

ARISTOCRAT
LEISURE LIMITED
Annual Report 2010



2010 Annual Report

This 2010 Aristocrat Leisure Limited Annual Report complies with reporting requirements and contains statutory financial statements.

This document is not a concise report prepared under section 314(2) of the *Corporations Act 2001* (Cth). The Aristocrat Group has not prepared a concise report for the 2010 financial year.

2010 Business Review

The 2010 Business Review contains reports from the Chairman and Managing Director on the Group's business and operational highlights.

The 2010 Business Review can be found on the Group's website: www.aristocratgaming.com.

2011 Annual General Meeting

The 2011 Annual General Meeting will be held at 10.00am on Tuesday, 3 May 2011 at The Mint, 10 Macquarie Street, Sydney NSW.

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

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Company Profile

Aristocrat Leisure Limited (ASX: ALL) is a leading global provider of gaming solutions. The Group 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 and casino management systems. For further information, visit the Group's website at www.aristocratgaming.com.

Key Dates¹

2011

2011 Annual General Meeting	3 May 2011
Interim Results Announcement (6 months ending 30 June 2011)	25 August 2011
Shares Trade Ex-Interim Dividend	31 August 2011
Record Date for Interim Dividend	6 September 2011
Payment Date for Interim Dividend	30 September 2011

2012

Final Results Announcement for 2011	24 February 2012
Shares Trade Ex-Final Dividend	1 March 2012
Record Date for Final Dividend	7 March 2012
Payment Date for Final Dividend	29 March 2012
2012 Annual General Meeting	1 May 2012

¹ Dates subject to change.

Directors' Report

for the 12 months ended 31 December 2010

The Directors present their report together with the financial statements of the Company and its subsidiaries (the Group) for the 12 months ended 31 December 2010. The information in this Report is current as at 24 February 2011 unless otherwise specified.

Directors' particulars, experience and special responsibilities

Current Directors

The Directors of the Company throughout the 12 months ended 31 December 2010 and up to the date of this Report are:

Director	Experience and other directorships	Special responsibilities
ID Blackburne BSc (Hons), MBA, PhD Age 64	Nominated December 2009. Appointed 17 September 2010. <ul style="list-style-type: none"> - Chairman, CSR Limited - Director, Teekay Corporation (listed on the NYSE) - Former Director, Suncorp-Metway Limited and Symbion Health Limited - Former Chairman, Australian Nuclear Science and Technology Organisation - Former Managing Director, Caltex Australia Limited 	Non-Executive Chairman (from 1 December 2010) Member of each Board committee (from 19 November 2010)
JR Odell MBA Age 52	Nominated December 2008. Appointed May 2009. <ul style="list-style-type: none"> - Special Director and Chairman, Gaming Technologies Association Limited - Former Managing Director, Australia, Asia and Pacific, Foster's Group Limited - Former Executive, Allied Domecq in the UK and Asia Pacific - Former Managing Director, Lyons Tetley Australia 	Managing Director and Chief Executive Officer
WM Baker BA Age 71	Nominated August 1998. Appointed May 1999. <ul style="list-style-type: none"> - Director, J. Edgar Hoover Foundation - Former Assistant Director of the Federal Bureau of Investigation (FBI) - Former President, The Motion Picture Association 	Chair, Regulatory and Compliance Committee
RA Davis BEC (Hons), M Philosophy Age 59	Nominated November 2004. Appointed June 2005. <ul style="list-style-type: none"> - Consulting Director Investment Banking, Rothschild Australia Limited - Director, Territory Insurance Office, Chartis Australia Limited, Trust Company Limited, Bank of Queensland, Charter Hall Office REIT, and Ardent Leisure Management Limited - Former Senior Executive, Citicorp and CitiGroup Inc in the United States and Japan - Former Group Managing Director, ANZ Banking Group Limited 	Chair, Audit Committee (from 14 May 2010) Member, Audit Committee (to 14 May 2010) Chair, Nomination and Governance Committee Member, Innovation and Development Committee
RV Dubs BSc (Hons), Dr ès Sc, FAICD Age 58	Nominated December 2008. Appointed June 2009. <ul style="list-style-type: none"> - Chair, Space Industry Innovation Council - Former Deputy Vice-Chancellor (External Relations), University of Technology Sydney - Former VP Operations, Thales ATM SA (France) - Former Director, Structural Monitoring Systems Plc, Thales ATM Pty Limited, Thales ATM Inc (USA) and Thales ATM Navigation GmbH (Germany) - Former Chairman, Thales ATM spA (Italy) 	Chair, Innovation and Development Committee Member, Regulatory and Compliance Committee Member, Human Resources and Remuneration Committee (from 14 May 2010)

Current Directors continued

Director	Experience and other directorships	Special responsibilities
SW Morro BA, Business Administration Age 51	Nominated December 2009. Appointed 17 December 2010. Former Chief Operating Officer and President, IGT Gaming Division	Member, Regulatory and Compliance Committee (from 17 December 2010)
SAM Pitkin LLB, LLM, FAICD Age 51	Nominated November 2004. Appointed June 2005. <ul style="list-style-type: none"> - Director, Super Retail Group Limited - Member, Queensland Competition Authority - Councillor, Queensland State Council, Australian Institute of Company Directors - Former Partner and corporate lawyer, Clayton Utz, Lawyers 	Chair, Human Resources and Remuneration Committee Member, Innovation and Development Committee Member, Nomination and Governance Committee (from 14 May 2010) Member, Audit Committee (from 14 May 2010) Member, Regulatory and Compliance Committee (until 17 December 2010)

Directors (Elect)

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

Director	Experience and other directorships	Special responsibilities
DGP Banks BBus (Mgt) Age 59	Nominated October 2010. Nomination effective from 15 November 2010. <ul style="list-style-type: none"> - Former Group Chief Operating Officer of Galaxy Entertainment Group (Macau) - Former Chief Executive (Casinos Division) of Tabcorp Holdings Limited - Former Chief Executive Officer of Star City Holdings Limited - Former President, Australasian Casinos Association - Former Director, Australian Gaming Council 	Member (Elect), Human Resources and Remuneration Committee (from 17 December 2010)
LG Flock BA Age 57	Nominated December 2010. Nomination effective from 1 February 2011. <ul style="list-style-type: none"> - Former Executive Vice President, Worldwide Publishing and Studios, THQ - Former President and CEO, Sony Online Entertainment - Former President, Sony Computer Entertainment and Sony Interactive Studios America 	

Former Directors

The following Directors held office for part of the 12 months ended 31 December 2010:

Director	Experience and other directorships	Special responsibilities
DJ Simpson FCPA Age 70	Nominated July 2003. Appointed February 2004. Ceased office 17 December 2010.	Former Non-Executive Chairman (until 1 December 2010) Former Member, Nomination and Governance Committee Former Member, Audit Committee Former Member, Human Resources and Remuneration Committee
P Morris AM BArch (Hons), MEnvSc, Dip CD, FRAIA, FAICD Age 62	Nominated August 2003. Appointed February 2004. Ceased office 28 April 2010.	Former Chair, Audit Committee Former Member, Human Resources and Remuneration Committee Former Member, Nomination and Governance Committee

Company Secretary

For the 12 months ended 31 December 2010, Mr PJ McGlinchey, BEc (SocSc) LLB (Hons), was the Company Secretary.

Principal activities

The principal activities of the Group during the 12 months under review were the design, development and distribution of gaming content, platforms and systems. 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 2010.

Dividends

Since the end of the year, the Directors have recommended the payment of a final dividend of 1.5 cents (2009: nil) per fully paid ordinary share. Details of the dividends paid and declared during the 12 months ended 31 December 2010 are set out in Note 7 to the financial statements.

Review and results of operations

A review of the operations of the Group for the 12 months ended 31 December 2010 is set out in the Review of Operations which forms part of this Directors' Report. The reported result of the Group attributable to shareholders for the 12 months ended 31 December 2010 was \$77,194,000 after tax and minority interests.

Significant changes in the state of affairs

Except as outlined below and elsewhere in this Directors' Report, there were no significant changes in the state of affairs of the Group during the 12 months ended 31 December 2010.

Events after balance date

No material matters requiring disclosure in this Directors' Report have arisen subsequent to 31 December 2010. To the best of their knowledge, the Directors are not aware of any other matter or circumstance that has arisen since 31 December 2010 that has significantly affected or may significantly affect:

- the Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

Likely developments and expected results

Likely developments in the operations of the Group in future financial years and the expected results of operations are referred to in the Review of Operations which forms part of this Directors' 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 2010

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

Meetings attended/held

Director	Board	Audit Committee	Human Resources and Remuneration Committee	Regulatory and Compliance Committee	Nomination and Governance Committee	Innovation and Development Committee
ID Blackburne ¹	3/3	1/1	1/1		1/1	1/1
DJ Simpson ²	12/12	4/4	5/5		3/3	
JR Odell	11/12					
WM Baker	12/12			5/5		
RA Davis	10/12	5/5			4/4	4/5
RV Dubs ³	12/12		4/4	5/5		5/5
P Morris ⁴	5/5	2/2	2/2		1/1	
SAM Pitkin ⁵	11/12	2/3	6/6	4/5	3/3	5/5
SW Morro ⁶	1/1					

- 1 ID Blackburne was nominated as a Director in December 2009 and appointed 17 September 2010. He attended all Board meetings during 2010 (three as a voting member and nine as a non-voting member in his capacity as Director (Elect)). ID Blackburne was appointed as a member of each Board committee on 19 November 2010. He attended the majority of committee meetings by invitation prior to 19 November 2010 in his capacity as a Director (Elect).
- 2 DJ Simpson ceased to be a committee member on 19 November 2010 and ceased office on 17 December 2010.
- 3 RV Dubs was appointed a member of the Human Resources and Remuneration Committee on 14 May 2010.
- 4 P Morris ceased office on 28 April 2010.
- 5 SAM Pitkin was appointed a member of the Nomination and Governance Committee and the Audit Committee on 14 May 2010.
- 6 SW Morro was nominated as a Director in December 2009 (effective 9 January 2010) and appointed 17 December 2010. He attended all Board meetings during 2010 (one as a voting member and 11 as a non-voting member in his capacity as Director (Elect)).

Options over share capital

No options over Company shares were granted to executives or Directors during the year ended 31 December 2010. There were no unissued shares or interests in the Company subject to options at the date of this Directors' Report and no Company shares or interests issued pursuant to exercised options during or since 31 December 2010.

Indemnities and insurance premiums

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

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

In accordance with the Company's Constitution, the Company has entered into deeds of access, indemnity and insurance and deeds of indemnity for identity theft with each Director and nominated officers of the Company. No amount has been paid pursuant to those indemnities in the year ended 31 December 2010 or since that date to the date of this Directors' Report.

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

Environmental regulation

The Group's operations have a limited impact on the environment. The Group is subject to a number of environmental regulations in respect of its integration activities. The Company does not manufacture gaming machines, it only integrates (assembles) machines and systems in Australia, the USA, Macau, Japan, the UK, South Africa and New Zealand. The Company uses limited amounts of chemicals in its assembly process. The Directors are not aware of any breaches of any environmental legislation or of any significant environmental incidents during the 12 months ended 31 December 2010.

Based on current emission levels, the Company is not required to register and report under the *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER Act). However, the Company continues to receive reports and monitors its position to ensure compliance with the NGER Act.

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

Proceedings on behalf of the Company

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

Auditor

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

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 its statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important. The Company has a charter of audit independence which specifies those non-audit services which cannot be performed by the Company auditor. The charter also sets out the procedures which are required to be followed prior to the engagement of the Company's auditor for any non-audit related service.

Details of the amounts paid or payable to the Company's auditor, for audit and non-audit services provided during the year, are set out in Note 31 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 Act. The Directors are satisfied that the provision of non-audit services by the auditor as set out in Note 31 to the financial statements did not compromise the auditor independence requirements of the Act for the following reasons:

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

A copy of the Auditor's Independence Declaration is attached to this Directors' Report.

Loans to Directors and executives

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

Remuneration Report

The Remuneration Report on pages 23 to 45 forms part of this Directors' Report.

Rounding of amounts to nearest thousand dollars

The Company is of a kind referred to in Australian Securities and Investments Commission Class Order 98/0100 dated 10 July 1998 (updated by Class Order 05/641 effective 28 July 2005 and Class Order 06/51 effective 31 January 2006) relating to the 'rounding off' of amounts in the Directors' Report and Financial Statements. Amounts in the Directors' Report and the 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.



Dr ID Blackburne

Chairman

24 February 2011

Review of Operations

for the full year ended 31 December 2010

Financial report

Summary

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

\$ million	Constant currency ² FY 2010	FY 2010	FY 2009	Variance vs FY 2009	
				Constant currency ² %	Reported %
Normalised results¹					
Total segment revenue from ordinary activities	760.0	684.6	908.6	(16.4)	(24.7)
Earnings before interest, tax and D&D costs	217.2	194.5	283.3	(23.3)	(31.3)
Earnings before interest and tax (EBIT)	99.6	84.7	169.9	(41.4)	(50.1)
Profit after tax	66.6	55.2	116.9	(43.0)	(52.8)
Profit after tax and non-controlling interest	66.0	54.6	116.4	(43.3)	(53.1)
Earnings per share (fully diluted)	12.4c	10.3c	23.0c	(46.1)	(55.2)
Total dividend per share	5.0c	5.0c	4.5c	11.1	11.1
Reported results					
Profit/(loss) after tax and non-controlling interest	88.7	77.2	(157.8)	156.2	148.9
Balance sheet/cash flow					
Net working capital/revenue	18.2%	20.2%	14.3%	3.9pts	5.9pts
Operating cash flow ¹	86.6	73.6	157.8	(45.1)	(53.4)
Cash flow per share (fully diluted) ¹	16.3c	13.9c	31.2c	(47.8)	(55.4)
Closing net debt	290.7	285.8	75.3	(286.1)	(279.5)

1 Before the net impact of abnormal and one-off items that are not representative of the underlying operational performance of the Group. Refer to page 12.

2 Full year 2010 result adjusted for translational exchange rates using rates applying in 2009.

The Group reported a normalised profit after tax and non-controlling interest of \$54.6 million, representing a 53.1% decline compared with the prior corresponding period's result of \$116.4 million. In constant currency terms, the full year result declined 43.3% compared with the prior period.

More specifically, the result was driven by:

North America

Local currency performance has decreased on the prior year impacted by continued soft market conditions, unchanged replacement cycle, and limited new openings and expansions. While the market declined an estimated 12.0%, the Group increased its ship share and improved its average selling price (ASP) through the release of the *Viridian WS*, *Viridian Slant Vii* and strong game performance. Contributions from gaming operations declined year on year, driven by a reduction in the installed base and fee per day (FPD) influenced by legacy product and the timing of new product releases skewed towards the fourth quarter of 2010.

Australia

Performance was significantly down on the prior year, mainly driven by declining legacy game performance in New South Wales (NSW) and Queensland (QLD), insufficient games into QLD and the lack of a widescreen offering. Legacy games required price support resulting in reduced revenues, selling prices and margins. The prior period was also favourably impacted by the *Indian Dreaming* revocation and the take-off of product licensing agreements.

Japan

Despite significant improvement in the pachislot market shipments this period (30% increase), sales were heavily weighted towards a handful of competitors' premium licensed titles. The Group's performance was unfavourable year on year, selling less units and not realising the benefits of a larger market due to intensely competitive market conditions and a lack of key competitive titles and technology.

Rest of World

Strong performance in Asia Pacific and Europe was offset by lower performance elsewhere, driven by weak economic performance across most of the portfolio and limited activity from New Zealand. Importantly, the Group held share in the segment despite continuing strong competition.

Reported results included a net abnormal profit after tax of \$22.6 million comprised of profit recognised on the disposal of the Group's investment in Elektronček and a favourable adjustment realised on the lower than expected convertible bonds damages settlement that was partially offset by the impairment on gaming operations fixed assets and restructuring costs.

Fully diluted normalised operating earnings per share of 10.3 cents represent a 55.2% decline on the prior year. Consistent with earnings, operating cash flow per share declined by 55.4% to 13.9 cents.

Profit and loss

Analysis throughout this section refers to results reported on a normalised management basis prior to recognising a number of transactions/adjustments taken during the period which are considered abnormal on the basis that they are not representative of the underlying operational performance of the Group and are non-recurring in nature.

Note that with effect from this reporting period, supply chain margins, which previously had been treated as unallocated, have now been allocated to the individual segment whose activity generated the margin so as to better reflect the underlying profitability of individual segments.

Review of Operations

Aristocrat Leisure Limited

Annual Report 2010

Summary profit and loss

\$ million			Variance
	FY 2010	FY 2009	%
Segment revenue			
Australia	137.6	207.8	(33.8)
North America	323.1	405.6	(20.3)
Japan	48.5	106.1	(54.3)
Rest of World	175.4	189.1	(7.2)
Total segment revenue	684.6	908.6	(24.7)
Segment profit			
Australia	23.3	73.4	(68.3)
North America	126.7	156.2	(18.9)
Japan	6.0	17.7	(66.1)
Rest of World	55.8	56.6	(1.4)
Total segment profit	211.8	303.9	(30.3)
Unallocated expenses			
Group D&D expense	(109.8)	(113.4)	3.2
Foreign exchange	0.6	2.3	(73.9)
Corporate	(17.3)	(21.2)	18.4
Share of losses – Elektronček	(0.6)	(1.7)	64.7
Total unallocated expenses	(127.1)	(134.0)	5.1
EBIT	84.7	169.9	50.1
Interest	(13.5)	(13.9)	2.9
Profit before tax	71.2	156.0	(54.4)
Income tax	(16.0)	(39.1)	59.1
Profit after tax	55.2	116.9	(52.8)
Non-controlling interest	(0.6)	(0.5)	(20.0)
Profit after tax after non-controlling interest	54.6	116.4	(53.1)

Key metrics

	% of revenue		Variance
	FY 2010	FY 2009	Pts
Segment profit margin			
Australia	16.9	35.3	(18.4)
North America	39.2	38.5	0.7
Japan	12.4	16.7	(4.3)
Rest of World	31.8	29.9	1.9
Overall segment profit margin	30.9%	33.4%	(2.5)
Group D&D expense	16.0	12.5	3.5
Earnings before interest and tax	12.4	18.7	(6.3)
Profit after tax and non-controlling interest	8.0	12.8	(4.8)

Revenue

Segment revenue declined \$224.0 million (24.7%) in reported currency (16.4% in constant currency), reflecting the impact of lower sales volumes predominantly across the Group's core markets of North America, Australia and Japan. Soft economic conditions and weak operator capital spend in North America, the lack of competitive product in Australia and the lack of a competitive licensed game in Japan resulted in lower volumes. Unfavourable foreign exchange translation impacts also influenced reported North American revenue.

These negatives were partially offset by strong performance in Asia Pacific, driven by sales to the two new Singapore casinos, Resorts World Sentosa and Marina Bay Sands, where the Group achieved the highest individual supplier floor shares.

North American revenue decreased \$82.5 million (20.3%) in Australian dollar terms, while in local currency the decline was US\$25.6 million (7.9%), primarily driven by lower sales volumes as a result of poor economic and operator conditions and a lower contribution from gaming operations. Despite the market declining approximately 12%, ship share increased and average selling price improved. Gaming operations were impacted by a lower year on year install base and lower fee per day. The install base was impacted by the removal of legacy products (returns), which continued to outpace new product releases. The decline in FPD was also influenced by the continued aging of the install base in the absence of new product releases during the period, as well as the continued trend of lower operator revenues. Systems revenue was down on a lower number of new casino installs compared to the prior year (eight compared to 14).

Australian revenue declined \$70.2 million (33.8%), mainly driven by lower sales as a result of weak game performance, lower average pricing, insufficient product for the QLD market and the lack of a widescreen offering. This is against the backdrop of non-recurring licensing and games conversion activity in the prior year that was largely driven by regulatory and one-off market opportunities (*Indian Dreaming* revocation).

In Japan, revenue fell \$57.6 million (54.3%) in Australian dollar terms, while in local currency the decline was 54.7% due to a highly competitive market dominated by a handful of premium licensed releases. The Group's volumes fell 52.0% compared to the prior corresponding period, reflecting a lack of key competitive titles and technology. Of the four products released during the period the most prominent, licensed title *Mach GoGoGo 3™*, fell short of expectations.

In the Rest of World segment, in Australian dollars overall revenue was down by \$13.7 million (7.2%) while in constant currency overall revenue improved by \$10.0 million (5.3%). Asia Pacific was the strongest performing region (typified by the high share of new casino openings in Singapore), with favourable performance also delivered by Europe, driven by growth from Spain and the German Street market. Performance in these regions was partially offset by a lack of activity in New Zealand, and lower volumes in ACE and South Africa.

Earnings

Segment profit in reported currency declined \$92.1 million (30.3%) compared with the prior corresponding period (21.2% in constant currency). The decline was driven by declines in Australia of \$50.1 million, in North America of \$29.5 million (7.0% in local currency), in Japan of \$11.7 million (69.4% in local currency), and in New Zealand of \$12.1 million, primarily due to lower revenue. This has partially been offset by strong profit performance in the Asia Pacific region, which improved 28.6% in reported currency (58.2% in constant currency), and Europe.

Despite unit sales in North America being lower than in the prior year, improved price and margin resulted in slightly improved profit over the prior year. This was more than offset by revenue declines in gaming operations (install base and fee per day) and lower new systems installations compared to the prior corresponding period.

Total unallocated expenses decreased by \$6.9 million (5.1%), principally reflecting lower reported design and development and corporate costs offset by reduced gains from foreign exchange.

