-	-
Reimbursement of travel and accommodation	-	17,881	-	-
<b>Purchase of goods and services</b>				
Purchase of gaming equipment	4,406,711	13,831,341	-	-
Current receivables ( <i>service fee</i> )	171,046	55,087	-	-
Current payables ( <i>purchase of goods and services</i> )	-	7,923,338	-	-
Other receivables ( <i>dividend receivable from Elektronček</i> )	8,361,204	-	-	-
<b>Net amount receivable from minority interest as at balance date</b>				
<b>Current</b>				
Receivable from related entity – interest	1,121,585	1,009,548	-	-
Receivable from related entity – loan	1,499,892	480,735	-	-
<b>Non-current</b>				
Receivable from related entity – loan	4,358,737	6,148,092	-	-

On 31 May 2006, Aristocrat International Pty Ltd, a wholly-owned entity, advanced to Yabohle Investments (Pty) Limited, the minority shareholder of the Group's South African operations, a seven year loan of ZAR43,400,000.

The loan is secured over the shares of the South African legal entity and the shareholder's dividends are redirected as repayments against the loan balance.

The annual interest rate payable is at 1% less than the prime bank overdraft rate charged by an approved bank of the Republic of South Africa.

## Note 36. Earnings per share

	2007 Cents	Consolidated 2006 Cents
Basic earnings per share	53.0	51.2
Diluted earnings per share	52.8	50.9

	2007 Number	Consolidated 2006 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	466,587,598	466,585,445
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	466,587,598	466,585,445
Effect of options	574,427	1,104,951
Effect of Performance Share Rights	1,207,988	1,754,804
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	468,370,013	469,445,200

	2007 \$'000	Consolidated 2006 \$'000
<b>Reconciliation of earnings used in calculating diluted earnings per share</b>		
Net profit attributable to members of Aristocrat Leisure Limited	247,172	238,998
Earnings used in calculating diluted earnings per share	247,172	238,998

### Information concerning the classification of securities

#### (a) Options

Options granted to employees under the Aristocrat Employee Share Option Plan and the Employee Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details of options in relation to the year ended 31 December 2007 are set out in Notes 32 and 33.

Included within the weighted average number of potential ordinary shares related to options, there were nil (2006: 63,738) options that had lapsed during the year and 125,790 (2006: 381,482) options that had been exercised during the year.

#### (b) Performance Share Rights

Rights granted to employees under the Performance Share Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The rights have not been included in the determination of basic earnings per share. Details relating to the rights are set out in Notes 32 and 33.

Included within the weighted average number of potential ordinary shares related to Performance Share Rights, there were 50,322 (2006: 87,475) Performance Share Rights that had lapsed during the year.

#### (c) Share-based payments trust

Shares purchased on-market through the Aristocrat Employee Equity Plan Trust have been treated as shares bought back and cancelled for the purpose of the calculation of the weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.

Shares issued through the Aristocrat Employee Equity Plan Trust on the exercise of options have been treated as shares issued from contributed equity capital for the purpose of the calculation of the weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.

## Notes to the financial statements

For the 12 months ended 31 December 2007

### Note 37. Reconciliation of profit from ordinary activities after income tax to net cash flow from operating activities

	Consolidated		Parent entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Profit from ordinary activities after income tax	247,936	240,055	200,454	99,452
Depreciation and amortisation	36,435	31,415	-	-
Dividends	-	-	(198,469)	(100,000)
Equity-settled share-based payments	9,398	9,604	-	1,145
Non-cash interest expense	(934)	3,472	-	3,400
Net (gain)/loss on sale of property, plant and equipment	(2,666)	840	-	-
Share of net profits of jointly controlled entity	(8,613)	(7,150)	-	-
Realised exchange differences arising from the partial settlement of a long-term loan which formed part of the net investment in a foreign operation	-	5,975	-	-
Net foreign currency exchange differences	(6,333)	(660)	-	(4,015)
Gain on partial sale of subsidiary	-	(6,219)	-	-
Change in operating assets and liabilities:				
- Decrease/(increase) in receivables and deferred revenue	(21,057)	96,319	37,792	15,214
- Decrease in inventories	8,341	14,274	-	-
- Increase in other operating assets	(2,808)	-	-	-
- Decrease in tax balances	(23,712)	(31,450)	(39,681)	(14,021)
- Decrease in payables	(13,186)	(143,518)	-	2,744
- Decrease in other provisions	(644)	(8,185)	-	-
Net cash inflow from operating activities	222,157	204,772	96	3,919