Cost control remains a key focus of the Group's turnaround strategy. Corporate costs declined 18.4% compared to the prior corresponding period and Group SMG&A costs showed a similar trend, declining 12.8% overall (7.1% in constant currency).

The Group's investment in its future through design and development (D&D) spend rose as a percentage of revenue to 16.0% (15.5% on a constant currency basis) from 12.5% (12.1% on a constant currency basis) of revenues in the prior corresponding period. Total reported spend declined \$3.6 million or 3.2% compared to the prior corresponding period, and increased by 3.7% on a constant currency basis. The underlying increase in D&D spend as a percentage of revenue is consistent with the Group's turnaround strategy as it invests in better games development and new technology. The design and development headcount has grown significantly in the period and is currently at 761 full-time equivalents (FTEs) compared to 644 FTEs as at 31 December 2009, influenced by the ramp up of the Indian Development Centre.

Net interest expense was marginally down, reflecting lower average net debt levels held for the most part of the year. At period end, the Group was carrying higher levels of debt following the settlement of the convertible bonds litigation and the associated damages payment in September 2010.

The effective tax rate on the normalised result is 22.5%. This is lower than the 25.1% recorded in the prior corresponding period. The reduction in the effective tax rate was driven by the mix of earnings and the lower relative levels of earnings.

The decline in profit after tax has resulted in basic and fully diluted earnings per share falling by 12.7 cents (down 55.2%) to 10.3 cents.

Abnormal items

\$ million	Full year 2010	
	Before tax	After tax
Convertible bonds settlement	35.8	22.1
Profit on disposal of investment in Elektronček	12.7	12.7
Impairment of gaming operation assets	(12.5)	(8.1)
Restructuring costs	(6.1)	(4.1)
Net abnormal profit	29.9	22.6

Convertible bonds settlement

The Group's reported result after tax for the year included an abnormal net profit after tax of \$22.1 million arising from the release of the bonds settlement provision that was raised in 2009 realised on the lower than expected final damages settlement.

Profit on disposal of investment in Elektronček

The Group's reported result after tax for the year included an abnormal net profit after tax of \$12.7 million arising from the disposal of its investment in Elektronček. The divestment of Elektronček is consistent with the Group's strategy to exit non-core businesses and to focus resources on its core business of video and stepper reel games and systems. Proceeds from this transaction were received during the period following regulatory approval of the divestment.

Impairment of gaming operations assets

The Group's reported result after tax for the year included an abnormal loss of \$8.1 million arising from the write down of *Viridian 19"* machines. Following the successful release of the *Viridian WS*, the level of churn in the install base of *Viridian 19"* machines has increased, with a shift to *Viridian WS*.

Restructuring costs

Restructuring costs of \$4.1 million after tax were incurred in the period as the Group continues to drive a more efficient cost base. Restructuring activities were focused on the Australian and Japanese businesses, with an objective of reducing the fixed cost base supporting these businesses, as well as the D&D function, as the efficiency benefits of the Indian Development Centre are realised.

Balance sheet

The balance sheet can be summarised as follows:

\$ million	31 Dec 2010	31 Dec 2009
Net working capital	138.0	129.7
Other current/non-current assets	96.8	93.7
Property, plant and equipment	100.1	120.5
Investments in associate and other companies	1.5	6.2
Intangibles	114.0	118.5
Other current/non-current liabilities	(89.5)	(357.1)
Net tax balances	112.8	117.6
Funds employed	473.7	229.1
Net debt	(285.8)	(75.3)
Total equity	187.9	153.8

Significant balance sheet movements from 31 December 2009 are:

Net working capital

As a percentage of the last 12 months' revenue, net working capital was 20.2% at 31 December 2010, up 5.9 percentage points from 14.3% at 31 December 2009. This was principally driven by reduced revenues, and an increase in the range of inventory held as a result of the new product launches for the *Viridian WS* in Australia and North America and the *Viridian Slant VII* and *VERVE hd* in North America.

Property, plant and equipment

The \$20.4 million decline primarily represents the depreciation charge for the year (\$30.5 million), the impairment of gaming operations assets, and translational foreign exchange partially offset by net capital additions, primarily relating to gaming operation units in North America.

Other current/non-current liabilities

The decrease primarily reflects the release of the convertible bond provision raised in 2009 following settlement of damages.

Net debt

The increase in the Group's net debt was mainly driven by the payment of the convertible bonds damages settlement.

Intangible assets

The \$4.5 million decrease primarily reflects the retranslation of foreign currency denominated intangible assets (primarily in North American and ACE businesses) at closing foreign exchange rates (\$10.6 million) and amortisation, partially offset by the acquisition of intangible assets in Japan.

Total equity

The change in total equity predominantly reflects net reported profit of \$77.2 million for the period, offset by a \$28.5 million increase in the foreign currency translation reserve, and the current year \$18.6 million interim dividend payment.

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:

\$ million	FY 2010	FY 2009
Net debt – opening balance	(75.3)	(376.4)
Normalised net cash inflow from operating activities	73.6	157.8
Cash effect of abnormal items	(236.1)	(16.4)
Net cash inflow from operating activities	(162.5)	141.4
Investing cash flows	(35.4)	(39.9)
Financing cash flows	(17.5)	171.4
Movement in net cash	(215.4)	272.9
Effect of exchange rate changes on net debt	4.9	28.2
Net debt – closing balance	(285.8)	(75.3)

Normalised operating cash flow of \$73.6 million was \$84.2 million lower than in the prior period and represents 10.8% of revenues driven by lower normalised earnings.

The abnormal cash impact of \$236.1 million relates predominantly to the settlement of the convertible bonds damages.

Fully diluted operating cash flow per share decreased from 31.2 cents to 13.9 cents.

The net cash outflow from investing activities primarily represents investment in plant and equipment, predominantly for gaming operation units in North America, investment in software assets and the acquisition of Spiky intangibles in Japan, partially offset by proceeds on the disposal of the Elektronček investment.

The net cash flow from financing activities is primarily driven by payments of dividends.

Foreign exchange movements had a favourable impact of \$4.9 million on the net debt position during the period.

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

Capital management

The Group remains prudent in its approach to balance sheet management, with the recent finalisation of the US convertible bond litigation having a significant impact on Group borrowings as was anticipated.

The outlook for cash flow remains positive, with the business requiring limited capital investment to grow organically combined with a continued focus on cash flow management. The company remains committed to reducing borrowing and gearing to more conservative levels than those currently prevailing, following the settlement of the convertible bond litigation.

Dividends

The Directors have authorised a final dividend in respect of the year ended 31 December 2010 of 1.5 cents per share (\$8.0 million). The dividend will be unfranked and is expected to be declared and paid on 28 March 2011 to shareholders on the register at 5.00pm on 7 March 2011. The Dividend Reinvestment Plan (DRP) will be activated in respect of this dividend (for shareholders resident in Australia and New Zealand), with DRP participants to be issued shares. In accordance with the DRP rules, the DRP issue price will be calculated by reference to the arithmetic average of the daily volume weighted average prices over a period of 10 days commencing on 8 March 2011. A 2.5% discount is applicable, with the number of ordinary shares DRP participants will receive being rounded to the nearest share. The dividend will be funded by way of a fully underwritten DRP.

The Group's ability to pay franked dividends is primarily influenced by its mix of earnings and agreed positions with various taxation authorities around the world. As noted previously, based on the current mix of earnings and the impact of prior period abnormal items, the 2010 final dividend and dividends paid over the medium term are not expected to be fully franked.

Total dividends in respect of the 2010 year amount to 5.0 cents per share compared to 4.5 cents per share in the prior corresponding period. Total 2010 dividends represent a payout ratio of 49% of normalised earnings. It remains the Group's intention to maintain an annual earnings payout ratio within its stated 50%–70% range over the medium term.

Bank facilities

The Group had committed bank facilities of \$500.0 million at 31 December 2010, of which \$298.7 million was drawn compared to \$127.1 million at 31 December 2009. Net debt levels at 31 December 2010 increased to \$285.8 million from \$75.3 million as at 31 December 2009. This increase in drawn facilities primarily reflects the impact of the US convertible bonds litigation settlement in September 2010.

The Group's facilities are summarised as follows:

Facility	Drawn as at 31 December 2010	Limit	Maturity date
3 year debt	\$298.7m	\$500.0m	June 2013

This term facility will continue to satisfy the ongoing requirements of the business and provides sufficient flexibility to execute strategic opportunities as they arise.

Debt ratios

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

Ratio	31 Dec 2010	31 Dec 2009
EBITDA ¹ /interest expense ²	9.0X	12.6X
Debt/EBITDA ¹	2.5X	0.7X
Net debt/EBITDA ¹	2.3X	0.4X

1 EBITDA and interest expense are based on the preceding 12 month results. EBITDA represents bank EBITDA, which is inclusive of interest received but excludes the impact of abnormal items.

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

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.

Credit rating

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 for the business. The Group's Standard & Poor's credit rating is BB+.

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.

The Australian dollar was, on average, stronger against the US dollar but broadly neutral against the yen in 2010 compared to 2009. The impact of translating foreign currency (translational impact) decreased revenue by \$75.4 million while decreasing reported profit after tax and non-controlling interest by \$11.4 million when compared with rates prevailing in the respective months in the prior year.

In addition, the net effect of the retranslation of the net assets of foreign controlled entities (recognised through the foreign currency translation reserve) was a favourable \$91.6 million (compared to a favourable \$63.1 million as at 31 December 2009), as the Australian dollar at 31 December 2010 was stronger than at 31 December 2009.

Based on the Group's 2010 mix of profitability, the major exposure to translational foreign exchange results from the Group's US dollar profits. A US dollar 1 cent change in the US\$:A\$ exchange rate results in an estimated \$1.1 million translational impact on the Group's reported profit after tax. This impact will vary as the magnitude of overseas profits change.

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

A\$:	31 Dec 2010	30 Jun 2010	31 Dec 2009	2010 Average ¹	2009 Average ¹
USD	1.0170	0.8523	0.8969	0.9200	0.7863
NZD	1.3256	1.2308	1.2354	1.2785	1.2497
JPY	82.82	75.46	82.82	80.12	73.6038
EUR	0.7684	0.6979	0.6241	0.6982	0.5666
SEK	6.8456	6.6185	6.3788	6.6128	6.0054
ZAR	6.7339	6.5059	6.6070	6.7155	6.5078

¹ Average monthly exchange rates only. No weighting applied.

Regional segment review

In this review, segment profit/(loss) is before abnormal items, charges for D&D expenditure and corporate costs. The total amount of these items, excluding abnormal items, is disclosed in the Group's statement of comprehensive income. Constant currency amounts refer to 2010 results restated using exchange rates applying in 2009.

Note that with effect from this reporting period, supply chain margins that previously had been treated as unallocated have now been allocated to the individual segment whose activity generated the margin, so as to better reflect the underlying profitability of individual segments.

North America

US\$ million	FY 2010	FY 2009	Variance	Variance %
Revenue	296.8	322.4	(25.6)	(7.9)
Profit	116.1	124.9	(8.8)	(7.0)
Margin	39.1%	38.7%	–	0.4 pts

A\$ million	FY 2010	FY 2009	Variance	Variance %
Revenue	323.1	405.6	(82.5)	(20.3)
Profit	126.7	156.2	(29.5)	(18.9)
Margin	39.2%	38.5%	–	0.7 pts

Volume	FY 2010	FY 2009	Variance	Variance %
– Platforms	7,662	8,262	(600)	(7.3)
– Conversions	7,114	7,723	(609)	(7.9)
Average US\$ price/unit	15,054	14,675	379	2.6

	FY 2010	FY 2009	Variance	Variance %
Gaming operations units	5,670	6,409	(739)	(11.5)
Gaming operations US\$/day	38.53	42.12	(3.59)	(8.5)

The North American gaming market remained challenging during the period, with no improvement in economic conditions. The overall market is estimated to have declined by approximately 12% compared to the prior corresponding period, with fewer new casino openings or expansions. There has been no significant improvement in the replacement cycle.

In local currency, revenue declined US\$25.6 million (7.9%) and profit declined US\$8.8 million (7.0%) compared to the prior corresponding period. Overall margin improved modestly, driven by higher ASP, although this was partially offset by the impact of lower sales volumes combined with a flat fixed cost base.

Despite the decline in the market, the Group realised continued improvement in ship share of outright unit sales, influenced by the release of its widescreen offerings, during the reporting period. Reflecting the smaller market size, units sold in the period declined 7.3% to 7,662 compared to a larger estimated decline in the market of approximately 12.0%. Overall profit contribution to the Group from unit sales improved marginally compared to the prior corresponding period despite the lower volume of unit sales representing improved margins driven by the release of the new *Viridian WS* and *Viridian Slant VII* products during the reporting period. Sales of software conversions decreased 7.9% to 7,114, reflecting fewer MKVI game titles released to market as customers transition to the new *Gen7* platform and the Group reduces support for its MKVI platform.

The ASP achieved during the period was US\$15,054 per unit, representing a 2.6% improvement over the prior corresponding period. This improvement was predominantly driven by the release of the new *Viridian WS* and *Viridian Slant VII* products. The ASP for these new products for the period was above the overall business ASP; however, this was partially offset by customer mix. The *Viridian WS* and *Viridian Slant VII* have become well established across the North American marketplace, with over 5,000 installations at the period end.

The Group's gaming operations installed base declined 11.5% (739 units) during the year, from 6,409 at 31 December 2009 to 5,670 at 31 December 2010. This decline was largely driven by the aging profile of the Group's installed base and withdrawals that occurred prior to the release of planned new product. Most of the churn in the installed base during the period represented products existing at the beginning of the period, which declined by 1,969 units, or 31% of the opening installed base. The release of the new *VERVE hd* cabinet and new games such as *Godard's Rockin' Olives™*, *Big Top Jackpot*, *Reel Tall Tales* and *Kentucky Derby™* helped to mitigate the decline, with a combined total of more than 850 units installed at the end of the period. Despite the increase in new games to support the gaming operations installed base, due to the timing of regulatory approval of the new games pipeline in the later part of the fourth quarter (except *Kentucky Derby™*) the installed base unit numbers were not maintained. The gaming operations installed base is expected to be restored as a result of the games released late in the fourth quarter of 2010 and a continuation of product scheduled for release through the course of the 2011 reporting period. This recovery will be led by new games developed for the *VERVE hd* cabinet such as *Godard's Rockin' Olives™*, released in 2010 and performing well above the overall average FPD, followed by *Tarzan™* and *Mission Impossible™* scheduled for release in 2011.

The gaming operations average FPD declined from US\$42 in 2009 to US\$39 in 2010. The decline in FPD was influenced by the continued aging of the install base in the absence of new product releases through the period, as well as the continued trend of lower operator revenues. Despite the reduced FPD, gaming operation margins were held steady. The FPD will benefit from the Group's release and installation of its new product pipeline through the replacement of lower FPD earning aged product.

An improvement in operator revenues will also have an influence on FPD performance. In addition to the gaming operations installed base, there were a total of 1,875 standard game leases, earning an average US\$20 per day, compared to 2,335 earning US\$18 per day as at 31 December 2009. Similar to the gaming operations installed base, the standard game leases installed base decline was largely driven by an aging profile. Of the 2,335 units in the opening installed base, 945 units, or 40%, were removed during the year. This decline was partially offset by the release of *Viridian WS* and *Viridian Slant VII*, with approximately 350 units in the field on standard leases at the end of the period.

Performance of the systems business was down this period due to a lower number of new casino installations. Systems revenue, including the maintenance revenue derived from the systems business, was US\$48.2 million, down 20.7% on last year's result, with gross margin of US\$29.9 million, down 9.1% on the prior period. The number of properties which use the *OASIS 360* Casino Management System in North America grew by nine new sites; however, due to a number of property closures, the total number of sites only grew by a net of two and now stands at 266 compared to 264 at the end of the prior corresponding period. During the year, the Group remained focused on a number of key systems development projects which are scheduled for completion in 2011, including *OASIS 360 nCompass*, *nVision* and *OmniView*. These projects are aimed at providing enhanced functionality to existing customers and realising sales into the current customer base, removing the level of reliance on new casino openings and expansions.

The 2011 outlook for improved industry and customer operating conditions will depend on the rate at which macro economic conditions and general consumer confidence improve. The Group expects marginal improvement in the replacement cycle to be more than offset by fewer new and expansion units, resulting in an overall market that is slightly down on 2010, excluding any new jurisdictional openings. The Group will focus on restoring and growing its gaming operations base on the strength of new product releases. Major jurisdictional expansion and new casino openings are expected from 2012 onwards.

Australia

A\$ million	FY 2010	FY 2009	Variance	Variance %
Revenue	137.6	207.8	(70.2)	(33.8)
Profit	23.3	73.4	(50.1)	(68.3)
Margin	16.9%	35.3%	–	(18.4) pts
Volume				
– Platforms	3,737	5,292	(1,555)	(29.4)
– Conversions	8,949	11,636	(2,687)	(23.1)
Average A\$ price/unit	15,848	17,214	(1,366)	(7.9)

Market conditions remained difficult in 2010, as indicated with NSW showing a 10% decline and QLD a 16% decline in units shipped compared to the prior corresponding period. The Group's performance was impacted by weak product performance of games released in late 2009 and early 2010 in the NSW and QLD markets, as well as the lack of an Aristocrat widescreen offering and insufficient product to meet emerging demand for mid-denomination games.

Revenue declined 33.8% and profit declined 68.3% compared to the prior corresponding period, driven by lower unit sales and conversions. Profit margin declined year on year by 18.4 percentage points. Excluding licence fees received in the prior year and not repeated in 2010, the year on year decline in profit margin was approximately 10 percentage points and was driven by product mix (lower conversions), lower average pricing and the size of the fixed cost base of the business relative to the significantly lower revenue base.

Platform unit sales reduced by 1,555 units or 29.4%, with less volume into the NSW and QLD markets, offset by an improvement in unit sales into the Victorian (VIC)/Tasmanian (TAS) market. The key factors causing the decline in sales into the NSW and QLD markets were game performance, insufficient product into QLD and the lack of a widescreen cabinet offering. The three-year licence model continued to be offered in NSW and QLD, accounting for 28.8% of NSW and QLD platform sales in the period.

Game conversions were down 23.1% compared to the prior corresponding period, 3.1% when adjusted for the impact of the *Indian Dreaming* revocation in 2009. This reduction (excluding *Indian Dreaming*) was driven by weak game performance in NSW, the lack of product in QLD and lower conversions in VIC. *Viridian Gen7* penetration across the market has not been significant enough to support the level of conversions the business has historically realised on MKVI cabinets.

As noted above, the lack of a widescreen cabinet and legacy games performance led to an increase in discounting in order to remain competitive in the market place, resulting in a year on year decline in the ASP of 7.9%. Positively, however, new games showcased at Australian Gaming Expo (AGE) 2010, such as the *FA FA FA* link, *Players Choice Class Act* and *Rose Tattoo™*, have had solid sales and are performing well above floor average in the later part of the year.

In 2011, the Group expects improved performance in NSW and QLD, supported by an improved product portfolio and more games. The Group has accelerated the launch of its widescreen cabinet into NSW and QLD in early 2011, with other states to follow over the balance of the year. This is the widescreen product that has been highly successful for the Group in North America and drove share gains there, tailored to Australian market requirements. The Group will launch a significantly improved games portfolio across all markets and segments, utilising its dedicated Australian games studio, with the games pipeline focusing on games quality in the core low denomination segments, introduction of a new mid-denomination category and increasing stand-alone progressive category games, as well as expanding its MKVI games offering. Further, over 2011 the Group will continue to execute its strategy to build a world-class business model for Australia with cost structures that are consistent with business needs and scalable operations to allow for rapid movements in the marketplace to position the Group well for when market and economic conditions improve.

The Group is also well prepared for the impact of any gaming reform and is actively participating with the industry and government to achieve an outcome that will lead to a sustainable vibrant Australian gaming industry.

Japan

¥ million	FY 2010	FY 2009	Variance	Variance %
Revenue	3,850.5	8,493.5	(4,643.0)	(54.7)
Profit	462.3	1,511.3	(1,049.0)	(69.4)
Margin	12.0%	17.8%	–	(5.8) pts

A\$ million	FY 2010	FY 2009	Variance	Variance %
Revenue	48.5	106.1	(57.6)	(54.3)
Profit	6.0	17.7	(11.7)	(66.1)
Margin	12.4%	16.7%	–	(4.3) pts
Volume – Games	14,277	29,760	(15,483)	(52.0)
Average ¥ price/unit	266,482	283,187	(16,705)	(5.9)

The pachislot market shipped an estimated 850,000 units in 2010, an increase of 200,000 units (30% increase) on the prior corresponding period, as hall operators shifted from pachinko to pachislot games. Despite the increased shipments, the financial situation of hall operators has remained tight. It is estimated that the number of hall operators declined 1.2% to 12,500 halls during 2010 and the number of installed pachislot units declined 2.8% to 1.3 million units over the period. Volumes of the top three games sold each quarter reached 54% in 2010, an increase from 42% in 2009, with the improved demand in the market captured by a more concentrated number of suppliers. There has also been a shift to more entertaining games reliant on well recognised licensed characters included in strong LCD graphic displays.

In local currency, 2010 revenue declined by 54.7% against the prior corresponding period, driven by a 52% decline in unit volumes, reflecting a lack of key competitive titles and technology. The decline in revenues contributed to a 69.4% decline in profit, given the relatively fixed cost base of the business. Four games (*Kaiden Maru*, *Kyofu Shinbun 2™*, *Mach GoGoGo 3™* and *Mina™*) were marketed during 2010 with *Mach GoGoGo 3™* the only key licensed game released. *Mach GoGoGo 3™* did not perform to the level of previous releases (8,358 units sold) as a result of the intensely competitive market conditions that existed prior to and following the APEC (Asia Pacific Economic Cooperation) closure period in October and November.

Mina™ was the first game released under the Spiky brand following the acquisition earlier in the year and was distributed under new arrangements with one of Japan's largest distribution agents. *Mina™* units sold totalled 2,996 and were also impacted by the intensely competitive market conditions that existed prior to and following the APEC closure period.

The Group expects the Japanese pachislot market, which saw strong growth in 2010 to maintain this demand. However, 2011 is expected to remain very competitive, with hall operators' focus continuing to be on major titles. Two key games are planned for release in 2011, compared to one in 2010, both in the second half, and will incorporate a host of new features, leveraging technology improvements, as well as releasing a new cabinet and platform. One of these licences is an existing popular licence and the other is a new licensed character. The Group has refreshed its focus on investment in game design and development for quality games, as well as acquiring strong licensed titles. The Group has also commenced restructuring the Japanese operations to better position itself for market conditions in the foreseeable future, achieving more focus on the core design and development of licensed games while outsourcing non-core functions and significantly reducing its overall cost base.

Review of Operations

Aristocrat Leisure Limited

Annual Report 2010

Rest of World

A\$ million	Constant Currency			Variance %
	FY 2010	FY 2009	Variance	
Revenue				
Other International	127.9	100.4	27.5	27.4
Latin America	30.1	23.8	6.3	26.5
New Zealand	11.4	28.8	(17.4)	(60.4)
ACE	29.7	36.1	(6.4)	(17.7)
Total	199.1	189.1	10.0	5.3

A\$ million	Constant Currency			Variance %
	FY 2010	FY 2009	Variance	
Profit				
Other International	54.0	34.6	19.4	56.1
Latin America	11.5	11.5	0.0	0.0
New Zealand	1.3	13.1	(11.8)	(90.1)
ACE	(2.5)	(2.6)	0.1	3.8
Total	64.3	56.6	7.7	13.6
Margin	32.3%	29.9%	–	2.4 pts

A\$ million	FY 2010	FY 2009	Variance	Variance %
Revenue	175.4	189.1	(13.7)	(7.2)
Profit	55.8	56.6	(0.8)	(1.4)
Margin	31.8%	29.9%	–	1.9 pts
Volume – Platforms	7,239	6,123	1,116	18.2

The Group experienced strong growth from the Rest of World segment, with revenues and profits increasing by 5.3% and 13.6% respectively in constant currency, and margin improving 2.4 percentage points in subdued economic and market conditions. This was largely driven by increased platform volumes of 18.2% on the back of strong performances in Asia Pacific, Europe and Latin America, offset by declines in New Zealand and South Africa.

As noted at the half year, Asia Pacific continued to be the strongest performing region, with full year revenues and profits growing markedly over the prior corresponding period with growth of 63.4% and 58.2% respectively in local currency terms. This was driven by strong sales to the two new Singapore casinos, Resorts World Sentosa and Marina Bay Sands, where the Group achieved the highest floor shares of any individual supplier. In the Macau market, the Group has continued to build on its market share on the back of strong performance of its *FA FA FA* and *Yellow Dragon* hyperlinks.

In Europe, revenues increased by 7.9% and profits by over 500% in constant currency terms compared to the prior corresponding period, driven by growth from Spain and the German street market, where the Group provides content to two of the major suppliers of gaming machines in that market. The improved profit result and margins were primarily driven by the higher margin content supply contracts, as well as benefits driven from cost management activities conducted in late 2009, resulting in a reduction of fixed cost structures.

In South Africa, constant currency revenues and profits declined by 13.5% and 20.2% respectively compared to the prior corresponding period, reflecting depressed domestic economic conditions and restricted capital budgets of operators.

Market shares within Other International markets were generally more favourable. In the Asia Pacific region, the Group was successful in achieving the highest installed shares in both the two new Singapore casinos, building on its 55% to 60% Macau market share. Modest increases were realised in Europe on the back of good performance in Spain, and in South Africa the Group improved on its 26% casino market share; however, increased competition and a drive by operators to increase variety on floors resulted in LPM market share declining to 76%.

In Latin America, sales grew strongly in the second half, driving an overall increase in constant currency revenue of 26.5% over the prior corresponding period. Profitability in constant currency was unchanged from the prior year due to an increase in the number and mix of lower margin used units and higher SMG&A costs, driven by costs associated with establishing a presence in Mexico. Revenue growth came primarily from the Group's operations in Mexico City that were opened in the first half. The Group expects a greater contribution in 2011 from the Latin American region, stemming mainly from its operations in Mexico.

As previously reported, performance in New Zealand was expected to be down markedly as that market cycled the mandatory introduction of random interrupt player information displays (PIDs) which drove intensive capital spend in 2009. As a result, revenue and profits declined 60.4% and 90.1% respectively in local currency compared to the prior corresponding period. The Group introduced its *Viridian WS* to the market late in the period and has received strong customer acceptance, which is expected to carry into 2011.

ACE revenues declined by 17.7% in constant currency, driven by reduced hardware sales partially offset by higher software related sales, including sales of *TruServ* system upgrades and related services under the Norsk Tipping contract. No further terminals were delivered under that contract this period compared to the 3,640 in the prior corresponding period. Game performance is continuing to improve following the release of *Dolphin Treasure*. Despite the decline in revenue, the year on year profit result was flat due to an increase in higher margin product and services. The ACE business extended its presence in Europe when it secured its second multi-year contract with Italian gaming company Cogetech to supply its *TruServ* server-based gaming system, and over 2,200 terminals, games and associated services. ACE received approval for its system from the Italian regulator AAMS in September 2010 and went live with five games in October 2010. At the end of the reporting period, 465 Aristocrat terminals were live on the system. The Group is pleased with progress to date and early performance of the system and Aristocrat's games has been encouraging. The Group continues to actively explore further value-adding opportunities for deploying its *TruServ* system solution and terminals in emerging video lottery terminal (VLT) markets and is investing in business development and further improvements to its VLT offer.

Trading conditions across the Rest of World portfolio are expected to remain challenging into 2011; however, benefits are expected to come from the Group's continuing strong game performance in Asia Pacific, further opportunities in the Mexican market, building on traction gained in New Zealand to date from the *Viridian WS*, building further momentum in Spain and from content supply to the German street market, and increasing benefits as the rollout of terminals into the Italian VLT market progresses.

Remuneration Report

for the 12 months ended 31 December 2010

Executive summary

This Executive summary outlines the Group's remuneration principles and the key remuneration initiatives undertaken by the Group during the year, and discloses the actual value of remuneration earned by the Group's Senior Executives (as that term is defined in Section 1 of this Remuneration Report) during the 2010 financial year.

It should be read together with the full Remuneration Report on pages 25 to 45, which provides disclosure of the remuneration structure of the Group in accordance with statutory obligations and accounting standards.

Remuneration objectives	The Group aims to deliver sustainable, superior returns to its shareholders and the remuneration strategy adopted by the Group is a key driver in achieving these objectives. It aims to attract, motivate, reward and retain Senior Executives through a remuneration framework that is aligned with the Group's business strategy, globally relevant, performance driven, competitive, shareholder aligned and transparent and has a high perceived value.
Integrity of remuneration structure	Overall, the Group's remuneration structure operates as intended, in that it contributes to retention of key skilled employees, and the at-risk component of the Group's reward program is directly linked to shareholder returns.
Remuneration initiatives	<p>The Board and senior management are mindful of the challenging economic and business environment facing the Group and the extensive public debate on remuneration practices. Commencing in 2009 and continuing in 2010, the following initiatives were taken by the Group with respect to its remuneration practices:</p> <ul style="list-style-type: none"> - the Board has limited participation in the Group's Long Term Incentive (LTI) program to the Executive Leadership Team (being the Chief Executive Officer and the direct reports of the Chief Executive Officer) and one other key employee in 2010; - the Board implemented the Deferred Equity Employee Plan (DEEP) for participation by select senior managers and key employees (below Senior Executive level) who are critical to sustainable and superior company performance over the medium to long term. Operating as an extension to the Short Term Incentive (STI) program and subject to identical performance conditions (as outlined in Table 5 on page 28), participants have 50% of their incentive opportunity deferred into share rights with trading restrictions and forfeiture conditions applying for a further two years; - 50% of any annual STI payments payable to senior executives will be satisfied by the grant of deferred share rights, with trading restrictions and forfeiture conditions that would apply to such shares transferred upon vesting; and - the Human Resources (HR) and Remuneration Committee continued to receive external advice on remuneration issues. <p>The Board has also reviewed competitive market practice, regulatory and legislative developments including the report and recommendations of the Productivity Commission.</p> <p>Further details of these changes, and the requisite statutory information, are set out in the Remuneration Report.</p>
Remuneration outcomes	The Group's Senior Executive remuneration is outlined in Table 11 on page 38 of the Remuneration Report in accordance with statutory obligations and accounting standards.
Summary of actual payments	The values of the cash and other benefits actually received by Senior Executives during the 2010 financial year are presented below in simplified form. The value of cash and other benefits includes the 2010 financial year short term incentive payable in February 2011 and prior year long term incentive grants where the executive physically received Company shares from these in the 2010 financial year. These numbers are different from the figures in Table 11 on page 38, which also reports the accounting value for long term incentives including amounts for grants that have not vested and may not vest subject to performance testing at the conclusion of the respective performance period.

Remuneration Report

Aristocrat Leisure Limited

Annual Report 2010

The following table sets out the actual value Senior Executives derived from the various components of their remuneration during the 2010 financial year, from an individual perspective:

	Total fixed remuneration	Short term incentive ¹	Long term incentive ³	Other ⁴	Total
JR Odell	1,280,000	–	–	133,711	1,413,711
A Korsanos	490,497	50,000	–	12,716	553,213
WP Jowett	550,739	–	–	78,097	628,836
NR Khin	584,563	40,305	–	156,728	781,596
TJ Croker	520,000	–	–	31,307	551,307
V Blanco	358,619	224,492 ²	–	–	583,111
AG Weston	429,448	37,500	–	150,766	617,714
Total current Senior Executives	4,213,866	352,297	–	563,325	5,129,488

1 These figures include the cash component of short term incentives earned in the 2010 financial year, the value of deferred share rights from previous years that have vested in the 2010 financial year and any retention payment paid during the 2010 financial year. These figures exclude the value of deferred share rights granted in respect of incentives earned in the 2010 financial year that may vest in future financial years. Details of the Group's STI program are outlined in Table 5 on page 28.

2 V Blanco's short term incentive was a pre-agreed contractual arrangement. Under the terms of his employment agreement, V Blanco is required to repay this amount to the Group if he does not meet certain tenure conditions.

3 These figures represent the value of long term incentives that have vested during the 2010 financial year and have been determined using the closing price of the Company's shares on the vesting date. These figures exclude the value of unvested performance share rights issued in respect of long term incentives granted in the 2008, 2009 and 2010 financial years that may vest in future financial years. Details of the Group's LTI program are outlined in Table 6 on page 30.

4 This figure includes long-service leave accruals, non-monetary benefits and the value of shares issued under the General Employee Share Plan (GESP).

Remuneration Report for the 12 months ended 31 December 2010

The Directors of Aristocrat Leisure Limited (Company) present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* (Cth) (Act) for the Aristocrat Group (Group) for the year ended 31 December 2010.

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

This Remuneration Report details the policy and principles that govern the remuneration of the Company's Directors and the Group's Senior Executives (as that term is defined in Section 1 of this Remuneration Report), the link between remuneration policy and principles and the Group's performance for the financial year, and the remuneration and service agreements of Directors and Senior Executives.

Overview of remuneration components

Below is an overview of the components of remuneration of Non-Executive Directors and the Senior Executives. Further details on each remuneration component are set out in the corresponding page in this Remuneration Report.

Table 1 Remuneration components

Remuneration component		Participants		
		Senior Executives (excluding CEO and Managing Director)	CEO and Managing Director	Non-Executive Directors
Fixed	Fixed remuneration	<input checked="" type="checkbox"/> (page 27)	<input checked="" type="checkbox"/> (page 27)	
	Fees			<input checked="" type="checkbox"/> (page 35)
Short Term Incentive		<input checked="" type="checkbox"/> (page 28)	<input checked="" type="checkbox"/> (page 28)	
Long Term Incentive		<input checked="" type="checkbox"/> (page 30)	<input checked="" type="checkbox"/> (page 30)	
Post-employment	Superannuation	<input checked="" type="checkbox"/> (page 38)	<input checked="" type="checkbox"/> (page 38)	<input checked="" type="checkbox"/> (page 35)
	Termination			<input checked="" type="checkbox"/> (page 43) ¹

¹ Relates to the post-termination benefit for WM Baker, which is payable on retirement or resignation as director. WM Baker retired as a Director on 4 January 2011 and his retirement payment was paid in full on 5 January 2011.

1 Senior Executive remuneration policy and structure

The term 'Senior Executives' is used throughout this Remuneration Report to mean the group of executives consisting of:

- the Chief Executive Officer (CEO) and Managing Director;
- key management personnel (KMP) with authority and responsibility for planning, directing and controlling the activities of the Group during the financial year; and
- the five most highly remunerated Group executives during the financial year as required under section 300A(1)(c)(iii) and (iv) of the Act, unless they are already classified as a KMP (Nominated Executives).

The following table lists all the Senior Executives referred to in this Remuneration Report.

Table 2 Senior Executives

CEO and Managing Director

JR Odell CEO and Managing Director

Executive KMP

A Korsanos Chief Financial Officer

WP Jowett Managing Director, Japan and Asia Pacific

NR Khin President, Americas and EMEA (Europe, Middle East, Africa)

TJ Croker Managing Director, Australia and New Zealand

Nominated Executives

V Blanco Senior Vice President, Platform Architecture

AG Weston Chief Human Resources Officer

1.1 Board policy on Senior Executive remuneration

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

- support the short, medium and long-term financial targets and business strategies of the Group as set out in the strategic business plans endorsed by the Board;
- provide a common interest between executives and shareholders by aligning the rewards that accrue to management to the creation of shareholder value; and
- be competitive in the markets in which the Group operates in order to attract, motivate and retain high calibre executives.

The Group's remuneration policy requires that remuneration levels properly reflect the duties and responsibilities of Senior Executives. When Senior Executives meet target levels of performance, the combined elements of remuneration are designed to provide remuneration at the market median. For superior performance, the Group aims to remunerate Senior Executives in the range between the market median and the 75th percentile of their performance-based incentives, in comparison to benchmark companies. The Board also considers it important that key employees have ongoing share ownership in the Company through the award of Performance Share Rights (PSRs).

Details of the composition and responsibilities of the HR and Remuneration Committee are set out in the Corporate Governance Statement. The HR and Remuneration Committee has received during 2010 external, independent advice on matters relating to remuneration.

Review of variable pay programs

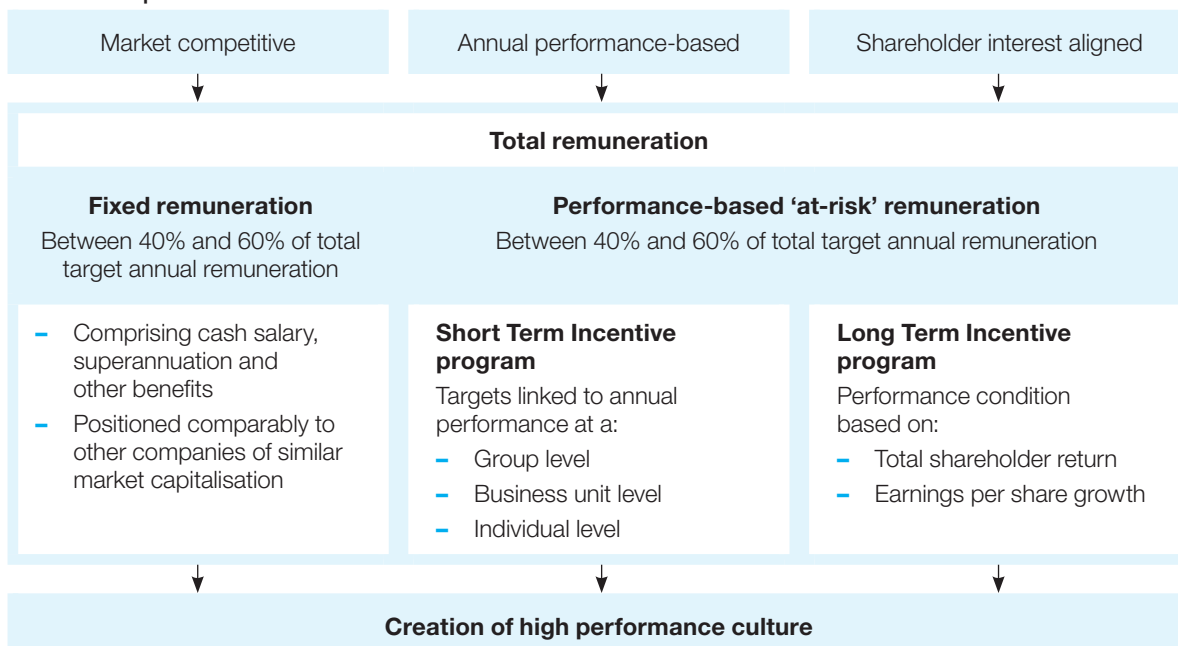
A review of the Group's variable pay programs was completed in 2010 in order to further continue alignment of the Short Term Incentive (STI) and Long Term Incentive (LTI) programs with business goals and outcomes and sustainable superior shareholder returns.

The review identified a number of possible refinements both in the structure and the measurement of the variable pay programs. These refinements were implemented in 2010.

1.2 Components of remuneration for Senior Executives

As indicated above, current remuneration for Senior Executives comprises fixed remuneration, a short term incentive and a long term incentive, as demonstrated diagrammatically below.

Table 3 Components of remuneration



The Board aims to achieve a balance between fixed and performance related components of remuneration that reflect market conditions at each job and seniority level and attain high standards of best practice corporate governance.

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

The relative target proportions of Senior Executive remuneration that are at-risk (i.e. linked to performance) and those that are fixed are as follows:

Table 4 Details of remuneration: fixed and at-risk as a percentage of actual remuneration

Name	Fixed remuneration %	At-risk – STI %	At-risk – LTI %	Total %
CEO and Managing Director				
JR Odell	40	20	40	100
Executive KMP				
A Korsanos	50	25	25	100
WP Jowett	50	25	25	100
NR Khin	50	25	25	100
TJ Croker	50	25	25	100
Nominated Executives				
V Blanco	60	24	16	100
AG Weston	56	22	22	100

For full details of Senior Executive remuneration for the 2010 financial year, refer to Table 11 on page 38.

Fixed remuneration

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

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

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

Senior Executives also receive other benefits, including salary continuance, trauma, death and disability insurance. Executives are able to maintain memberships to appropriate professional associations. As appropriate, expatriate executives receive additional support including accommodation allowances, travel and life insurance and taxation advice.

Senior Executives do not receive retirement benefits other than those disclosed in Table 7 on page 34.

1.2 Components of remuneration for Senior Executives continued

Short Term Incentive (STI) program

Table 5 Details of STI program

What is the STI and who participates?

The STI program is an annual incentive program that, in respect of Senior Executives, may involve a cash and/or equity-based reward, payable subject to the satisfaction of performance conditions.

Participants in the STI include Senior Executives and other employees who hold positions that are identified as being able to directly influence the Group's performance.

What are the maximum and minimum amounts that Senior Executives can earn under the STI?

Senior Executives can earn between nil and 200% of that Senior Executive's target STI, subject to the satisfaction of performance conditions.

As set out in Table 4 on page 27, the target STI of a Senior Executive will vary from 20% to 25% of their total remuneration, depending on the role and seniority of the individual.

No payment is made under the STI program if minimum performance across the Group (i.e. the 'Business Score', as defined below) does not meet the required threshold, being the achievement of a Business Score of 85% or greater, except in special mitigating circumstances which will be determined or approved on a case by case basis by the CEO, and subject to approval by the HR and Remuneration Committee and the Board.

The Business Score is further explained below.

What are the performance conditions for Senior Executives participating in the 2010 STI program?

The performance conditions for Senior Executives participating in the 2010 STI program are the 'Business Score' and the Senior Executive's 'Individual Performance Score'. A matrix of these performance conditions determines the final incentive payable.

The Business Score is determined as set out in the table below:

Business Score	
The Business Score is a combination (average) of the Group Score and the Regional Score.	
Group Score (50 per cent)	Regional Score (50 per cent)
<ul style="list-style-type: none"> - Net Operating Profit After Tax (NOPAT) - Average Funds Employed (AFE) 	<ul style="list-style-type: none"> - Local Contribution Profit (LCP) - Local Average Funds Employed (LAFE)

The Individual Performance Score is an assessment of the performance of each Senior Executive against objectives specific to their role and responsibilities. The Individual Performance Score has four ratings and ranges from 'Underperforms' (lowest) to 'Exceeds Requirements' (highest).

The final incentive payout is determined by a matrix of the Business Score and the Individual Performance Score which is then combined (or essentially multiplied) against the participant's STI target.

Participants are eligible to receive a proportion of their incentive target if the Business Score is above 85% of target and the participant's Individual Performance Score is at least 'Meets Most Requirements'. For participants to receive an incentive payment equivalent to 100% of their incentive target, a Business Score of 100% must be achieved and the participant's Individual Performance Score must be at least 'Meets All Requirements'.

Why were these performance conditions chosen?

The Board considers these performance measures to be appropriate as they are aligned with the Group's objectives of delivering profitable sustainable growth and sustainable superior returns to shareholders. In addition, Senior Executives have a clear line of sight to the targets and are able to affect results through their actions. Performance measures and conditions are reviewed annually and are subject to change as considered appropriate. Financial targets are established following Board review and approval of the annual plan for the following year.