## Note 38. Deed of cross guarantee

The Company, Aristocrat International Pty Ltd and Aristocrat Technologies Australia Pty Ltd were parties to a deed of cross guarantee in 2005 that has been lodged with and approved by the Australian Securities & Investments Commission. Aristocrat (Asia) Pty Limited and Aristocrat (Macau) Pty Limited joined the deed on 22 December 2006. Under the deed, each of the abovenamed companies guarantees the debts of the other named companies. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended by Class Orders 98/2017, 00/0321, 01/1087, 02/0248 and 02/1017) issued by the Australian Securities & Investments Commission.

The abovenamed companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the deed that are controlled by the Company, they also represent the 'Extended Closed Group'.

Set out below is a condensed consolidated income statement of the Closed Group:

	2007 \$'000	2006 \$'000
Profit before income tax	309,240	325,094
Income tax expense	(75,026)	(91,079)
<b>Profit for the year</b>	<b>234,214</b>	234,015

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	329,428	245,360
Profit for the year	234,214	234,015
Dividends paid	(221,186)	(149,947)
<b>Retained earnings at the end of the financial year</b>	<b>342,456</b>	329,428

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

### Current assets

Cash and cash equivalents	44,719	68,954
Receivables	262,769	60,979
Inventories	17,289	21,839
<b>Total current assets</b>	<b>324,777</b>	151,772

### Non-current assets

Receivables	28,371	77,262
Financial assets	107,841	246,305
Property, plant and equipment	50,380	55,195
Deferred tax assets	20,241	20,724
Intangible assets	2,393	2,254
<b>Total non-current assets</b>	<b>209,226</b>	401,740
<b>Total assets</b>	<b>534,003</b>	553,512



# Notes to the financial statements

For the 12 months ended 31 December 2007

## Note 38. Deed of cross guarantee *continued*

	2007 \$'000	2006 \$'000
<b>Current liabilities</b>		
Payables	88,807	97,771
Borrowings	45,000	–
Current tax liabilities	18,265	48,111
Provisions	52,215	11,249
Other liabilities	12,707	7,615
<b>Total current liabilities</b>	<b>216,994</b>	164,746
<b>Non-current liabilities</b>		
Provisions	3,510	4,534
Other liabilities	10,388	39,067
<b>Total non-current liabilities</b>	<b>13,898</b>	43,601
<b>Total liabilities</b>	<b>230,892</b>	208,347
<b>Net assets</b>	<b>303,111</b>	345,165
<b>Equity</b>		
Contributed equity	1,231	53,573
Reserves	(40,576)	(37,836)
Retained earnings	342,456	329,428
<b>Total equity</b>	<b>303,111</b>	345,165





## Directors' declaration

For the year ended 31 December 2007

In the directors' opinion:

- (a) the financial statements and notes set out on pages 63 to 134 are in accordance with the *Corporations Act 2001* including:
  - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2007 and of their performance, for the financial year ended on that date;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (c) the audited remuneration disclosures set out on pages 25 to 53 of the Directors' Report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001; and
- (d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 38 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 38.

The directors have been given declarations by the chief executive officer 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.



**DJ Simpson**  
Chairman

Sydney  
26 February 2008



**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

Darling Park Tower 2  
 201 Sussex Street  
 GPO Box 2650  
 SYDNEY NSW 1171  
 DX 77 Sydney  
 Australia  
[www.pwc.com/au](http://www.pwc.com/au)  
 Telephone +61 2 8266 0000  
 Facsimile +61 2 8266 9999

**Independent auditor's report to the members  
 of Aristocrat Leisure Limited**

**Report on the financial report and the AASB 124 remuneration disclosures contained in the directors' report**

We have audited the accompanying financial report of Aristocrat Leisure Limited (the company), which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Aristocrat Leisure Limited (the company) and the Aristocrat Leisure Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 25 to 53 of the directors' report and not in the financial report.

***Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' report***

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1a, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

#### **Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

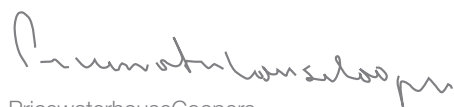
#### **Auditor's opinion on the financial report**

In our opinion, the financial report of Aristocrat Leisure Limited is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of their performance for the year ended on that date; and
- b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- c) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1a.