Who assesses performance and when?

In respect of the CEO's performance, the Board assesses the CEO's performance against the performance conditions with the benefit of advice from the HR and Remuneration Committee.

In respect of the Senior Executives (other than the CEO), the CEO assesses the Senior Executive's performance against the performance conditions and makes recommendations to the Board. The HR and Remuneration Committee advises the Board in relation to the CEO's recommendations and the review process.

The assessment is finalised after the completion of the audit of the accounts for the financial year.

The assessment process as set out above is consistent with current market practice.

Is the STI a cash award and when is it paid?

For Senior Executives participating in the 2010 STI program, the STI is not a 100% cash award.

Once the HR and Remuneration Committee recommends and the Board determines that the performance conditions have been met, the payment of cash or the grant of rights in the Company's shares (Share Rights) will also then be approved.

50% of the STI will be made by cash payment within 14 days of the auditor's sign-off of the Group's annual accounts (the STI payment date).

The remaining 50% of the STI will be deferred and will be satisfied by the grant of Share Rights. Each Share Right is a right to one fully paid ordinary share in the Company.

50% of the Share Rights granted to the Senior Executive will vest after one year and the remaining 50% will vest after two years. There will be no additional performance conditions applicable to the vesting of the Share Rights to the Senior Executive, with the exception of the continued employment by the Senior Executive with the Group (see below for further information on forfeiture of Share Rights).

The Share Rights will be issued at the volume-weighted average price (VWAP) over the five trading days immediately prior to the announcement of the Group's full year results.

Can the Share Rights be forfeited?

Unvested Share Rights will be forfeited if the Senior Executive leaves employment. The Board has discretion to determine otherwise for a 'Qualifying Reason' (such as death or redundancy) or any other reason.

Specific information relating to the percentage of the STI which was paid and the percentage that was forfeited for the Senior Executives is set out in Table 12 on page 39.

1.2 Components of remuneration for Senior Executives continued

Long Term Incentive (LTI) program

The following table summarises the terms of the 2010 LTI program (Series 15 and 17). In respect of Series 16 (the grant to V Blanco), please see page 33. A further review of the LTI program was conducted in 2010 with the aim of improving the alignment between Group performance and shareholder value. Proposed changes to the LTI program for 2011 are highlighted in Table 6 below.

Table 6 Details of LTI program

What is the LTI?	<p>The LTI program links reward with ongoing creation of shareholder value through the grant of equity instruments known as 'performance share rights' (PSRs). Each PSR granted will entitle the participant to one ordinary share in the Group, subject to satisfaction of performance conditions.</p> <p>Details of the grants made to Senior Executives during the 2010 financial year are set out in Table 13 on page 40.</p> <p>The LTI program was first implemented in 2004.</p>
Who participates in the LTI?	<p>Participants in the LTI program include Senior Executives as well as any employee of the Group who is invited by the Board to participate. Following a review of incentive arrangements across the Group, the Board determined that participation in the LTI program will be limited to the Executive Leadership Team and V Blanco in 2010.</p>
What are the key terms of the PSRs?	<p>PSRs are granted at no cost to the participant. Each PSR granted will entitle the participant to one ordinary share in the Company, subject to satisfaction of performance conditions set by the Board in respect of the grant.</p> <p>If the relevant performance conditions are satisfied at the end of the performance period, then the PSRs will vest automatically and fully paid shares in the Company will be allocated to the participant at no cost.</p> <p>PSRs granted under the plan are not transferable, and participating Senior Executives are prohibited from entering into hedging arrangements in respect of unvested PSRs.</p> <p>Performance measures, the designated performance period and the quantity of the PSRs offered to each participant are determined by the Board on advice from the HR and Remuneration Committee. Further information in relation to the performance conditions and performance periods is set out below.</p>
Why does the Board consider the LTI to be an appropriate incentive?	<p>The LTI facilitates share ownership by the Senior Executives and other key employees and links a significant proportion of their potential remuneration with the key performance drivers which underpin sustainable and superior shareholder returns.</p>

What are the performance conditions for the PSRs?

The PSRs are subject to a performance condition based on the Group's total shareholder return (TSR) and growth in earnings per share (EPSG) over the performance period relative to a group of 50 Australian Securities Exchange (ASX) listed companies of a similar size (Comparator Group).

Total shareholder return (TSR) performance test (Series A)

The TSR is the return to shareholders, calculated by reference to share price appreciation plus dividends expressed as a percentage of the investment. Therefore, the TSR represents the increase in value delivered to shareholders over the performance period.

Earnings per share growth (EPSG) performance test (Series B)

EPSG is the percentage increase in fully diluted earnings per share over the performance period. In determining EPSG, adjustments are made for capital management initiatives of the Group and the Comparator Group companies. This includes the effect of net changes in capital and any other distortionary items which unduly impact reported EPSG in order to ensure an appropriate like-for-like comparison.

Determination of rankings

At the end of the performance period, the TSR and EPSG of the Group is ranked against the TSR and EPSG of each group within the Comparator Group.

The ranking of the Group will determine the portion of the PSRs that will vest. The vesting scale is described below.

Series 15 and 17 PSRs were granted in 2010. The performance period for Series 15 and 17 is 1 January 2010 to 31 December 2012.

Table 13 on page 40 sets out further information on the PSRs granted to Senior Executives in 2010.

Following a detailed review of the Group's LTI program during 2010, including an assessment of alternative performance measures commonly adopted by leading Australian listed companies and the Group's business fundamentals, the Board determined that changes to the way the performance measures are applied are appropriate to enhance the linkage of long-term shareholder wealth to long-term remuneration outcomes. The Board has determined that the following performance metrics will be applied to 2011 PSR grants:

- TSR relative to the return on the S&P/ASX 100 Index; and
- EPSG compared to a target set by the Board at the commencement of the performance period.

How is the number of the PSRs to be vested determined?

A vesting scale determines how many PSRs are to be vested (and therefore shares to be allocated). The link between performance and the percentage of the relevant PSRs which will vest is represented in the following table:

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

The vesting scale applies to each of the TSR tranche (being 50% of total PSRs granted) and the EPSG tranche (being the remaining 50% of total PSRs granted). Each of the TSR and the EPSG tranches are tested independently. For example, upon the Group achieving a TSR ranking above the 50th percentile, but failing to reach the target EPSG, a proportion of the PSRs will still vest. For 2011, the weighting between the tranches will be 70% EPSG and 30% TSR.

1.2 Components of remuneration for Senior Executives continued

Long Term Incentive (LTI) program *continued*

Why were these performance conditions chosen?	<p>TSR was selected as a performance measure on the basis that it:</p> <ul style="list-style-type: none"> - ensures an alignment between comparative shareholder return and reward for the executive; and - provides a relative, external, market-based performance measure against those companies with which the Group competes for capital, customers and talent. <p>EPSP was selected as a performance measure for vesting of PSRs on the basis that it:</p> <ul style="list-style-type: none"> - is a relevant indicator of increases in shareholder value; and - is a target that provides a suitable line of sight to encourage executive performance.
Who assesses performance and when?	<p>TSR and EPSP results are calculated by an external consultant, Deloitte, as soon as practicable after the end of the relevant performance period. The external consultant's calculations are considered by the Board to determine vesting outcomes. This process is consistent with current market practice.</p>
Is there any re-testing of performance conditions?	<p>The performance conditions are tested once at the end of the performance period. There is no re-testing of performance conditions.</p>
Are the shares granted upon vesting of PSRs subject to restrictions?	<p>Shares allocated on vesting of the PSRs are subject to certain disposal restrictions set out in the LTI Plan Rules, and carry full dividend and voting rights upon allocation.</p>
Are the shares issued or acquired on-market?	<p>It is the current policy of the Group to acquire shares on-market to satisfy the vesting of PSRs. This practice ensures that existing shareholdings are not diluted as a consequence of either granting or vesting PSRs under the plan.</p>
What happens if the Senior Executive ceases employment during the performance period?	<p>If a participant in the LTI program ceases employment with the Group during the first 12 months of the performance period, regardless of whether it is because of a 'Qualifying Reason' (such as death or redundancy) or otherwise, then any PSRs in relation to that performance period will lapse.</p> <p>If a participant ceases employment with the Group after the first 12 months of the performance period and the cessation is due to:</p> <ul style="list-style-type: none"> - a 'Qualifying Reason', the Board may determine in its absolute discretion that some or all of the PSRs in relation to that performance period may vest on a pro-rated basis; or - any other reason than because of a 'Qualifying Reason', any PSRs in relation to that performance period will lapse. <p>Where a participant acts fraudulently or dishonestly or is, in the Board's opinion, in breach of his or her obligations to the Group, then any unvested PSRs will lapse and any shares in the Group allocated but not yet withdrawn pursuant to the terms of the LTI Plan Rules will be forfeited.</p>

Comparator Group

The Comparator Group comprises 50 companies listed on the ASX of a similar size, based on the average market capitalisation of the Group for the three months prior to the beginning of the relevant performance period, excluding real estate, financial services and resources companies. The TSR and EPSG of all Comparator Group companies and the Group will be ranked at the end of the performance period.

The list below contains the peer group companies comprising the Comparator Group for the Group's 2010 LTIP program (being Series 15 and 17).

Adelaide Brighton Limited, Ansell Limited, APA Group, APN News & Media Limited, Asciano Limited, Auckland International Airport Limited, Austar United Communications, Billabong International Limited, Boral Limited, Borat Longyear Limited, Brickworks Limited, Campbell Brothers Limited, Cochlear Limited, Connecteast Group, Consolidated Media Holdings, CSR Limited, David Jones Limited, Downer EDI Limited, Duet Group, Fairfax Media Limited, Fisher & Paykel Healthcare Corporation Limited, Fletcher Building Limited, Flight Centre Limited, Goodman Fielder Limited, Harvey Norman Holdings, Incitec Pivot Limited, James Hardie Industries SE, JB Hi-Fi Limited, Metcash Limited, Navitas Limited, Monadelphous Group Limited, Nufarm Limited, Pacific Brands Limited, Primary Health Care Limited, Ramsay Health Care Limited, Reece Australia Limited, ResMed Inc, SEEK Limited, Sky City Entertainment Group Limited, Sky Network Television Limited, SP AusNet, Tabcorp Holdings Limited, Tatts Group Limited, Telecom Corporation NZ, Ten Network Holdings Limited, Transfield Services Limited, Transpacific Industries Group, UGL Limited, West Australian Newspapers and WOTIF.COM Holdings Limited.

Series 16 PSRs – V Blanco

As approved by shareholders at the Annual General Meeting on 28 April 2010, 110,174 Series 16 PSRs were granted to V Blanco, Senior Vice President, Platform Architecture, pursuant to the terms of his Employment Agreement.

The Series 16 PSRs vest in two equal tranches on 18 January 2011 (the First Tranche) and 18 January 2012 (the Second Tranche) subject to V Blanco being continuously employed by the Group until 18 January 2011 (in respect of the First Tranche) and 18 January 2012 (in respect of the Second Tranche) and V Blanco achieving certain Key Performance Objectives in relation to the Group's gaming platform (as set by the Group).

The Series 16 performance conditions were chosen as they are directly linked to the development of the Group's global platform and technology capabilities.

General Employee Share Plan

The Group also operates the General Employee Share Plan (GESP), which was introduced to allow employees a tax effective way of acquiring an equity interest in the Group and thereby participate in the Group's future performance. All permanent full-time employees of the Group, including the Senior Executives, are eligible to participate in the GESP.

Up to \$1,000 is contributed by the Group to fund the acquisition of shares in the Company for its participants. The Board, in its absolute discretion, determines the amount to be contributed by the Group each year.

The shares are acquired in the name of the participant, but are held subject to the GESP rules. Sale of the shares is restricted until the earlier of three years after grant and the cessation of employment.

1.3 Service agreements

The remuneration and other terms of employment for the Senior Executives are formalised in service agreements, which have no specified term. Each of these agreements provides for performance related bonuses under the STI program (the terms of which are described in Table 5 on page 28), and participation, where eligible, in the Group's LTI program (the terms of which are described in Table 6 on page 30). Any sign-on payments made in 2010 to Senior Executives prior to them agreeing to take office are disclosed in Table 11 on page 38.

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

Table 7 Service agreements

	Notice to be given by executive	Notice to be given by Group ¹	Termination payment	Post-employment restraint
CEO and Managing Director				
JR Odell	3 months	9 months	–	6 months
Executive KMP				
A Korsanos	3 months	3 months	6 months (fixed remuneration)	6 months
WP Jowett	3 months	3 months	9 months (fixed and target remuneration)	12 months
NR Khin	3 months	3 months	6 months (fixed and target remuneration)	12 months
TJ Croker	3 months	3 months	6 months (fixed remuneration)	6 months
Nominated Executives				
V Blanco	3 months	3 month	6 months (fixed remuneration)	12 months
AG Weston	3 months	3 months	6 months (fixed and target remuneration)	6 months

¹ Payments may be made in lieu of notice period.

The Group moved to standardise service agreements for Senior Executives in 2009 and this explains variances in the terms for the Senior Executives who have been with the Group for an extended period of time.

1.4 Share trading policy

The Group's share trading policy in operation during 2010 prohibited Senior Executives from hedging any unvested equity instruments at all times, irrespective of whether the hedging takes place during a Trading Window (as defined in the Policy). Vested positions, however, including those unexercised instruments or instruments subject to a holding lock, may be hedged, subject to compliance with the other provisions of the share trading policy.

Senior Executives are strictly prohibited from entering into a margin loan or similar funding arrangement to acquire the Company's securities.

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

2 Non-Executive Directors

Details of the Non-Executive Directors of the Company during the year ended 31 December 2010 are provided in the Directors' Report.

2.1 Board policy on Non-Executive Director remuneration

The remuneration of the Non-Executive Directors is not linked to the performance of the Group in order to maintain their independence and impartiality. In setting fee levels, the HR and Remuneration Committee, which makes recommendations to the Board, obtains advice from an independent remuneration consultant and takes into account the demands and responsibilities associated with the Directors' roles and the global scope and highly regulated environment that the Group operates in. The Board will continue to review its approach to Non-Executive Director remuneration to ensure it remains in line with high standards of corporate governance.

2.2 Components and details of Non-Executive Director remuneration

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

Table 8 Components of NED remuneration

	Element		
Directors' fees	Non-Executive Directors' fees (including committee fees) are set by the Board within the maximum aggregate amount of \$1,750,000 approved by shareholders at the Annual General Meeting (AGM) in May 2004. Current fees for the Chairman and Directors have remained unchanged since 1 July 2007 and 1 July 2005 respectively. Details are set out below. The Chairman does not receive any additional fees for his committee responsibilities.		
	Chairman	\$365,000	
	Director	\$155,000	
Committee fees		Chair	Member
	Audit	\$30,000	\$15,000
	HR and Remuneration	\$20,000	\$10,000
	Nomination and Governance	\$15,500	\$7,750
	Innovation and Development	\$20,000	\$10,000
	Regulatory and Compliance	\$25,000	\$12,500
Shares	Following the changes to Australian tax laws, Non-Executive Directors have ceased contributing a portion of their remuneration to purchase shares on-market under the Non-Executive Directors Share Plan (NEDSP) and the NEDSP is currently dormant. A decision whether the NEDSP will operate in the future will be made once the implications of the new tax laws have been fully reviewed and further considered.		
Superannuation	Superannuation contributions are made on behalf of the Directors in accordance with statutory superannuation obligations. Fees set out above include any superannuation payable.		
Other fees/benefits	Directors may be paid additional fees for extra services provided to the Board in accordance with the Company's Constitution. No such fees were paid during the year.		
	Directors are also entitled to be reimbursed for all reasonable business related expenses, including travel, as may be incurred in the discharge of their duties.		
	The Group does not make sign-on payments to new Non-Executive Directors.		
Other post-employment benefits	A resolution was passed at the AGM in May 2004 to freeze the retirement allowances of certain 'eligible' directors. A director was considered to be an 'eligible' director if they were appointed as a Non-Executive Director before May 2003 and whose service agreement with the Group entitled them to a retirement allowance (Eligible Director). After the 2004 AGM, the Group entered into new service agreements with each of the Eligible Directors, the terms of which do not provide additional entitlements to any retirement allowance other than as approved by shareholders at the 2004 AGM.		
	As at 31 December 2010, there remained only one Eligible Director, WM Baker, with an existing accrued retirement allowance which, in accordance with the 2004 shareholder resolution, was frozen as at 1 June 2004 and indexed to the annual change in the Consumer Price Index (All Groups). The benefit may only be paid out to WM Baker on his retirement, removal or resignation from the Board as a director. On 24 August 2010, the Group announced that WM Baker will retire from the Board as a director on 4 January 2011. His entitlement was paid in full on 5 January 2011. No other Non-Executive Director is entitled to receive any retirement benefit other than the statutorily prescribed superannuation contributions referred to above.		

The remuneration details of Non-Executive Directors and Non-Executive Directors (elect) for the financial year are set out in Table 16 on page 43.

3 Link between remuneration and Group performance

Over the past five financial years, the Board has set financial performance targets for management to align executive incentives to the achievement of those targets. When target performance is achieved, target executive rewards are earned, and when above target performance is achieved, executives earn above target rewards.

This approach is reflected in the terms and performance conditions of the STI and LTI programs.

Remuneration continues to be aligned to Group performance and value growth for shareholders:

- STIs were not paid in 2009 or 2010 as the necessary performance hurdles were not met;
- PSRs granted to participants during 2006 and 2007 as part of the LTI program did not vest in 2009 and 2010 respectively, as the necessary performance hurdles were not met; and
- the implementation of the new DEEP program means that participants (below the Senior Executive level) have a significant percentage of their annual incentive opportunity deferred into share rights, with trading restrictions and forfeiture conditions applying for a further two years.

3.1 Earnings

The Group's earnings for the five years to 31 December 2010 are summarised below.

Table 9 Group earnings

	2010 ¹ \$M	2009 ² \$M	2008 ³ \$M	2007 \$M	2006 \$M
Revenue	684.6	908.6	1,079.9	1,122.0	1,074.5
Earnings before interest and tax	84.7	169.9	212.9	332.3	335.3
Profit before tax	71.2	156.1	193.1	326.2	332.9
Profit after tax before non-controlling interest	55.2	116.9	141.0	247.9	240.0

1 Before the impact of the profit from the disposal of investment in jointly controlled entity, the abnormal gain from the convertible bonds litigation, restructuring costs and impairment of gaming operations assets, which are considered abnormal on the basis that they are non-recurring in nature and are not representative of the underlying operational performance of the Group.

2 Before the impact of property sales, restructuring costs, legal settlement, impairment of multi-terminal gaming businesses and the convertible bonds litigation provision, which are considered abnormal on the basis that they are non-recurring in nature and are not representative of the underlying operational performance of the Group.

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

3.2 Link between Senior Executive remuneration and shareholder return

The table below shows the Group's total shareholder return (TSR), fully diluted earnings per share, dividends per share and share price from 2006 to 2010, all of which measure the impact of Group performance on shareholder wealth. The table below also shows: the percentage value of actual short term incentives paid versus maximum, and long term incentives vesting, to Senior Executives (as defined in the relevant Remuneration Report) from 2006 to 2010.

Table 10 Shareholder return

	2010 ¹	2009 ²	2008 ³	2007	2006
Share price as at 31 December (\$)	2.99	4.02	3.88	11.25	15.90
Total dividends paid (cps)	5.0	4.5	36.0	49.0	36.0
Capital returns (cps)	–	–	–	–	–
Share buy-back (\$m)	–	–	68.6	52.4	34.6
Fully diluted earnings per share (cps)	10.3	23.0	30.5	52.8	50.9
Total shareholder return (%)	–24.4%	4.8%	–62.3%	–26.2%	32.0%
Short term incentives (% of maximum)	0%	0%	13%	51%	50%
Long term incentives (% vesting) ⁴	0%	0%	53%	100%	100%

- 1 The earnings used in the fully diluted earnings per share calculation for 2010 are before the profit from the disposal of investment in jointly controlled entity, the abnormal gain from the convertible bonds litigation, restructuring costs and impairment of gaming operations assets, which are considered abnormal on the basis that they are non-recurring in nature and are not representative of the underlying operational performance of the Group.
- 2 The earnings used in the fully diluted earnings per share calculation for 2009 are before the impact of the property sales, restructuring costs, legal settlement, impairment of multi-terminal gaming businesses and the convertible bonds litigation provision, which are considered abnormal on the basis that they are non-recurring in nature and are not representative of the underlying operational performance of the Group.
- 3 The earnings used in the fully diluted earnings per share calculation for 2008 are before the impact of the Class Action settlement, disposal of land and buildings and the impairment charge against the investment in PokerTek, Inc., which are considered abnormal on the basis that they are non-recurring in nature and are not representative of the underlying operational performance of the Group.
- 4 Long term incentive vesting is based on Group performance measured against the relevant performance conditions across the prior three years.

4 Remuneration tables and data

4.1 Details of Senior Executive remuneration

Details of the 2010 and 2009 remuneration (as defined in AASB 124 Related Party Disclosures) paid to the Senior Executives are set out below.

Table 11 Details of Senior Executive remuneration

		Short-term benefits		Post-employment benefits		Long-term benefits	Share-based payments ⁵		Total	% of share-based remuneration	
		Cash salary ¹	Cash bonuses ²	Non-monetary benefits ³	Super-annuation	Termination	Long service leave ⁴	STI PSRs ⁶			PSRs ⁷
		\$	\$	\$	\$	\$	\$	\$	\$	%	
CEO and Managing Director											
JR Odell	2010	1,250,833	-	112,260	29,167	-	21,451	-	1,084,824	2,498,535	43.4
	2009	1,052,829	-	213,559	93,005	-	17,724	-	637,500	2,014,617	31.6
Executive KMP											
A Korsanos⁸	2010	475,667	50,000	-	14,830	-	11,719	-	103,567	655,783	15.8
	2009	198,886	-	-	6,725	-	5,433	-	-	211,044	-
WP Jowett	2010	508,666	-	58,329	42,073	-	18,771	-	108,231	736,070	14.7
	2009	475,473	-	7,843	42,793	-	7,917	-	149,611	683,637	21.9
NR Khin	2010	514,347	40,305	149,866	70,216	-	6,862	-	167,375	948,971	17.6
	2009	618,357	-	26,324	89,851	-	6,854	-	123,582	864,968	14.3
TJ Croker⁹	2010	477,064	-	22,367	42,936	-	7,943	-	103,440	653,750	15.8
	2009	107,034	-	17,428	9,633	-	1,765	-	-	135,860	-
Nominated Executives											
V Blanco¹⁰	2010	358,619	224,492	-	-	-	-	-	367,913	951,024	38.7
	2009	-	-	-	-	-	-	-	-	-	-
AG Weston¹¹	2010	393,989	37,500	143,030	35,459	-	6,739	-	211,220	827,937	25.5
	2009	245,913	62,500	123,565	22,230	-	4,129	-	109,330	567,667	19.3
Total	2010	3,979,185	352,297	485,852	234,681	-	73,485	-	2,146,570	7,272,070	29.5
	2009	2,698,492	62,500	388,719	264,237	-	43,822	-	1,020,023	4,477,793	22.8

1 Amounts shown as cash salary and fees include amounts sacrificed in lieu of other benefits at the discretion of the individual. To the extent that benefits are paid and subject to FBT, the above amount includes FBT.

2 Cash bonuses are determined after the end of each financial year upon completion of the audit of the financial statements. Amounts paid during 2010 include retention payments approved by the Board and, in the case of V Blanco, an amount of \$224,492 pursuant to a pre-agreed contractual arrangement paid on 19 February 2010.

3 Non-monetary benefits include motor vehicle leasing payments, relocation costs, expatriate related costs and associated Fringe Benefits Tax (FBT).

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

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

TSR model

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

EPSG model

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

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

- 6 No PSRs were issued to Senior Executives under the 2010 STI program.
- 7 Share-based payments include shares to the value of \$1,000 allocated under the General Employee Share Plan (GESP). Remuneration in the form of PSRs includes negative amounts for PSRs forfeited during the year. The share-based payments expense includes the impact of PSRs that were granted in previous years that are being expensed for accounting purposes over the vesting period, as well as the PSRs that were granted in 2010.
- 8 A Korsanos was appointed as Chief Financial Officer on 14 July 2009. 2009 amounts shown above only disclose amounts received by A Korsanos in 2009 as a Senior Executive (i.e. from 14 July 2009).
- 9 TJ Croker was appointed, subject to regulatory approval, on 12 October 2009. His appointment received regulatory approval on 15 December 2009.
- 10 V Blanco commenced employment with the Group on 18 January 2010.
- 11 AG Weston commenced employment with the Group on 11 May 2009.

The following table provides the percentage of STI paid and forfeited for the year ended 31 December 2010. The 2010 STI constitutes a 50% cash component and 50% Share Rights component in respect of Senior Executives.

The key terms of the 2010 STI program are set out in Table 5 on page 28.

Table 12 Details of STI paid and forfeited

For the year to 31 December 2010	Actual STI payment \$	Actual STI payment as % of maximum STI	% of maximum STI payment forfeited
CEO and Managing Director			
JR Odell	–	–	100%
Executive KMP			
A Korsanos	–	–	100%
WP Jowett	–	–	100%
NR Khin	–	–	100%
TJ Croker	–	–	100%
Nominated Executives			
V Blanco	–	–	100%
AG Weston	–	–	100%

4.1 Details of Senior Executive remuneration continued

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

Table 13 Details of PSRs granted to Senior Executives

	Series	Number of PSRs granted ^{1,2}	Grant date ³	Fair value ⁴	Maximum value of grant	Vested		Forfeited		
						No.	%	No.	%	
CEO and Managing Director										
JR Odell	15A	224,786	28 April 2010	\$2.00	\$449,572	–	–	–	–	
	15B	224,786	28 April 2010	\$3.97	\$892,400	–	–	–	–	
Executive KMP										
A Korsanos	17A	59,908	1 January 2010	\$1.72	\$103,042	–	–	–	–	
	17B	59,908	1 January 2010	\$3.41	\$204,286	–	–	–	–	
WP Jowett	17A	65,100	1 January 2010	\$1.72	\$111,972	–	–	–	–	
	17B	65,100	1 January 2010	\$3.41	\$221,991	–	–	–	–	
NR Khin	17A	57,507	1 January 2010	\$1.72	\$98,912	–	–	–	–	
	17B	57,507	1 January 2010	\$3.41	\$196,099	–	–	–	–	
TJ Croker	17A	59,908	1 January 2010	\$1.72	\$103,042	–	–	–	–	
	17B	59,908	1 January 2010	\$3.41	\$204,286	–	–	–	–	
Nominated Executives										
V Blanco ⁵	16A	55,087	28 April 2010	\$3.97	\$218,695	–	–	–	–	
	16B	55,087	28 April 2010	\$3.97	\$218,695	–	–	–	–	
	17A	23,121	1 January 2010	\$1.72	\$39,768	–	–	–	–	
	17B	23,121	1 January 2010	\$3.41	\$78,843	–	–	–	–	
AG Weston	17A	39,862	1 January 2010	\$1.72	\$68,563	–	–	–	–	
	17B	39,862	1 January 2010	\$3.41	\$135,929	–	–	–	–	
Total		1,170,558			\$3,346,095					

1 As the PSRs only vest on satisfaction of performance conditions, which are tested at the end of the performance period (1 January 2010 to 31 December 2010), none of the PSRs set out above have vested.

2 Series 15 and 17 will vest in 2013 (testing occurs after the performance period), subject to the satisfaction of performance conditions. Unvested PSRs will expire at that time if it has been determined that the performance conditions were not met. Series 16 will vest if V Blanco remains employed with the Group until 18 January 2011 (in respect of Series 16A) and 18 January 2012 (in respect of Series 16B) and V Blanco achieves his Key Performance Objectives.

3 Other than in respect of Series 15 and 16 (which were granted following receipt of shareholder approval at the 2010 Annual General Meeting), for the purposes of this table and the valuation to determine the number of PSRs to be granted, the grant date is the first day of the performance period rather than the date of the letter of offer.

4 The fair value of Series 15 and 17 PSRs was determined based on an accounting valuation performed by Deloitte. For market performance conditions, the valuation is calculated having regard to the likelihood that vesting conditions will be met. This value will not be equal to the market value of a share at the commencement of the performance period as a result of PSRs being contingent rights to shares in the future. The fair value of the PSR at the commencement of a performance period is influenced by the Company's share price at the date of grant, volatility of the underlying shares, the risk free rate of return, expected dividend yield, time to maturity and the likelihood that vesting conditions will be met.

5 The fair value of a Series 16 PSR is determined based on an accounting valuation performed by Deloitte. This value will not be equal to the market value of a share at the commencement of the performance period as a result of PSRs being contingent rights to shares in the future.

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

Table 14 Details of the movement in numbers of PSRs

	Series	Performance period expiry date	Fair value per right at grant date	Balance at 1 January 2010	Granted during the year ¹	Vested ^{2,3}	Lapsed/ forfeited ⁴	Balance at 31 December 2010
CEO and Managing Director								
JR Odell	13A	31 Dec 2011	\$2.26	330,311	–	–	–	330,311
	13B	31 Dec 2011	\$3.53	330,311	–	–	–	330,311
	15A	31 Dec 2012	\$2.00	–	224,786	–	–	224,786
	15B	31 Dec 2012	\$3.97	–	224,786	–	–	224,786
Executive KMP								
A Korsanos⁵	10A ⁷	31 Dec 2010	\$5.01	9,980	–	–	–	9,980
	10B ⁷	31 Dec 2010	\$9.59	9,980	–	–	–	9,980
	12A	31 Dec 2011	\$1.93	26,856	–	–	–	26,856
	12B	31 Dec 2011	\$3.35	26,855	–	–	–	26,855
	17A	31 Dec 2012	\$1.72	–	59,908	–	–	59,908
	17B	31 Dec 2012	\$3.41	–	59,908	–	–	59,908
WP Jowett	8A ⁶	31 Dec 2009	\$7.79	16,791	–	–	(16,791)	–
	8B ⁶	31 Dec 2009	\$14.41	16,791	–	–	(16,791)	–
	10A ⁷	31 Dec 2010	\$5.01	28,197	–	–	–	28,197
	10B ⁷	31 Dec 2010	\$9.59	28,197	–	–	–	28,197
	12A	31 Dec 2011	\$1.93	73,349	–	–	–	73,349
	12B	31 Dec 2011	\$3.35	73,349	–	–	–	73,349
	17A	31 Dec 2012	\$1.72	–	65,100	–	–	65,100
	17B	31 Dec 2012	\$3.41	–	65,100	–	–	65,100
NR Khin	8A ⁶	31 Dec 2009	\$7.79	11,232	–	–	(11,232)	–
	8B ⁶	31 Dec 2009	\$14.41	11,232	–	–	(11,232)	–
	10A ⁷	31 Dec 2010	\$5.01	13,950	–	–	–	13,950
	10B ⁷	31 Dec 2010	\$9.59	13,950	–	–	–	13,950
	12A	31 Dec 2011	\$1.93	76,097	–	–	–	76,097
	12B	31 Dec 2011	\$3.35	76,096	–	–	–	76,096
	17A	31 Dec 2012	\$1.72	–	57,507	–	–	57,507
	17B	31 Dec 2012	\$3.41	–	57,507	–	–	57,507
TJ Croker	17A	31 Dec 2012	\$1.72	–	59,908	–	–	59,908
	17B	31 Dec 2012	\$3.41	–	59,908	–	–	59,908

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4.1 Details of Senior Executive remuneration continued

Table 14 Details of the movement in numbers of PSRs continued

	Series	Performance period expiry date	Fair value per right at grant date	Balance at 1 January 2010	Granted during the year ¹	Vested ^{2,3}	Lapsed/forfeited ⁴	Balance at 31 December 2010
Nominated Executives								
V Blanco	16A ⁸	18 Jan 2011	\$3.97	–	55,087	–	–	55,087
	16B	18 Jan 2012	\$3.97	–	55,087	–	–	55,087
	17A	31 Dec 2012	\$1.72	–	23,121	–	–	23,121
	17B	31 Dec 2012	\$3.41	–	23,121	–	–	23,121
AG Weston	12A	31 Dec 2011	\$1.93	43,524	–	–	–	43,524
	12B	31 Dec 2011	\$3.35	43,524	–	–	–	43,524
	14 ⁹	31 Dec 2010	\$3.79	25,907	–	–	–	25,907
	17A	31 Dec 2012	\$1.72	–	39,862	–	–	39,862
	17B	31 Dec 2012	\$3.41	–	39,862	–	–	39,862

1 The value of the PSRs granted to Senior Executives during the year (including the aggregate value of PSRs granted) is set out in Table 13 above. No Options were granted during the year to any Senior Executive.

2 The value of each PSR on the date of vesting is the closing price of the Company's shares on the ASX on the preceding trading day. The aggregate value of PSRs which vested during the year is nil as PSRs that expired during the year did not meet the required performance criteria.

3 As shares are immediately allocated upon the vesting of PSRs, there will be no instances where PSRs are vested and exercisable, or vested but not yet exercisable.

4 As the PSRs only vest on satisfaction of performance conditions which are to be tested in future periods, the PSRs under Series 12A, 12B, 13A, 13B, 14, 15A and 15B remain unvested.

5 Series 10 and 12 PSRs were granted to A Korsanos prior to her appointment as a Senior Executive on 14 July 2009.

6 On 22 February 2010, the Board determined that the PSRs under Series 8A and 8B had not met the required performance criteria and therefore lapsed. For the purposes of section 300A(1)(E)(iv) of the Act, the closing share price on 22 February 2010 was \$4.07.

7 On 23 February 2011, the Board determined that the PSRs under Series 10A and 10B had not met the required performance conditions and therefore lapsed.

8 On 23 February 2011, the Board determined that V Blanco had satisfied the performance conditions of the PSRs granted to him under Series 16A and that 55,087 PSRs should vest.

9 On 23 February 2011, the Board determined that AG Weston had satisfied the performance conditions of the PSRs granted to him under Series 14 and that 25,907 PSRs should vest.

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

Table 15 Details of the movement in shares held under the GESP

	Balance as at 1 January 2010	Shares issued/granted during the year	Shares vested/lapsed during the year	Balance as at 31 December 2010
CEO and Managing Director				
JR Odell	–	–	–	–
Executive KMP				
A Korsanos	422	251	–	673
WP Jowett	491	251	(69)	673
NR Khin¹	69	–	(69)	–
TJ Croker	–	251	–	251
Nominated Executives				
V Blanco¹	–	–	–	–
AG Weston	–	251	–	251

1 As overseas employees, NR Khin and V Blanco were granted a contingent right to 251 shares each during the year in lieu of a share allocation under the GESP, subject to continued employment for a period of three years.

4.2 Details of Non-Executive Director remuneration

Table 16 Details of NED remuneration

Name	Year	Short-term benefits	Post-employment benefits	Share-based payments		Total \$
		Cash salary and fees ¹ \$	Super-annuation ² \$	Retirement benefits ³ \$	Options and PSRs \$	
ID Blackburne ⁴	2010	172,500	–	–	–	172,500
	2009	12,917	–	–	–	12,917
WM Baker	2010	159,015	1,790	8,151	–	168,956
	2009	199,517	2,330	7,201	–	209,048
RA Davis	2010	190,055	14,830	–	–	204,885
	2009	178,635	15,314	–	–	193,949
RV Dubs	2010	177,758	15,998	–	–	193,756
	2009	167,945	14,721	–	–	182,666
SAM Pitkin	2010	194,231	17,481	–	–	211,712
	2009	179,770	16,179	–	–	195,949
SW Morro ⁵	2010	149,506	1,520	–	–	151,026
	2009	–	–	–	–	–
Non-Executive Director (Elect)⁶						
D Banks	2010	18,413	1,657	–	–	20,070
	2009	–	–	–	–	–
Former Non-Executive Directors⁷						
DJ Simpson	2010	314,067	28,266	–	–	342,333
	2009	334,862	30,138	–	–	365,000
P Morris	2010	67,583	–	–	–	67,583
	2009	202,750	–	–	–	202,750
Total	2010	1,443,128	81,542	8,151	–	1,532,821
	2009	1,276,396	78,682	7,201	–	1,362,279

1 Amounts shown as cash salary and fees include amounts sacrificed in lieu of other benefits at the discretion of the individual. To the extent that any non-monetary benefits are subject to Fringe Benefits Tax (FBT), amounts shown include FBT.

2 Superannuation contributions include amounts required to satisfy the Group's obligations under applicable Superannuation Guarantee legislation.

3 Amounts provided for by the Group during the financial year in relation to the indexation of frozen retirement allowances, payable upon retirement from office. See Table 8 on page 35 or further details. As at 31 December 2010, the total retirement benefit payable to WM Baker was \$241,016.22. This entitlement was paid in full to WM Baker on 5 January 2011 upon his retirement as a Non-Executive Director.

4 ID Blackburne was nominated to the Board on 13 November 2009, subject to regulatory approval. Regulatory approval was received on 17 September 2010. ID Blackburne was appointed Chairman on 1 December 2010. The amounts shown reflect both the consultant fees (see footnote 6) and Director/Chairman fees paid to ID Blackburne during 2010.

5 SW Morro was nominated to the Board on 9 January 2010, subject to regulatory approval. Regulatory approval was received on 15 December 2010. The amounts shown reflect both the consultant fees (see footnote 6) and Director fees paid to SW Morro during 2010.

6 Non-Executive Directors (Elect) are individuals nominated to be Directors of the Company, pending regulatory approval. Upon receipt of regulatory approval, the Directors (Elect) will be formally appointed as Directors of the Company. Until such time, the Directors (Elect) are consultants to the Group and in accordance with the requirements of the Company's Constitution, are not entitled to vote on any Board resolutions. The Directors (Elect) will be paid a consultant's fee that is equivalent to the fee that they would have otherwise been paid as a Director. For completeness, any consultant's fees paid to D Banks in 2010 have been disclosed.

D Banks was nominated to the Board on 15 November 2010, subject to regulatory approval. For further information, refer to page 04 of the Directors' Report.

7 DJ Simpson ceased to be a Director on 17 December 2010. P Morris ceased to be a Director on 28 April 2010.

5 Shareholdings

Movement in shares

The number of shares (excluding those unvested under the GESP and the LTI program) in the Company held during the year ended 31 December 2010 by each Non-Executive Director and Senior Executive, including their personally related entities, are set out below.

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

The following table sets out details of the movement in shares in the Company held by Directors during the year:

Table 17 Details of NED shareholdings

	Type	Balance as at 1 January 2010	Performance shares and GESP shares vested	Other net changes during the year	Balance as at 31 December 2010 ¹
Non-Executive Directors					
ID Blackburne	Beneficially held	5,000	–	25,000	30,000
	Non-beneficially held	–	–	–	–
WM Baker	Beneficially held	4,700	–	–	4,700
	Non-beneficially held	–	–	–	–
RA Davis	Beneficially held	20,301	–	(966)	19,335
	Non-beneficially held	–	–	1,154	1,154
RV Dubs	Beneficially held	–	–	10,000	10,000
	Non-beneficially held	–	–	–	–
SAM Pitkin	Beneficially held	2,196	–	–	2,196
	Non-beneficially held	14,600	–	–	14,600
SW Morro	Beneficially held	–	–	–	–
	Non-beneficially held	–	–	20,000	20,000
Non-Executive Directors (Elect)					
D Banks	Beneficially held	–	–	–	–
	Non-beneficially held	–	–	–	–
Former Non-Executive Directors					
DJ Simpson	Beneficially held	120,150	–	1,007	121,157
	Non-beneficially held	–	–	–	–
P Morris	Beneficially held	40,539	–	–	40,539
	Non-beneficially held	11,387	–	–	11,387

¹ Where applicable, the balance disclosed is the balance of shareholding as at the date of cessation of office.

The following table sets out details of the movement in shares in the Company held by Senior Executives during the year:

Table 18 Details of Senior Executive shareholdings

	Type	Balance as at 1 January 2010	Performance shares and GESP shares vested	Other net changes during the year	Balance as at 31 December 2010
CEO and Managing Director					
JR Odell	Beneficially held	–	–	–	–
	Non-beneficially held	64,457	–	–	64,457
Executive KMP					
A Korsanos	Beneficially held	2,308	–	–	2,308
	Non-beneficially held	–	–	–	–
WP Jowett	Beneficially held	361,561	69	(217,686)	143,944
	Non-beneficially held	40,800	–	84,500	125,300
NR Khin	Beneficially held	1,196	69	–	1,265
	Non-beneficially held	–	–	–	–
TJ Croker	Beneficially held	–	–	–	–
	Non-beneficially held	–	–	–	–
Nominated Executives					
V Blanco	Beneficially held	–	–	–	–
	Non-beneficially held	–	–	–	–
AG Weston	Beneficially held	–	–	–	–
	Non-beneficially held	–	–	–	–

Auditor's Independence Declaration



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Auditor's Independence Declaration

As lead auditor for the audit of Aristocrat Leisure Limited for the year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read 'S. Humphries'.

Stephen Humphries
Partner
PricewaterhouseCoopers

Sydney
24 February 2011

Corporate Governance Statement

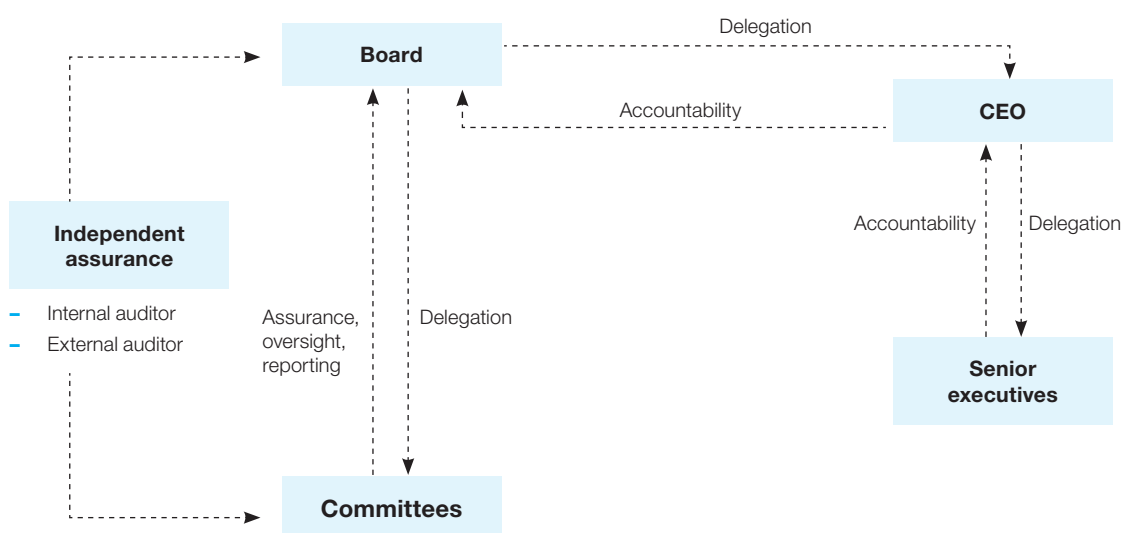
for the 12 months ended 31 December 2010

'Effective corporate governance structures encourage companies to create value, through entrepreneurialism, innovation, development and exploration, and provide accountability and control systems commensurate with the risk involved' – ASX Corporate Governance Principles and Recommendations

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

Set out below is a summary of the Group's corporate governance principles which were in place throughout the 2010 reporting period. For ease of reference, this statement has been prepared and presented in a format consistent with the ASX Principles and Recommendations.