#### **Auditor's opinion on the AASB 124 remuneration disclosures contained in the directors' report**

In our opinion, the remuneration disclosures that are contained in pages 25 to 53 of the directors' report comply with Accounting Standard AASB 124.



PricewaterhouseCoopers



**R L Gavin**  
Partner

Sydney  
26 February 2008



# Shareholder Information

## Distribution of Equity Securities as at 27 February 2008\*

Size of Holding	Option Holders <sup>]</sup>	Holders of Performance Share Rights <sup>#</sup>	Shareholders	Number of Shares <sup>+</sup>	% of Issued Capital
1 - 1,000	0	751	7,451	3,613,396	.78
1,001 - 5,000	0	80	6,423	14,915,010	3.22
5,001 - 10,000	0	35	857	6,246,767	1.35
10,001 - 100,000	4	45	662	16,395,528	3.55
100,001 – over	1	1	126	421,442,844	91.10
TOTAL	5	162	15,519	462,613,545	100.00
Less than a marketable parcel of \$500.00			361	6,479	.001

\* The Company has issued a notice of redemption in relation to the USD130m Convertible Bonds which are not listed. Refer to Note 25 in the Financial Statements.

<sup>]</sup> All options issued under the Executive Option Share Plan (the "Plan") to take up ordinary shares in the capital of the Company subject to the rules of the Plan are unquoted and non-transferable.

<sup>#</sup> All share rights allocated under the "Three Plus" Performance Plan ("3+Plan") to take up ordinary shares in the capital of the Company subject to the rules of the 3+Plan are unquoted and non-transferable.

<sup>+</sup> Fully paid ordinary shares (excludes unexercised options and unvested performance share rights that have not been converted into shares).

## Substantial Shareholders as at 27 February 2008

The Capital Group Companies, Inc. advised that, as at 18 June 2007, it and its associates had a relevant interest in 28,485,030 shares, which represented 6.135% of Aristocrat's total issued capital.

Commonwealth Bank of Australia advised that, as at 25 July 2007, it and its associates had a relevant interest in 24,494,145 shares, which represented 5.28% of Aristocrat's total issued capital.



## Twenty Largest Shareholders as at 27 February 2008

Name	Number of Ordinary Shares Held	% Issued Capital
HSBC Custody Nominees (Australia) Ltd	58,019,222	12.54%
JP Morgan Nominees Australia Ltd	57,948,118	12.53%
National Nominees Ltd	49,372,933	10.67%
Serioso Pty Ltd	30,525,772	6.60%
Citicorp Nominees Pty Ltd	30,097,521	6.51%
Writeman Pty Ltd	29,276,160	6.33%
Thunderbirds Are Go Pty Ltd	26,116,788	5.65%
ANZ Nominees Ltd	17,712,095	3.83%
Arminella Pty Ltd	17,692,200	3.82%
Maaku Pty Ltd	16,973,432	3.67%
Cogent Nominees Pty Ltd	14,666,055	3.17%
UBS Nominees Pty Ltd	10,162,624	2.20%
ECA 1 Pty Ltd	8,596,098	1.86%
CJHA Pty Ltd	8,500,000	1.84%
RBC Dexia Investor Services	7,097,693	1.53%
Tasman Asset Management Ltd	4,302,920	.93%
PSS Board	3,844,083	.83%
Pacific Custodians Pty Ltd	2,696,107	.58%
Argo Investments Ltd	2,270,000	.49%
Queensland Investment Corporation	2,114,107	.46%

### Voting Rights

The voting rights attaching to ordinary shares are that on a show of hands every member present in person or by proxy has one vote and upon a poll, each share has one vote. Option holders, performance share right holders and convertible bond holders<sup>#</sup> have no voting rights.

<sup>#</sup> The Company has issued a notice of redemption in relation to the USD130m Convertible Bonds which are not listed. Refer to Note 25 in the Financial Statements.

### Unquoted Equity Securities

As at 27 February 2008, 537,500 unlisted non-transferable options have been issued under the Company Executive Share Option Plans and remain unexercised. These options have been issued to five executives of the Company.



### 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 members to provide information and also gives the Company powers to divest or require divestiture of shares, suspend voting rights and withhold payments of certain amounts to shareholders or other persons who may be unsuitable.