Corporate governance framework



Principle 1 Lay solid foundations for management and oversight

Board roles and responsibilities

The role of the Board is to oversee and guide the management of the Group and its businesses with the aim of protecting and enhancing the interests of its shareholders, taking into account the interests of other stakeholders, including employees, customers, suppliers and the wider community.

The Board has formalised its roles and responsibilities into a Board Charter, which is available on the Group's website. The primary responsibilities of the Board include the:

- review and approval of Group strategy;
- performance management with specific responsibility for the monitoring of Group performance and overall conduct;
- selection, appointment, remuneration and performance evaluation of the Chief Executive Officer (CEO);
- evaluation of the principal risks of the Group 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 Group is subject and to ensure the highest standards of corporate conduct; and
- promotion of open and proper communication between the Group and its stakeholders.

The conduct of the Board is also governed by the Constitution, which is available on the Group's website.

Delegation to CEO

The Board has delegated certain responsibilities to the CEO, including the day-to-day operation and administration of the Group. In carrying out this delegation, the CEO reports routinely to the Board on the Group's progress on achieving the short, medium and long-term objectives of the Group. The CEO is accountable to the Board for the authority that is delegated by the Board.

The Board monitors the decisions and actions of the CEO and the performance of the business to gain assurance that progress is being made towards the corporate objective, within the limits it has imposed through the Group's governance assurance framework. The Board also monitors the performance of the Group and assesses its risk profile through its committees.

Appointment, induction and performance evaluation for senior executives

The CEO is responsible for appointment of the Group's senior executives. Details of the Group's senior executives can be found on the Group's website.

Upon appointment, senior executives including the CEO and the Chief Financial Officer (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 Group's financial position, strategies, operations, policies and risk management procedures.

The Board, based on recommendations from the Human Resources and Remuneration Committee in conjunction with the Nomination and Governance Committee, determines the CEO's Key Performance Objectives (KPOs) 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 KPOs of the senior executives and reviews their performance on an ongoing basis. The CEO formally reviews the performance of senior executives annually with the Human Resources and Remuneration Committee, which reports its findings to the Board for endorsement.

The performance evaluation of the senior executives (including the CEO) is undertaken 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 2010, the Board comprised six independent Non-Executive Directors and the CEO/Managing Director. Details, including the term of office, qualifications and experience, and information on other directorships held by each member of the Board, can be found in the Directors' Report.

It is important that the Board has an appropriate mix of skills, experience, expertise and diversity (including geographical and gender diversity). The Board considers it important for the following skills and experience to be represented:

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

Board renewal and succession planning

Board succession planning is an important element of the governance process. The Board regularly evaluates and reviews its succession planning process to ensure the progressive and orderly renewal of Board membership.

As part of the Board's ongoing renewal programme, three long-standing Non-Executive Directors (Mr David Simpson, Mrs Penny Morris and Mr Bill Baker) announced their retirement during 2010. These retirements, together with the nomination of Mr David Banks and Mr Lewis (Kelly) Flock as independent Non-Executive Directors, serve to refresh the Board by bringing additional experience and new perspectives.

Chairman of the Board

As part of the Board's renewal programme, the Board appointed Dr ID Blackburne as Chairman effective 1 December 2010.

The Chairman plays an important leadership role and is involved in:

- chairing meetings of the Board and providing effective leadership to it;
- monitoring the performance of the Board and the mix of skills and effectiveness of individual contributions;
- being a member of all principal Board Committees; and
- maintaining ongoing dialogue with the CEO and providing appropriate mentoring and guidance.

Nomination and appointment of new Directors

Recommendations for the nomination of new Directors are made by the Nomination and Governance Committee for consideration by the Board as a whole. As part of the nomination process, the committee will assess the skill set of current Directors to identify any gaps. Generally, external consultants are used to identify a wide potential base of possible candidates. Those nominated are assessed by the Nomination and Governance Committee against a range of criteria, such as professional skills, experience, qualifications and background, including probity and integrity. Any Director nominated during the year will stand for election by shareholders at the subsequent Annual General Meeting (AGM) following their nomination. Shareholders are asked to approve the appointment of the Director subject to the receipt of all necessary regulatory pre-approvals.

The Group's Policy for the Selection and Appointment of Non-Executive Directors is available on the Group's website.

Induction and Director development

New Directors are provided with a formal letter of appointment which sets out the key terms and conditions of appointment, including duties, rights and responsibilities, and the time commitment envisaged. During 2010, the Service Agreement of each existing Non-Executive Director was reviewed and subsequently replaced with a letter of appointment (setting out the key terms and conditions of their office), which reflects current practice.

As part of a comprehensive induction program, new Directors are provided with a Director's Handbook. New Directors also meet with the Chairman and senior executives as part of the structured induction program. Where appropriate, the program also includes site visits to some of the Group's key jurisdictions.

The Board encourages all Directors to undertake the 'Company Directors Course' run by the Australian Institute of Company Directors. All Directors are expected to maintain the skills required to discharge their obligations to the Group and its shareholders. Directors take part in a range of training and continuing education programs. Internal and external experts are engaged to conduct education sessions. As an example, during 2010 the Group's external legal counsel provided the Board with a comprehensive overview on the Group's continuous disclosure obligations. This presentation was of particular benefit to the USA-based Directors. Directors also receive regular business briefings at Board meetings. These briefings are intended to provide Directors with information on each area of the Group's business, in particular regarding performance, key issues, risks and strategies for growth.

Retirement and re-election

The Constitution requires that a Director may not hold office for a continuous period in excess of three years or past the third AGM following the Director's appointment, whichever is longer, without submitting for re-election.

Retiring Directors are eligible for re-election by shareholders. Board support for Directors retiring by rotation and seeking re-election is not automatic. A Non-Executive Director must take into account the views of the other Non-Executive Directors when making a decision to stand for re-election.

The Board also has a policy that a Director should serve no more than 12 years as a Director, commencing from the date of nomination.

Access to information and independent professional advice

Directors are encouraged to access senior executives to request relevant information in their role as a Non-Executive Director.

Directors are also entitled, with the approval of the Chairman, to seek independent professional advice at the Group's expense. Whenever practicable, the advice is commissioned in the joint names of the Director and the Group, and a copy of the advice should be made available to the entire Board.

Board meetings

The Board is required to meet a minimum of 10 times a year as per the Board Charter. During 2010, the Board held a total of 12 meetings. The number of meetings attended by each Director is tabled in the Directors' Report. Senior executives are regularly invited to attend and present at Board meetings. During the year, the Non-Executive Directors also held meetings without the presence of management.

Director independence

All Directors, whether independent or not, are expected to bring an impartial judgement to bear on Board decisions and are subject to the Board's policy regarding management of conflict of interests, as well as common law and Corporations Act requirements.

During the year, the Board assesses whether the Non-Executive Directors are independent. In making such an assessment, consideration is given to whether the Director:

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

Having considered these criteria, the Board was of the view that there were no factors affecting the independent status of any Non-Executive Director at 31 December 2010 or throughout the year.

Other directorships

Board policy requires Directors to devote sufficient time to the Group and to be available to attend to the affairs of the Group. This process is managed by the Chairman and other members consult with the Chairman before taking up additional appointments. 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 undertakes an annual review of its performance, and that of its committees, and periodically engages the assistance of external consultants to facilitate formal Board performance reviews.

During 2010, the Board took significant steps to put into action the recommendations from the external Board performance review report received in 2009.

In addition, the Board continually assesses its performance, and the Chairman discusses performance with each Director during the year. Directors are encouraged to raise any issues of concern regarding the performance of any other Director with the Chairman, or if the concern relates to the Chairman, with the Chair of the Nomination and Governance Committee. The Chairman or the Chair of the Nomination and Governance Committee, as applicable, is responsible for determining the appropriate follow-up of any matters raised.

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

Role of the Company Secretary

The appointment of the Company Secretary is a matter for the Board. The Company Secretary provides advice to the Board as and when required. They work closely with the Chairman and the Chair of the Nomination and Governance Committee to develop and maintain the Group's corporate governance principles and is responsible to the Board for the Group's Secretariat function.

Board committees

The Board is assisted in fulfilling its responsibilities by committees. Currently, there are five, each being governed by a Charter which is regularly reviewed and approved by the Board. The committee Charters are available on the Group's website. The Board committees are the:

- Audit Committee;
- Regulatory and Compliance Committee;
- Human Resources and Remuneration Committee;
- Innovation and Development Committee; and
- Nomination and Governance Committee.

The Board may, at any time, address matters identified within a committee's Charter at the full Board level.

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. From time to time, the Board may appoint a member on an interim basis to fill a vacancy.

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

Audit Committee

The committee comprises three members, all of whom are independent Non-Executive Directors. The committee is chaired by an independent chair who is not the Chairman of the Board. As at 31 December 2010, the committee members were Mr RA Davis (Chair), Dr ID Blackburne and Ms SAM Pitkin. All members of the committee are financially literate, and the committee possesses sufficient financial expertise and knowledge of the industry in which the Group operates.

The committee is required to meet a minimum of four times a year per the Charter. During the year, in addition to scheduled committee meetings, separate meetings also took place between the Chair of the committee and both the Group's external and internal auditors. The number of actual committee meetings and attendance by its members are shown in the Directors' Report.

The committee responsibilities include:

- evaluating and monitoring of the Group's internal control environment and risk management function;
- evaluating and monitoring the Group's exposure to fraud;
- 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 Group'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 Group's various disclosure obligations; and
- reviewing and pre-approving any non-audit services provided by the internal or external auditors to ensure their independence is maintained at all times.

Regulatory and Compliance Committee

The committee comprises six members. As at 31 December 2010, the committee was chaired by Mr WM Baker, an independent Non-Executive Director. The other committee members include three independent Non-Executive Directors, Dr ID Blackburne, Dr RV Dubs and Mr SW Morro and, as required by the Group's regulatory licences, an independent external member, Mr H Keating, and the Global Compliance Manager as a member of management. The committee is required to meet a minimum of four times a year per the Charter. The number of actual committee meetings and attendance at meetings by its members are shown in the Directors' Report. Mr Baker was succeeded as Chair by Mr SW Morro from 4 January 2011.

The committee responsibilities include:

- evaluating and monitoring the Group's compliance program, policies and processes;
- reviewing existing and proposed business undertakings for regulatory compliance;
- overseeing the framework for compliance training and education of Group staff; and
- monitoring and ensuring licensing conditions and regulatory requirements are met.

Human Resources and Remuneration Committee

The committee comprises four members, all of whom are independent Non-Executive Directors. As at 31 December 2010, the committee members were Ms SAM Pitkin (Chair), Dr ID Blackburne, Dr RV Dubs and Mr DCP Banks (as Member (Elect)). The committee is required to meet a minimum of four times a year per the Charter. The number of actual committee meetings and attendance at meetings by its members are shown in the Directors' Report.

The committee responsibilities include:

- recruitment, remuneration, retention, succession planning, termination and training policies;
- the Group's overall remuneration strategy; and
- making recommendations to the Board on:
 - all remuneration matters relating to the CEO;
 - performance and remuneration, including incentive arrangements for key senior executives;
 - the design of remuneration structures and significant incentive plans; and
 - the Group's remuneration policy and remuneration strategy.

Innovation and Development Committee

The committee comprises four members, all of whom are independent Non-Executive Directors. As at 31 December 2010, the committee members were Dr RV Dubs (Chair), Dr ID Blackburne, Ms SAM Pitkin and Mr RA Davis. The committee is required to meet a minimum of three times a year per the Charter. The number of actual committee meetings and attendance at meetings by its members are shown in the Directors' Report.

The committee responsibilities include:

- overseeing the strategic direction of the Group's research and product development program;
- reviewing the proposed development of new products, concepts and market initiatives;
- overseeing the strategy and framework for intellectual property protection;
- monitoring the establishment and progress of major projects, and the program and resource allocation for the delivery of the Group's innovation pipeline;
- monitoring external trends in technology and innovation in the gaming field; and
- considering any other matters referred to it by the Board on D&D, technology and innovation.

Nomination and Governance Committee

The committee comprises three members, all of whom are independent Non-Executive Directors. As at 31 December 2010, the committee members were Mr RA Davis (Chair), Dr ID Blackburne and Ms SAM Pitkin. The committee is required to meet a minimum of three times a year per the Charter. The number of actual committee meetings and attendance at meetings by its members are shown in the Directors' Report.

The committee responsibilities include:

- recommendations on Board structure, membership, tenure, succession planning and committee membership;
- induction and education of Directors;
- setting the process for the Board and individual Director performance assessments; and
- overall corporate governance policies and procedures.

Principle 3 Promote ethical and responsible decision-making

Diversity and equal employment opportunity

The Group recognises its legal and ethical obligations and is committed to promoting and achieving diversity across the Group. The Group employs more than 2,000 people around the world including in Australia, the United States, New Zealand, the United Kingdom, South Africa, Sweden, Japan, India, Mexico and Macau.

The Group aspires to a workforce profile which reflects as far as possible the talent available in the many areas in which its businesses are located. This requires the Group to achieve workforce diversity in all its forms, including gender, age, race and ethnicity, religion, and cultural background. The Board is committed to ensuring that the Group's policies and procedures enable and support a diverse workforce.

On 30 June 2010, the ASX Corporate Governance Council released amendments to the ASX Principles and Recommendations, in particular in relation to diversity. While the changes do not take effect until the first financial year beginning on or after 1 January 2011, the Board is supportive of these changes and will take all necessary steps to adopt the key provisions of the amended ASX Principles and Recommendations, including by:

- formally adopting a Diversity Policy, reflecting the principles and practices the Group has had in place for a number of years;
- establishing measurable objectives for achieving gender diversity, the progress toward which will be reported on in the Group's 2011 Annual Report; and
- undertaking a review of the Board Charter and the Charters of the Nomination and Governance and Human Resources and Remuneration Committees to support the achievement of diversity objectives.

Gender diversity

The Group is compliant with the *Equal Opportunity for Women in the Workplace Act 2010* (Cth).

As at 31 December 2010, women comprise 26% of total employees throughout the Group and occupy 22% of senior manager¹ positions. Of the 10 senior executive positions² in the Group, one is currently occupied by a woman (10%). Two of the six Non-Executive Directors are women (33.3%).

Code of Conduct

The Board has adopted a Code of Conduct which applies to Directors and all employees. The Code is reinforced through various training programs and Group 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):

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

The Code of Conduct is available on the Group's website.

The Board and senior management 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, among 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, is aimed at ensuring that the Group maintains the highest standards of honesty, integrity and fair trading with shareholders, customers, suppliers, employees, regulators and the community.

The Group 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 Group also has policies which govern, among other things:

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

1 Senior manager positions for the purpose of this statement means members of the Group's Extended Leadership Team.

2 Senior executive positions are those reporting directly to the CEO and Managing Director.

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

Whistleblower/Tip-offs Anonymous program

Whistleblower/Tip-offs Anonymous is an independent, confidential telephone, email and postal service that provides a 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 Chairman and the Chair of the Audit Committee by the Whistleblower/Tip-offs Anonymous service provider.

Share trading policy

During 2010, the Group amended its Share Trading Policy, bringing it in line with market practice and ensuring compliance with the new ASX Listing Rules requirements (effective 1 January 2011).

The policy prohibits Non-Executive Directors and employees from dealing in Aristocrat Leisure Limited (Company) securities if they are in possession of any price-sensitive information. In addition, the policy identifies certain 'blackout periods' during which Non-Executive Directors and designated senior executives are not allowed to deal in the Company's securities (unless exceptional circumstances apply, the person has no inside information, and special approval is obtained to sell (but not buy) Company securities). Non-Executive Directors and employees are reminded that procuring others to trade in Company securities when in possession of price-sensitive information is also a breach of the law and the policy.

The policy prohibits Non-Executive Directors and designated senior executives from entering into a margin loan or similar funding arrangement over the Company's securities.

The policy prohibits the hedging of unvested performance share rights and vested securities that are subject to disposal restrictions at all times, irrespective of trading windows. This is in line with the Productivity Commission's recommendations in its final report on executive remuneration and is intended to prevent transactions which could have the effect of distorting the proper functioning of performance hurdles or reducing the intended alignment between management's and shareholders' interests.

The Share Trading Policy can be found on the Group's website.

Principle 4 Safeguard integrity in financial reporting

Audit Committee

The Audit Committee's composition, qualifications, 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. The external audit service contract is reviewed at least every five years. The external audit service contract was last awarded in 2008.

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 Group's external auditor for the ensuing year.

Auditor independence

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

The Audit Committee reviews the independence of the auditors four times a year. The Group 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 external auditor attends the AGM and is available to answer questions from shareholders on the:

- conduct of the audit;
- preparation and content of the auditor's report;
- accounting policies adopted by the Group in relation to the preparation of the financial report; and
- independence of the auditor in relation to the conduct of the audit.

Principle 5 Make timely and balanced disclosure

The Group understands and respects that timely disclosure of price-sensitive information is central to the efficient operation of the securities market and has adopted a comprehensive Continuous Disclosure Policy. The Continuous Disclosure Policy is available on the Group's website.

The Company Secretary, in conjunction with the CEO and the CFO (the Management Disclosure Committee) has responsibility for reviewing proposed disclosures and making decisions in relation to what information can be or should be disclosed to the market. Each Group employee is required to inform the Company Secretary regarding any potentially price-sensitive information concerning the Group as soon as they become aware of it.

Where appropriate, the Board will be consulted on the most significant or material disclosures.

The Company Secretary is responsible for ensuring compliance with the Continuous Disclosure Policy.

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 superior returns to shareholders, taking into account the interests of other stakeholders.

The Group promotes effective communication with shareholders and encourages effective participation at general meetings to ensure a high level of accountability and discussion of the Group's strategy, goals and performance. Shareholders are invited to submit questions in advance on any shareholder matters that may be relevant to a general meeting.

The Group maintains a website which is regularly updated with all recent announcements to the ASX, annual reports, briefing materials, and presentations to investors and analysts. The Governance section of the website allows shareholders direct access to the Board Charter, committee Charters and key governance policies.

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

The Group's Shareholder Communication Policy is available on the Group's website.

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 by, or potentially exposed to, the Group in pursuing its objectives. The adequacy and effectiveness of this process is reviewed by the Board on an ongoing basis. The Group's Risk Management Policy Statement is available on the Group's website.

Elements of the Group's risk management system include:

- a formal risk management policy, which is based on Australian Standard AS 4360:2004 Risk Management and the ASX Principles and Recommendations;
- the review of material business risks, including significant changes in risk profiles, by the Risk Review Committee, the Audit Committee and the Board as appropriate;
- the establishment of an internal audit function, independent of the external auditor, which develops a risk-based internal audit plan and has direct access to the Board and management;
- a Group-wide regulatory compliance program covering licensure, environment, occupational health and safety and employment practices; and
- a confidential Whistleblower/Tip-offs Anonymous program deployed worldwide.

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

Certification from the CEO and the CFO

The Board received a written certification on 24 February 2011 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 arising.

Principle 8 Remunerate fairly and responsibly

Human Resources and Remuneration Committee

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

Remuneration of Directors and senior executives

Details of the principles and amounts of remuneration of Non-Executive Directors (including any applicable retirement benefits), Executive Directors and specific senior executives who are designated as Key Management Personnel or Nominated Executives are set out in the Remuneration Report, which also includes disclosures on equity-based remuneration provided by the Group.