### Shareholder enquiries

You can access information about Aristocrat Leisure Limited and your holdings via the internet. Aristocrat's website, [www.aristocratgaming.com](http://www.aristocratgaming.com), has the latest information on Company announcements, presentations and reports. Shareholders may also communicate with the Company via its website. In addition, there is a link to the Australian Securities Exchange to provide current share prices. The share registry manages all your shareholding details. Visit [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) and access a wide variety of holding information, make changes to your holding record and download forms. You can access this information via a security login using your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as well and your surname and postcode recorded on your holding record.

### Dividends

#### Electronic Funds Transfer

In 2008, the Company introduced a mandatory direct payment of dividends program for shareholders resident in Australia who were requested to complete and submit a **Direct Credit of Dividends Form** (available from the Company's website) and return it to Link Market Services. Shareholders who have not already completed and returned this form will receive a notice from Link Market Services advising that:

- (i) the relevant dividend amount is being held as direct credit instructions have not been received;
- (ii) the relevant dividend will be credited to the nominated bank account as soon as possible on receipt of direct credit instructions;
- (iii) the relevant dividend will be reinvested under clause 18.14B of the Company's Constitution if direct credit instructions are not provided within six months of the payment date; and
- (iv) no interest is payable on the dividend being withheld.

Such notices are sent to shareholders who have not already completed and submitted a **Direct Credit of Dividends Form** by the record date of the relevant dividend.

#### Dividend Cheques

Dividend cheques (shareholders resident outside Australia) should be banked as soon as conveniently possible. Shareholders should note that un-presented dividend cheques may be dealt with by the Company under clause 18.14B of the Company's Constitution which provides for the automatic reinvestment of dividends which are the subject of dividend cheques that have not been presented six months after the payment date.



### **Dividend Reinvestment Plan**

The Company's Dividend Reinvestment Plan ("DRP") was activated on 25 February 2008 in respect of the 2007 final dividend. The Directors consider whether the DRP should operate each time a dividend is declared.

In relation to the final dividend for 2007, the Directors determined that the DRP operated on the basis that: (i) shares are purchased on-market subject to market conditions permitting this (and to the extent necessary, being issued); (ii) no minimum or maximum shareholding apply in order to be eligible to participate; (iii) the pricing period for the purchase of DRP shares comprises a period of not less than five business days commencing on 11 March 2008 (the next business day after the Record Date); (iv) on the basis that no discount is to apply; (v) (a) ASSPA Pty Limited, (b) the Aristocrat Employee Equity Plan Trust, (c) shareholders resident in all foreign countries, other than New Zealand, and (d) shareholders resident in all foreign countries, other than New Zealand, who hold shares through custodians, nominees or trustees (who hold the legal interest and are resident in Australia) are not permitted to participate; (vi) the number of shares allocated will be rounded up to the nearest share and (vi) no brokerage costs are payable.

The Record Date for the final dividend was the close of business on 7 March 2008 and the Payment Date is 31 March 2008.

Shares were allocated to DRP participants in reference to the 2007 final dividend at a share price calculated by reference to the average of the daily VWAPs over a period of "not less than five business days" from 11 March 2008.

Shareholders should note that: (i) shareholders who elect to participate in the DRP and who do not revoke their elections will automatically participate on the next occasion the DRP is activated; (ii) the fact that the DRP operated in respect of the 2007 final dividend does not necessarily mean that the DRP will operate in respect of any further dividends (a separate decision is made for each dividend); and (iii) when the DRP does operate, the DRP rules provide that the number of shares that DRP participants will receive will not be determinable on the Record Date.

The DRP Rules and the "Dividend Reinvestment Plan Application or Variation Form" are available from the Company's website [www.aristocratgaming.com](http://www.aristocratgaming.com) under *Investor Information/Investor Tools/Dividend Information*). Shareholders should return the completed form to Link Market Services by fax ((02) 9287 0303) or email (myshares.aristocrat@linkmarketservices.com.au).