Five Year Summary

12 months ended 31 December:
\$'000 (except where indicated)

	2010	2009	2008	2007	2006
Profit and loss items					
Revenue ¹	684,578	908,648	1,079,902	1,121,969	1,074,534
EBITDA ²	121,670	212,733	253,171	368,693	366,707
Depreciation and amortisation	(36,911)	(42,814)	(40,231)	(36,435)	(31,415)
EBIT ²	84,759	169,919	212,940	332,258	335,292
Net interest expense	(13,525)	(13,909)	(19,826)	(6,027)	(2,364)
Profit/(loss) before income tax expense ²	71,234	156,010	193,114	326,231	332,928
Income tax expense	(16,107)	(39,070)	(52,179)	(78,295)	(92,873)
Profit after income tax expense ²	55,127	116,940	140,935	247,936	240,055
Non-controlling interests	(557)	(539)	(720)	(764)	(1,057)
Net profit attributable to members of Aristocrat Leisure Limited ²	54,570	116,401	140,215	247,172	238,998
Abnormal items after tax	22,624	(274,239)	(39,008)	–	–
Reported net profit/(loss) attributable to members of Aristocrat Leisure Limited	77,194	(157,838)	101,207	247,172	238,998
Total dividend paid – parent entity only	18,668	78,587	266,146	182,827	149,947
Balance sheet items					
Contributed equity	187,625	185,320	(67,298)	1,291	53,633
Reserves	(117,827)	(92,013)	(28,762)	(101,635)	(85,131)
Retained earnings	120,083	61,498	288,505	420,470	395,420
Outside equity interest	(2,009)	(944)	(16)	675	1,047
Total equity	187,872	153,861	192,429	320,801	364,969
Cash and cash equivalents	19,840	59,045	106,243	80,618	123,496
Other current assets	311,122	336,650	435,220	354,334	288,321
Property, plant and equipment	100,141	120,459	150,776	103,004	117,846
Intangible assets	113,980	118,547	154,420	128,212	146,392
Other non-current assets	163,826	173,407	169,712	159,730	201,907
Total assets	708,909	808,108	1,016,371	825,898	877,962
Current payables and other liabilities	155,991	195,128	258,294	203,243	209,547
Current borrowings	7,000	7,245	150,000	45,000	–
Current tax liabilities and provisions	15,053	283,449	30,617	74,283	71,191
Non-current borrowings	298,662	127,104	332,644	147,459	164,287
Non-current provisions	18,044	18,632	25,121	18,008	20,039
Other non-current liabilities	26,287	22,689	27,266	17,104	47,929
Total liabilities	521,037	654,247	823,942	505,097	512,993
Net assets	187,872	153,861	192,429	320,801	364,969

Five Year Summary

Aristocrat Leisure Limited

Annual Report 2010

12 months ended 31 December:
\$'000 (except where indicated)

		2010	2009	2008	2007	2006
Other information						
Employees at year end	Number	2,181	2,038	2,128	2,219	2,282
Return on Aristocrat shareholders' equity ²	%	29.0	75.7	72.9	77.1	65.5
Basic earnings per share ²	Cents	10.3	23.0	30.5	53.0	51.2
Net tangible assets per share	\$	0.14	0.07	0.08	0.41	0.47
Total dividends per share – ordinary	Cents	5.0	4.5	36.0	49.0	36.0
Dividend payout ratio ²	%	49	20	118	93	71
Issued shares at year end	'000	533,984	533,379	455,330	464,296	467,713
Net (cash)/debt ³	\$'000	285,822	75,304	376,401	111,841	40,791
Net cash (debt)/equity	%	(152.1)	(48.9)	(195.6)	(34.9)	(11.2)

1 Revenue as per segment information.

2 Before the impact of abnormal and one-off items that are not representative of the underlying operational performance of the Group.

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

Financial Statements

for the year ended 31 December 2010

These financial statements cover the consolidated entity consisting of Aristocrat Leisure Limited and its subsidiaries (Group). The financial statements are presented in Australian dollars.

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

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

A description of the nature of the consolidated Group's operations and principal activities is included in the Review of Operations, which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 24 February 2011. The Company has the power to amend and reissue the financial statements.

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

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Consolidated statement of comprehensive income

for the year ended 31 December 2010

	Notes	Consolidated 2010 \$'000	2009 \$'000
Revenue	5	680,510	908,648
Cost of revenue		(315,517)	(413,567)
Gross profit		364,993	495,081
Other income	5	24,533	17,224
Design and development costs		(109,814)	(113,449)
Sales and marketing costs		(76,705)	(99,679)
General and administration costs		(79,259)	(470,143)
Restructuring costs		(6,093)	(17,757)
Finance costs		(15,838)	(17,413)
Share of net losses of jointly controlled entity	27	(616)	(1,745)
Profit/(loss) before income tax		101,201	(207,881)
Income tax (expense)/income	6	(23,450)	50,582
Profit/(loss) for the year		77,751	(157,299)
Other comprehensive income			
Exchange differences on translation of foreign operations	21(a) (i)	(28,515)	(65,594)
Other comprehensive income, net of tax		(28,515)	(65,594)
Total comprehensive income for the year		49,236	(222,893)
Profit/(loss) is attributable to:			
Owners of Aristocrat Leisure Limited		77,194	(157,838)
Non-controlling interest	22	557	539
		77,751	(157,299)
Total comprehensive income is attributable to:			
Owners of Aristocrat Leisure Limited		48,679	(223,432)
Non-controlling interest	22	557	539
		49,236	(222,893)
Earnings per share for profit attributable to the owners of the Company			
		Cents	Cents
Basic earnings per share	33	14.5	(31.3)
Diluted earnings per share	33	14.5	(31.3)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income

for the year ended 31 December 2010 continued

Non-statutory measure

Normalised profit (as explained in Note 1) is presented below to assist users of the financial statements to understand Aristocrat's business results and reconciles with reported results as follows:

	Before tax		After tax	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Normalised profit (before non-controlling interest)	71,234	156,078	55,127	116,940
Significant items of income/(expense):				
Disposal of investment in jointly controlled entity	12,727	–	12,727	–
Property sales	–	8,827	–	8,827
Impairment of multi-terminal gaming businesses	–	(83,127)	–	(79,907)
Convertible Bond litigation	35,839	(267,588)	22,088	(187,312)
Restructuring costs	(6,093)	(17,757)	(4,062)	(12,591)
Legal settlement	–	(4,314)	–	(3,256)
Impairment of gaming operations assets	(12,506)	–	(8,129)	–
Reported profit/(loss)	101,201	(207,881)	77,751	(157,299)

Consolidated statement of financial position

as at 31 December 2010

	Notes	Consolidated 2010 \$'000	2009 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	19,840	59,045
Trade and other receivables	9	203,459	253,347
Inventories	10	85,952	66,093
Financial assets	11	5,864	7,600
Other assets	12	7,536	8,515
Current tax assets		8,311	1,095
Total current assets		330,962	395,695
Non-current assets			
Trade and other receivables	9	50,087	41,179
Financial assets	11	9,221	15,680
Property, plant and equipment	13	100,141	120,459
Deferred tax assets	14	104,518	116,548
Intangible assets	15	113,980	118,547
Total non-current assets		377,947	412,413
Total assets		708,909	808,108
LIABILITIES			
Current liabilities			
Trade and other payables	16	125,711	162,835
Borrowings	17	7,000	7,245
Provisions	18	15,053	283,449
Other liabilities	19	30,280	32,293
Total current liabilities		178,044	485,822
Non-current liabilities			
Trade and other payables	16	115	159
Borrowings	17	298,662	127,104
Provisions	18	18,044	18,632
Other liabilities	19	26,172	22,530
Total non-current liabilities		342,993	168,425
Total liabilities		521,037	654,247
Net assets		187,872	153,861
Equity			
Contributed equity	20	187,625	185,320
Reserves	21(a)	(117,827)	(92,013)
Retained earnings	21(b)	120,083	61,498
Capital and reserves attributed to owners		189,881	154,805
Non-controlling interest	22	(2,009)	(944)
Total equity		187,872	153,861

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

for the year ended 31 December 2010

Consolidated	Notes	Attributable to owners of Aristocrat Leisure Limited			Total \$'000	Non- controlling interest \$'000	Total equity \$'000
		Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000			
Balance at 1 January 2009		(67,298)	(28,762)	288,505	192,445	(16)	192,429
Total comprehensive income for the year		–	(65,594)	(157,838)	(223,432)	539	(222,893)
Transactions with owners in their capacity as owners:							
Shares issued under dividend reinvestment plan (excluding transaction costs)	20	14,577	–	–	14,577	–	14,577
Contributions of equity, net of transaction costs and tax	20	238,041	–	–	238,041	–	238,041
Net movement in share-based payments reserve	21(a)(ii)	–	(2,028)	–	(2,028)	–	(2,028)
Issues from the Trust to satisfy vested shares	21(a)(iii)	–	4,371	–	4,371	–	4,371
Dividends provided for and paid	7	–	–	(69,169)	(69,169)	–	(69,169)
Dividends paid to non-controlling shareholder	22	–	–	–	–	(1,485)	(1,485)
Net movement in reserves attributable to non-controlling interest	22	–	–	–	–	18	18
		252,618	2,343	(69,169)	185,792	(1,467)	184,325
Balance at 31 December 2009		185,320	(92,013)	61,498	154,805	(944)	153,861
Total comprehensive income for the year		–	(28,515)	77,194	48,679	557	49,236
Transactions with owners in their capacity as owners:							
Shares issued under dividend reinvestment plan (excluding transaction costs)	20	2,305	–	–	2,305	–	2,305
Net movement in share-based payments reserve	21(a)(ii)	–	(347)	–	(347)	–	(347)
Issues from the Trust to satisfy vested shares	21(a)(iii)	–	3,048	–	3,048	–	3,048
Dividends provided for and paid	7	–	–	(18,609)	(18,609)	–	(18,609)
Dividends paid to non-controlling shareholder	22	–	–	–	–	(1,590)	(1,590)
Net movement in reserves attributable to non-controlling interest	22	–	–	–	–	(32)	(32)
		2,305	2,701	(18,609)	(13,603)	(1,622)	(15,225)
Balance at 31 December 2010		187,625	(117,827)	120,083	189,881	(2,009)	187,872

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

Consolidated statement of cash flows

for the year ended 31 December 2010

	Notes	Consolidated 2010 \$'000	2009 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		781,064	1,021,371
Payments to suppliers and employees (inclusive of goods and services tax)		(694,305)	(855,584)
		86,759	165,787
Other income		1,406	2,069
Interest received		6,263	3,595
Interest paid		(13,977)	(17,086)
Income taxes paid		(13,521)	(12,924)
Convertible bond damages settlement		(229,450)	–
Net cash (outflow)/inflow from operating activities	34	(162,520)	141,441
Cash flows from investing activities			
Payments for property, plant and equipment		(37,954)	(60,095)
Payments for intangibles	15	(15,091)	(3,210)
Loan repayments from related party		1,044	1,297
Proceeds from sale of property, plant and equipment		751	22,044
Proceeds from sale of jointly controlled entity		15,804	–
Net cash outflow from investing activities		(35,446)	(39,964)
Cash flows from financing activities			
Proceeds from issue of shares (net of transaction costs)	20	–	236,627
Repayments of borrowings		(126,772)	(323,707)
Proceeds from borrowings		307,205	18,111
Dividends paid to company shareholders	7	(16,304)	(63,741)
Dividends paid to non-controlling shareholder	22	(1,590)	(1,485)
Net cash inflow/(outflow) from financing activities		162,539	(134,195)
Net decrease in cash and cash equivalents		(35,427)	(32,718)
Cash and cash equivalents at the beginning of the year		59,045	106,243
Effects of exchange rate changes on cash and cash equivalents		(3,778)	(14,480)
Cash and cash equivalents at the end of year	8	19,840	59,045

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

Notes to the financial statements

for the year ended 31 December 2010

Note 1. Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations and the *Corporations Act 2001* (Cth).

(i) Compliance with IFRS

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

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

(iii) Critical accounting estimates

The preparation of financial statements 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.

(iv) Comparatives

Comparative information is reclassified where appropriate to enhance comparability.

(v) Significant items and normalised profit

To assist users of the financial statements in understanding the Group's business results, Aristocrat discloses normalised profit (before and after tax) as a footnote to its statement of comprehensive income.

Normalised profit (before and after tax) is statutory profit (before and after tax), excluding the impact of significant items. Significant items are items of income or expense which are, either individually or in aggregate, material to Aristocrat and:

- outside the ordinary course of business; or
- part of the ordinary activities of the business but unusual due to their size and nature.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company (or parent entity) as at 31 December 2010 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

The acquisition method of accounting is used to account for the business combinations 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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of financial position and statement of changes in equity respectively.

Note 1. Summary of significant accounting policies continued

(b) Principles of consolidation continued

(ii) Jointly controlled entities

The investment in a jointly controlled entity was accounted for in the consolidated financial statements using the equity method until the date of disposal. Under the equity method, the share of the profits or losses of the jointly controlled entity is recognised in the statement of comprehensive income, and the share of movements in reserves is recognised in reserves in the statement of financial position.

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

(iii) Employee Share Trust

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

Treasury shares acquired by the Aristocrat Employee Equity Plan Trust are recorded in share-based payment reserves. Information relating to these shares is disclosed in Note 21(a)(ii) and (iii).

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of operating segments, has been identified as the Board of Directors and the Executive Leadership Team, who have determined operating segments based on a geographical perspective. Further information is provided in Note 4.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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.

(iii) Group companies

The results and financial position of all the Group entities (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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income 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 reclassified to profit or loss, as part of the gain or loss on sale where applicable.

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

Note 1. Summary of significant accounting policies continued

(e) Revenue recognition

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

(i) Revenue from the sale of goods

Platform/machine sales

Revenue is recognised when goods have been dispatched 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 reporting date in respect of future periods are treated as revenue in advance and are included in current liabilities.

(iii) Interest income

Interest income is recognised using the effective interest method.

Note 1. Summary of significant accounting policies continued

(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 applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities, current income tax of prior years, unused tax losses and unused tax credits.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amount in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

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.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity, respectively.

(g) Tax consolidation legislation

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

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

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

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

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

(h) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property, or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term, if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Note 1. Summary of significant accounting policies continued

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, shares issued or liabilities incurred or assumed by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs for business combinations from 1 January 2010 are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate they might be impaired. Other assets are tested 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 which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(k) Cash and cash equivalents

For cash flow statement presentation purposes, 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.

(l) Trade receivables

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

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

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

Note 1. Summary of significant accounting policies continued

(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. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(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) Investments and other financial assets

Classification

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

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

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Loans and receivables are included in trade receivables in the statement of financial position.

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the 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.

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

Note 1. Summary of significant accounting policies continued

(o) Investments and other financial assets continued

Subsequent measurement

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

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

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

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

Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the profit or loss on equity instruments classified as available-for-sale are not reversed through the profit or loss.

(p) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value 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').

Where hedge accounting is adopted, 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 statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the statement of comprehensive income within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk.

Note 1. Summary of significant accounting policies continued

(p) Derivatives and hedging activities continued

(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 other comprehensive income and accumulated in a hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income within other income or other expense.

Amounts accumulated in equity are recycled to profit or loss 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 initial measurement of the cost of the asset or carrying amount of 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 profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(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 statement of comprehensive income and are included in other income or other expenses.

(q) 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 end of the reporting period. 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 reporting 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 reporting 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.

(r) Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation. Historical 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 profit or loss 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	25 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 reporting 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 statement of comprehensive income.

Note 1. Summary of significant accounting policies continued

(s) 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 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 operating segment. Refer to Note 15.

(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 that have a finite useful life 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. Licences which have an indefinite life are not amortised, and are tested for impairment at each reporting date.

(iv) Design and development

Design expenditure is recognised as an expense 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 the reporting date, only development costs relating to the creation of an asset that can be used or sold and can be reliably measured are capitalised as intangible assets.

Other development costs that do not meet these criteria are recognised in the statement of comprehensive income as incurred.

(t) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the 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(x).

(u) 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 statement of comprehensive income 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 end of the reporting period.

Note 1. Summary of significant accounting policies continued

(v) 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 as incurred.

(w) 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 reporting 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 reporting 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.

(x) 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 reporting 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) Long service leave

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 reporting 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 reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) 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.

Note 1. Summary of significant accounting policies continued

(x) Employee benefits – payable continued

(iv) Share-based payments

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

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 the Aristocrat Employee Equity Plan Trust are recorded in share-based reserves. Information relating to these shares is disclosed in Note 21(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 reporting 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.

(v) 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.

(vi) 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.

(vii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these 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 payables. Liabilities for termination benefits expected to be settled within 12 months are measured at the amounts expected to be paid when they are settled.

Note 1. Summary of significant accounting policies continued

(y) 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.

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

(z) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at reporting date.

(aa) 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 financial 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.

(ab) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the net asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

(ac) 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 statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(ad) Parent entity financial information

The financial information for the parent entity, Aristocrat Leisure Limited, disclosed in Note 36 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Aristocrat Leisure Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

Note 1. Summary of significant accounting policies continued

(ad) Parent entity financial information continued

(ii) Tax consolidation legislation

Aristocrat Leisure Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Aristocrat Leisure Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

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.

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 amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year.

The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

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.

(ae) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

In December 2009, the AASB issued AASB 9 *Financial Instruments*, which addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets. The Group has not yet decided when to adopt AASB 9.

The AASB has issued Interpretation 19 to clarify the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 January 2011. It is not expected to have any impact on the Group or the parent entity's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 January 2010) and the Group has not entered into any debt for equity swaps since that date.

On 30 June 2010, the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Aristocrat Leisure Limited is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the revised reporting framework will have no impact on the financial statements of the entity.

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. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. 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 co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investment of excess liquidity.

(a) Market risk

(i) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from floating rate borrowings drawn under bank debt facilities. If deemed necessary, the Group has the ability to manage floating interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Under the Group Treasury policy, the mix between fixed to floating rate debt is reviewed on a regular basis. The Group had predominantly floating rate Australian dollar and US dollar denominated borrowings during 2010. There were no interest rate swaps in place at the end of the period (2009: nil).

The weighted average interest rate on the Group's borrowings at 31 December 2010 was 4.9% (2009: 0.8%).

Refer to Note 17 for further details of the Group's borrowings.

Group sensitivity

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

(ii) Foreign exchange risk

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

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. Refer to Notes 9(i) and 16(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 profit or loss 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 in the statement of financial position as available-for-sale. The Group's exposure to commodity price risk is indirect and is not considered likely to be material. Changes in price risk are unrealised and reflected through equity.

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

Note 2. Financial risk management continued

(a) Market risk continued

(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:

Group sensitivity

2010	Carrying amount \$'000	Interest rate risk		Foreign exchange risk		Price risk	
		-1% Profit \$'000	+1% Profit \$'000	-10% Profit \$'000	+10% Profit \$'000	-10% Equity \$'000	+10% Equity \$'000
Financial assets							
Cash and cash equivalents	19,840	(181)	181	(123)	150	-	-
Receivables	248,179	-	-	(1,223)	1,001	-	-
Loans – other	5,367	(54)	54	597	(488)	-	-
Financial assets:							
Equity securities available-for-sale, current	4,624	(46)	46	-	-	-	-
Equity securities available-for-sale, non-current	1,391	-	-	-	-	(139)	139
Debt securities held-to-maturity	8,956	(90)	90	-	-	-	-
Financial liabilities							
Payables	125,826	-	-	115	(188)	-	-
Borrowings	305,662	3,056	(3,056)	-	-	-	-
Progressive jackpot liabilities	11,626	116	(116)	-	-	-	-
Total increase/(decrease)		2,801	(2,801)	(634)	475	(139)	139

Note 2. Financial risk management continued

(a) Market risk continued

(iv) Summarised sensitivity analysis continued

2009	Carrying amount \$'000	Interest rate risk		Foreign exchange risk		Price risk	
		-1% Profit \$'000	+1% Profit \$'000	-10% Profit \$'000	+10% Profit \$'000	-10% Equity \$'000	+10% Equity \$'000
Financial assets							
Cash and cash equivalents	59,045	(538)	538	(305)	373	-	-
Receivables	288,825	-	-	(4,210)	3,445	-	-
Loans – other	5,701	(57)	57	518	(633)	-	-
Financial assets:							
Equity securities available-for-sale, current	6,194	(61)	61	-	-	-	-
Equity securities available-for-sale, non-current	1,391	-	-	-	-	(139)	139
Debt securities held-to-maturity	10,927	(109)	109	-	-	-	-
Investment in jointly controlled entity	4,634	-	-	-	-	-	-
Financial liabilities							
Payables	162,994	-	-	-	-	-	-
Borrowings	134,349	1,345	(1,345)	-	-	-	-
Progressive jackpot liabilities	13,988	140	(140)	-	-	-	-
Convertible Bonds litigation	267,588	-	-	(29,732)	24,326	-	-
Total increase/(decrease)		720	(720)	(33,729)	27,511	(139)	139

(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.

For all cash and cash equivalents, these are held with counterparties which are rated 'A' or higher.

Note 2. Financial risk management continued

(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 (comprising of the undrawn borrowing facilities below) on the basis of expected cash flow.

Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	Consolidated	
	2010 \$'000	2009 \$'000
Floating rate		
– Expiring within one year (bank loans and bank overdrafts)	26,791	262,245
– Expiring beyond one year (bank loans)	201,338	458,016
	228,129	720,261

The short term bank loans and overdraft facilities may be drawn at any time and are subject to annual review.

Maturities of financial liabilities

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

- (a) based on their contractual maturities:
 - (i) all non-derivative financial liabilities; and
 - (ii) net and gross settled derivative financial instruments for which the contractual maturities are essential for an understanding of the timing of the cash flows; and
- (b) based on the remaining period to the expected settlement date:
 - (i) derivative financial liabilities for which the contractual maturities are not essential for an understanding of the timing of cash flows.

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

Note 2. Financial risk management continued

(c) Liquidity risk continued

Contractual maturities of financial liabilities Group – at 31 December 2010	Less than 6 months \$'000	6–12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying Amount (assets)/ liabilities \$'000
Non-derivatives							
Trade payables	51,090	–	–	–	–	51,090	51,090
Other payables	74,621	–	115	–	–	74,736	74,736
Borrowings (excluding finance leases)	7,000	–	–	298,662	–	305,662	305,662
Progressive jackpot liabilities	317	3,707	2,456	2,334	2,812	11,626	11,626
Total non-derivatives	133,028	3,707	2,571	300,996	2,812	443,114	443,114
Derivatives							
Gross settled (forward foreign exchange contracts – cash flow hedges)							
– (inflow)	(9,536)	–	(1,653)	(2,268)	–	(13,457)	(564)
– outflow	1,893	–	–	–	–	1,893	–
	(7,643)	–	(1,653)	(2,268)	–	(11,564)	(564)
Group – at 31 December 2009	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives							
Trade payables	56,406	–	–	–	–	56,406	56,406
Other payables	106,270	–	159	–	–	106,429	106,429
Borrowings (excluding finance leases)	7,245	–	127,104	–	–	134,349	134,349
Finance lease liabilities	–	57	–	131	–	188	188
Progressive jackpot liabilities	415	4,052	2,878	3,777	2,866	13,988	13,988
Provision for Convertible Bonds litigation	267,588	–	–	–	–	267,588	267,588
Total non-derivatives	437,924	4,109	130,141	3,908	2,866	578,948	578,948
Derivatives							
Gross settled (forward foreign exchange contracts – cash flow hedges)							
– (inflow)	(17,060)	–	(1,330)	(4,599)	–	(22,989)	(1,322)
– outflow	16,636	–	–	–	–	16,636	–
	(424)	–	(1,330)	(4,599)	–	(6,353)	(1,322)

Note 2. Financial risk management continued

(d) Fair value measurements

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

As of 1 January 2009, the Company adopted the amendments to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from process) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following tables present the Group's assets and liabilities measured and recognised at fair value at 31 December 2010.