# Corporate Directory

## Directors

### DJ Simpson

Non-executive Chairman

### PN Oneile

Chief Executive Officer and Managing Director

### SCM Kelly

Chief Financial Officer and Finance Director

### WM Baker

Non-executive Director

### P Morris

Non-executive Director

### AW Steelman

Non-executive Director

### SAM Pitkin

Non-executive Director

### RA Davis

Non-executive Director

## Secretary

BJ Yahl

## Global Headquarters

Aristocrat Leisure Limited  
71 Longueville Road  
Lane Cove NSW 2066  
Australia  
Telephone: +61 2 9413 6300  
Facsimile: +61 2 9420 1352

## Internet Site

[www.aristocratgaming.com](http://www.aristocratgaming.com)

## Australia

### Research & Development

Aristocrat Technologies Australia Pty Limited  
55 Mentmore Avenue  
Rosebery NSW 2018  
(PO Box 155  
Rosebery NSW 1445)  
Australia  
Telephone: +61 2 9413 6769  
Facsimile: +61 2 9420 1329

### Manufacturing

Aristocrat Technologies Australia Pty Limited  
2-4 Butu Wargun Drive  
Pemulwuy NSW 2145  
Australia  
Telephone: +61 2 9849 3608  
Facsimile: +61 2 9849 3601

### Aristocrat Global Gaming

151 Dunning Avenue  
Rosebery NSW 2018  
Australia  
Telephone: +61 2 9697 4007  
Facsimile: +61 2 9697 4830

## International

### The Americas

#### North America

Aristocrat Technologies, Inc.  
7230 Amigo Street  
Las Vegas  
Nevada 89119  
USA  
Telephone: + 1 702 270 1000  
Facsimile: + 1 702 270 1001

#### South America

Aristocrat (Argentina) Pty Ltd  
San Vladimiro 3056, 1 Piso Of, 7  
San Isidro  
Buenos Aires CP 1642  
Argentina, South America  
Telephone/ Fax: + 5411 4708 5400

### Asia

#### Macau

Aristocrat (Macau) Pty Limited  
17th Floor, Hotline Centre  
335-341 Alameda Drive  
Carlos d' Assumpcao  
Macau  
Telephone: + 853 28 722 777  
Fax: + 853 28 722 783

#### Singapore

Aristocrat Technologies  
61 Kaki Bukit Avenue 1  
Shun Li Industrial Park #04-29  
Singapore 417943  
Telephone: + 656 444 5666  
Facsimile: + 656 842 4533





## Europe

### Great Britain

Aristocrat Technologies Europe Ltd  
25 Riverside Way  
Uxbridge  
Middlesex UB8 2YF U.K.  
Telephone: + 44 1895 618 500  
Facsimile: + 44 1895 618 501

### Sweden

ACE Interactive (ACEI AB)  
Hammarby Kajväg 16  
Box 92079  
SE-120 07 Stockholm  
Sweden  
Telephone: + 46 8 522 158 00  
Facsimile: + 46 8 642 47 14

### Japan

Aristocrat Technologies KK  
7th Floor, Ryukakusan Building  
2-5-12 Higashi-kanda Chiyoda-ku  
Tokyo Japan 101-0031  
Telephone: + 813 5835 0521  
Facsimile: + 813 5835 0523

### New Zealand

Aristocrat Technologies NZ Ltd  
22 Vestey Drive, Mt Wellington  
Auckland, New Zealand  
Telephone: + 649 259 2000  
Facsimile: + 649 259 2001

### South Africa

Aristocrat Technologies Africa (Pty) Limited  
40 Galaxy Avenue  
Linbro Business Park  
Linbro Park  
South Africa 2090  
Telephone: + 27 11 579 2900  
Facsimile: + 27 11 608 0030

## Investor Contacts

### Share Registry

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000 Australia

Email: myshares.aristocrat@  
linkmarketservices.com.au

Website: www.linkmarketservices.com.au

Locked Bag A14, Sydney South NSW 1235  
Australia

### Auditor

PricewaterhouseCoopers  
201 Sussex Street  
Sydney NSW 1171 Australia

### Stock Exchange Listings

Aristocrat Leisure Limited  
Ordinary Shares are listed on the Australian  
Securities Exchange  
CODE: ALL

### Investor Email Address

Investors may send email queries to:  
investor.relations@ali.com.au





**VIRIDION**  
DESIGNED TO PERFORM

The image features a solid yellow background with three large, overlapping, semi-transparent circular shapes that create a sense of depth and movement. In the bottom-left corner, the company logo is displayed in white. The logo consists of the word "VIRIDION" in a bold, sans-serif font, with a stylized water drop icon integrated into the letter "O". Below the company name, the tagline "DESIGNED TO PERFORM" is written in a smaller, all-caps, sans-serif font.