Group as at 31 December 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivatives used for hedging	–	564	–	564
Equity securities available-for-sale, current	4,624	–	–	4,624
Equity securities available-for-sale, non-current	1,391	–	–	1,391
Debt securities held-to-maturity	8,956	–	–	8,956
Other investments	–	114	–	114
Total assets	14,971	678	–	15,649
Liabilities				
Total liabilities	–	–	–	–

Group as at 31 December 2009	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivatives used for hedging	–	1,323	–	1,323
Equity securities available-for-sale, current	6,194	–	–	6,194
Equity securities available-for-sale, non-current	1,391	–	–	1,391
Debt securities held-to-maturity	10,927	–	–	10,927
Other investments	–	134	–	134
Total assets	18,512	1,457	–	19,969
Liabilities				
Total liabilities	–	–	–	–

The total value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in Level 2.

The carrying amount of financial assets and financial liabilities are assumed to approximate their fair values due to their short term nature. The fair value of financial assets 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.

Note 3. Critical accounting estimates and judgements

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

Critical accounting estimates and assumptions

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

Estimated recoverable amount of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(s). 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 15 for details of these assumptions and the potential impact of changes to the assumptions.

Note 4. Segment information

(a) Segment information provided to the chief operating decision maker

2010	North America \$'000	Australia \$'000	Japan \$'000	Rest of World \$'000	Consolidated \$'000
Revenue					
Revenue from external customers	323,107	133,553	48,489	175,361	680,510
Other segment revenue	–	4,068	–	–	4,068
Segment revenue	323,107	137,621	48,489	175,361	684,578
Result					
Segment result	126,741	23,294	5,991	55,797	211,823
Interest revenue not allocated to segments					2,313
Interest expense					(15,838)
Design and development expenditure					(109,814)
Gain on disposal of investment in jointly controlled entity					12,727
Convertible Bonds litigation					35,839
Other					(35,849)
Profit before tax					101,201
Income tax expense					(23,450)
Net profit after tax					77,751

Note 4. Segment information *continued*

(a) Segment information provided to the chief operating decision maker *continued*

2009	North America \$'000	Australia \$'000	Japan \$'000	Rest of World \$'000	Consolidated \$'000
Revenue					
Revenue from external customers	405,609	207,789	106,081	189,169	908,648
Segment revenue					908,648
Result					
Segment result	152,251	63,126	16,396	50,412	282,185
Supply Chain margins					21,747
Interest revenue					3,504
Interest expense					(17,413)
Design and development expenditure					(113,449)
Convertible Bonds litigation					(267,588)
Impairment of multi-terminal gaming businesses					(83,127)
Other					(33,740)
Loss before tax					(207,881)
Income tax benefit					50,582
Net loss after tax					(157,299)

(b) Notes to the segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors and the Executive Leadership Team. Reports reviewed consider the business from a geographical perspective. The following reportable segments have been identified:

- North America
- Australia
- Japan
- Rest of World

Segment result is measured on the basis of segment profit before tax, charges for licence fees and advanced pricing agreements, impairment of intangibles, other transfer pricing charges (excluding unallocated head office expenses) and other non-trading assets.

Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment revenues are allocated based on the country in which the customer is located.

(i) Segment revenue

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

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

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.

(ii) Head office expenses

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

Note 5. Profit/(loss) for the year

	Notes	Consolidated 2010 \$'000	2009 \$'000
(a) Revenue			
Sale of goods	1(e)(i)	461,670	651,197
Gaming operations and services	1(e)(ii)	218,840	257,451
		680,510	908,648
(b) Other income			
Interest		6,381	3,504
Foreign exchange gains	5(d)	714	2,572
Gain on disposal of property, plant and equipment	5(e)	548	9,079
Gain on disposal of investment in jointly controlled entity		12,727	–
Other income		4,163	2,069
Total other income		24,533	17,224
(c) Expenses			
(i) Depreciation and amortisation			
Depreciation and amortisation of property, plant and equipment			
– Buildings		541	649
– Leasehold improvements		2,970	3,369
– Plant and equipment		26,958	32,899
Total depreciation and amortisation of property, plant and equipment	13	30,469	36,917
Amortisation of intangible assets			
– Computer technology		6,442	5,897
Total amortisation of intangible assets	15	6,442	5,897
Total depreciation and amortisation		36,911	42,814
(ii) Employee benefits expense			
Salaries and wages		183,421	198,344
Superannuation costs		7,872	8,472
Post-employment benefits other than superannuation		3,461	11,993
Share-based payments expense	29(d)	3,604	522
Employee benefits expense		198,358	219,331

Note 5. Profit/(loss) for the year continued

	Consolidated	
	2010	2009
	\$'000	\$'000
(c) Expenses (continued)		
(iii) Lease payments		
Rental expense relating to operating leases		
– Minimum lease payments	16,547	18,336
Total rental expense relating to operating leases	16,547	18,336
(iv) Other significant items		
– Write down of inventories to net realisable value	5,764	15,308
– Restructuring costs	6,093	17,757
– Impairment of multi-terminal gaming businesses	–	83,127
– Impairment of gaming operations assets	12,506	–
– Convertible Bonds litigation expense/(write-back)	(35,839)	267,588
– Legal costs	7,517	22,840
(d) Net foreign exchange (loss)/gain		
Foreign exchange gain	714	2,572
Foreign exchange loss	(4,046)	(276)
Net foreign exchange (loss)/gain	(3,332)	2,296
(e) Net (loss)/gain on disposal of property, plant and equipment		
Gain on disposal of property, plant and equipment	548	9,079
Loss on disposal of property, plant and equipment	(726)	(425)
Net (loss)/gain on disposal of property, plant and equipment	(178)	8,654

Note 6. Income tax expense

	Consolidated	
	2010	2009
	\$'000	\$'000
Major components of income tax expense/(income) are:		
(a) Income tax expense/(income)		
Current income tax	(33,562)	20,064
Deferred income tax	52,076	(67,628)
Adjustments in respect of current income tax of previous years	4,936	(3,018)
Income tax expense/(income)	23,450	(50,582)
Deferred income tax expense included in income tax expense comprises:		
(Increase)/decrease in deferred tax asset	52,690	(66,912)
Decrease in deferred tax liabilities	(614)	(716)
Deferred income tax expense included in income tax expense	52,076	(67,628)
(b) Reconciliation of income tax expense/(income) to prima facie tax payable		
Profit/(loss) before income tax expense/(income)	101,201	(207,881)
Tax at the Australian tax rate of 30% (2009: 30%)	30,360	(62,364)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Design and development	(3,102)	(3,789)
Gain on disposal of investment not taxable	(3,818)	–
Sale of land and buildings not taxable	–	(2,750)
Tax losses not previously recognised	(1,387)	(154)
Overseas exempt income and non-creditable taxes	(3,710)	(2,977)
Impairment of available-for-sale equity securities	–	538
Impairment of investments	–	20,997
Legal and entertainment costs	776	1,144
Other non-deductible expenses	4,344	191
	23,463	(49,164)
Difference in overseas tax rates	(439)	2,813
Difference in exchange rates on overseas tax rates	(947)	852
Tax losses not recognised	6	45
Adjustments in respect of previous years income tax:		
Current income tax	4,936	(3,018)
Deferred income tax	(3,569)	(2,110)
Income tax expense/(income)	23,450	(50,582)
Average effective tax rate	23.17%	24.33%
(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/(debited) directly to equity	(134)	(111)
Net deferred tax – credited/(debited) directly to equity	(786)	3,148
Aggregate current and deferred tax arising in the reporting period directly credited to equity	(920)	3,037

Note 6. Income tax expense continued

	Consolidated	
	2010	2009
	\$'000	\$'000
(d) Revenue and capital tax losses		
Unused gross tax losses for which no deferred tax asset has been recognised	13,836	19,341
Unused gross capital tax losses for which no deferred tax asset has been recognised	46,484	40,920
	60,320	60,261
Potential tax benefit	18,024	17,601
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	133	162
	133	162

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

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

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

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate 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 taxpayer' and a 'separate taxpayer within a group' amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Note 7. Dividends

	Consolidated	
	2010	2009
	\$'000	\$'000
Ordinary shares		
<i>Final dividends paid during the year</i>		
– 2008 – 10.0 cents, 100% franked on tax paid at 30%, per fully paid share paid on 30 March 2009	–	45,309
<i>Interim dividends paid during the year</i>		
– 2010 – 3.5 cents, unfranked, per fully paid share paid on 30 September 2010	18,609	–
– 2009 – 4.5 cents, 100% franked on tax paid at 30%, per fully paid share paid on 29 September 2009	–	23,860
Total dividends paid and provided during the year	18,609	69,169
Dividends paid were satisfied as follows:		
Paid in cash	16,363	64,010
Dividend received by Aristocrat Employee Equity Plan Trust	(59)	(269)
Paid through the Dividend Reinvestment Plan	2,305	14,577
	18,609	78,318

Dividends not recognised at year end

Since the end of the year, the Directors have recommended the payment of a final dividend of 1.5 cents (2009: nil cents) per fully paid ordinary share, unfranked. The aggregate amount of the proposed final dividend that is expected to be paid on 28 March 2011, but not recognised as a liability at the end of the year, is \$8,010,000.

	Consolidated	
	2010	2009
	\$'000	\$'000
Franked dividends		
Estimated franking credits expected to be available for subsequent financial years based on a tax rate of 30% (2009: 30%)	2,248	6,912

The above amounts represent the balance of the franking account of the parent entity 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.

Note 8. Cash and cash equivalents

	Consolidated	
	2010	2009
	\$'000	\$'000
Cash at bank and in hand	19,840	56,045
Short-term deposits	–	3,000
	19,840	59,045

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. There were no short-term deposits at year end. These deposits bear a floating interest rate. In 2009 the interest rate was 3.85% per annum.

Risk exposure

The Group's exposure to interest rate risk is discussed in Note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

Note 9. Trade and other receivables

	Consolidated	
	2010 \$'000	2009 \$'000
Current		
Trade receivables	182,824	232,622
Provision for impairment of receivables	(5,085)	(6,178)
	177,739	226,444
Other receivables	22,977	23,877
Loans to related parties – secured	2,743	3,026
	203,459	253,347

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

Non-current

Trade receivables	42,954	35,629
Other receivables	4,509	2,875
Loans to related parties – secured	2,624	2,675
	50,087	41,179

(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
2010 Consolidated	182,824	163,526	14,574	3,361	544	819
2009 Consolidated	232,622	212,959	15,002	1,559	1,115	1,987

As of 31 December 2010, trade receivables of \$875,919 (2009: \$1,569,998) were past due and considered impaired and trade receivables of \$18,422,935 (2009: \$18,093,265) were past due but not impaired.

An assessment of whether trade receivables are likely to be collected is performed at each reporting period, based on the meeting of payment terms, past credit history and negotiations with customers.

	Consolidated	
	2010 \$'000	2009 \$'000
Movements in the provision for impairment of receivables is as follows:		
At 1 January	(6,178)	(7,969)
Charge for the year	(528)	(92)
Transfer to non-current receivables	225	16
Foreign currency exchange differences	782	1,726
Provisions no longer required	614	141
At 31 December	(5,085)	(6,178)

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

Note 9. Trade and other receivables *continued*

(b) Trade receivables – non-current

No provision for impairment of receivables has been carried forward against the non-current receivables (2009: \$nil). 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 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 32). 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 non-controlling shareholders.

(f) Interest rate and foreign exchange risk

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

(g) Fair value risk – current

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

(h) Fair value – non-current

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

(i) Interest rate and foreign currency risk

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

	Consolidated	
	2010	2009
	\$'000	\$'000
US dollars	100,995	114,591
Australian dollars	91,090	89,390
Other ¹	61,461	90,545
	253,546	294,526
Current receivables	203,459	253,347
Non-current receivables	50,087	41,179
	253,546	294,526

¹ 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(a)(i) and (ii).

(j) Credit risk

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

	Consolidated	
	2010	2009
	\$'000	\$'000
Trade receivables ¹ with guarantees	5,929	11,838
Trade receivables ¹ without guarantees	214,764	250,235
	220,693	262,073

¹ Includes current and non-current trade receivables, net of provision for impairment of receivables.

Note 10. Inventories

	Notes	Consolidated 2010 \$'000	2009 \$'000
Current			
Raw materials and stores – at cost		79,998	76,779
Provision for obsolescence		(29,083)	(38,805)
		50,915	37,974
Work in progress – at cost		6,072	1,452
Finished goods – at cost		27,324	28,195
Provision for obsolescence		(2,053)	(5,991)
		25,271	22,204
Contract work in progress		1,199	290
Inventory in transit – at cost		2,495	4,173
		85,952	66,093

Inventory expense

Inventories recognised as an expense during the year ended 31 December 2010 amounted to \$179,999,000 (2009: \$274,506,000).

Note 11. Financial assets

Current

Available-for-sale equity securities	11(a)	4,624	6,194
Debt securities held-to-maturity		1,240	1,406
		5,864	7,600

Non-current

Debt securities held-to-maturity		7,716	9,521
Available-for-sale equity securities	11(a)	1,391	1,391
Other investments		114	134
Investment in jointly controlled entity	27(b)	–	4,634
		9,221	15,680

(a) Available-for-sale equity securities¹

Balance at the beginning of the year		7,585	13,194
Disposals		(838)	(3,660)
Foreign exchange differences		(732)	(1,949)
Balance at the end of the year		6,015	7,585

¹ The maximum exposure to credit risk at the reporting date is the fair value of the debentures classified as available-for-sale.

(b) Investment in jointly controlled entity

The investment in a jointly controlled entity was accounted for in the financial statements using the equity method of accounting up to the date of disposal on 29 June 2010. Refer to Note 27.

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. Current investments were issued by entities rated 'A' or higher.

None of the current 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 'A' or higher.

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

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

Note 12. Other assets

	Notes	Consolidated 2010 \$'000	2009 \$'000
Intellectual property rights	1(n)	7,536	8,412
Other current assets		–	103
		7,536	8,515

Note 13. Property, plant and equipment

	Consolidated 2010 \$'000	2009 \$'000
Land and buildings		
Land and buildings – at deemed cost	13,128	14,846
Leasehold improvements – at cost	31,909	41,889
Accumulated amortisation	(11,402)	(9,451)
	20,507	32,438
Total land and buildings	33,635	47,284
Plant and equipment		
Plant and equipment owned – at cost	166,667	176,425
Accumulated depreciation	(100,161)	(103,250)
Total plant and equipment	66,506	73,175
	100,141	120,459

Note 13. Property, plant and equipment *continued*

Reconciliations

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

	Land and buildings \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Total \$'000
Consolidated				
Carrying amount at 1 January 2009	9,853	29,825	111,098	150,776
Additions	7,625	6,840	16,684	31,149
Disposals	–	(1)	(1,065)	(1,066)
Impairment	–	–	(3,548)	(3,548)
Transfers	207	–	–	207
Depreciation and amortisation	(649)	(3,369)	(32,899)	(36,917)
Foreign currency exchange movements	(2,190)	(857)	(17,095)	(20,142)
Carrying amount at 31 December 2009	14,846	32,438	73,175	120,459
Additions	450	1,107	29,285	30,842
Disposals	–	(8)	(1,044)	(1,052)
Impairment	–	–	(12,506)	(12,506)
Transfers	59	(9,739)	9,680	–
Depreciation and amortisation	(541)	(2,970)	(26,958)	(30,469)
Foreign currency exchange differences	(1,686)	(321)	(5,126)	(7,133)
Carrying amount at 31 December 2010	13,128	20,507	66,506	100,141

Impairment of plant and equipment

A review of the recoverable amount of gaming operations assets resulted in an impairment loss of \$12,506,000. The impairment was recognised following a review of plant and equipment and the increase in the level of churn in the install base of *Viridian 19* machines.

Note 14. Deferred tax assets

	Notes	Consolidated	
		2010 \$'000	2009 \$'000
The balance comprises temporary differences attributable to:			
Accruals and other provisions		7,993	9,064
Provision for impairment losses on trade receivables		701	1,193
Convertible Bonds litigation provision		35,272	80,874
Deferred revenue		2,184	2,307
Employee benefits		9,107	9,533
Plant, equipment and intangible assets		(4,839)	(4,553)
Prepayments		(988)	(551)
Provision for stock obsolescence		8,147	11,639
Share-based equity		(1,886)	(1,957)
Overseas tax obligations		1,004	1,824
Unrealised foreign exchange losses		1,841	1,901
Tax losses		40,625	3,370
Other		8,403	5,986
Gross deferred tax assets		107,564	120,630
Intangible assets (not offset above)		(3,046)	(4,082)
Net deferred tax assets		104,518	116,548

Movements

Opening balance at 1 January		116,548	49,054
Charged to the statement of comprehensive income	6(a)	(52,076)	67,628
Charged to equity (share-based equity and foreign currency exchange differences)		(786)	3,148
Tax losses recognised		40,565	–
Foreign exchange currency movements		267	(3,282)
Closing balance at 31 December		104,518	116,548

The deferred tax asset attributable to tax losses does not exceed taxable amounts that arise from the reversal of existing assessable temporary differences.

Based on current forecasts, the tax losses are expected to be recoverable and have been recognised in the deferred tax assets recognised.

Note 15. Intangible assets

	Consolidated	
	2010 \$'000	2009 \$'000
Goodwill	79,793	90,400
Licences	5,850	35
Accumulated amortisation	(31)	(35)
	5,819	–
Development costs	4,496	–
Accumulated amortisation	–	–
	4,496	–
Computer technology	67,430	67,058
Accumulated amortisation	(43,558)	(38,911)
	23,872	28,147
Total	113,980	118,547

	Goodwill \$'000	Licences \$'000	Development costs \$'000	Computer technology \$'000	Total \$'000
Consolidated					
Carrying amount at 1 January 2009	116,843	–	–	37,577	154,420
Additions	–	–	–	3,210	3,210
Amortisation charge	–	–	–	(5,897)	(5,897)
Foreign currency exchange movements	(26,443)	–	–	(6,743)	(33,186)
Carrying amount at 31 December 2009	90,400	–	–	28,147	118,547
Additions	–	5,819	4,496	4,776	15,091
Disposals	–	–	–	(59)	(59)
Amortisation charge	–	–	–	(6,442)	(6,442)
Foreign currency exchange movements	(10,607)	–	–	(2,550)	(13,157)
Carrying amount at 31 December 2010	79,793	5,819	4,496	23,872	113,980

(a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) which are identified as the geographical business units within each segment.

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

(i) Wholly-owned controlled entities

	2010 \$'000	2009 \$'000
North America	51,236	58,097
Rest of World – South Africa	675	688
Rest of World – ACE Interactive	27,882	31,615
	79,793	90,400

Note 15. Intangible assets *continued*

(a) Impairment tests for goodwill *continued*

(ii) Jointly controlled entity

	2010 \$'000	2009 \$'000
Rest of World – Elektronček	–	4,634
	–	4,634

In the financial years ended 31 December 2009 and 2010, the recoverable amount of all the Group's CGUs were determined based upon a value-in-use calculation.

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

(i) Value-in-use

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

- Financial budgets and strategic plans, approved by the Board, to 2013 for North America, South Africa and ACE Interactive, management projections from 2014 to 2015 for North America and South Africa, and management projections from 2014 to 2019 for ACE Interactive.
- A pre-tax annual discount rate of:

	2010	2009
North America	13.3%	13.4%
Rest of World – South Africa	19.3%	20.4%
Rest of World – ACE Interactive	12.0%	12.1%

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

	2010	2009
North America	3.0%	3.0%
Rest of World – South Africa	3.0%	3.0%
Rest of World – ACE Interactive	5.0%	5.0%

- 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 does not believe that a reasonably possible change in any one of the key assumptions would cause the carrying value of the CGUs to materially exceed their recoverable amounts.

(d) Impairment charge

The future economic benefits of the investments in multi terminal gaming businesses have been tested using the value in use method (present value of the future cash flows expected to be derived from the CGU), as allowed by AASB 136 Impairment of Assets.

No impairment charge was recognised against the value of these investments in the current year.

Note 16. Trade and other payables

	Consolidated	
	2010	2009
	\$'000	\$'000
Current		
Trade payables	51,090	56,406
Other payables	74,621	106,429
	125,711	162,835
Non-current		
Other payables	115	159
	115	159

(a) Foreign currency risk

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

US dollars	59,101	61,918
Australian dollars	40,970	49,110
Other ¹	25,755	51,966
	125,826	162,994

¹ 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.

Note 17. Borrowings

	Consolidated	
	2010	2009
	\$'000	\$'000
Current		
<i>Secured</i>		
Bank loans	7,000	7,245
	7,000	7,245
Non-current		
<i>Secured</i>		
Bank loans	298,662	127,104
	298,662	127,104

Note 17. Borrowings continued

	Notes	Consolidated 2010 \$'000	2009 \$'000
(a) Financing arrangements			
Unrestricted access was available at balance date to the following lines of credit:			
Credit standby arrangements			
Total facilities			
– Bank overdrafts	(i)	6,967	7,230
– Bank loans	(ii)	500,000	805,120
– Letter of credit	(iii)	–	111,495
– Other	(iv)	28,111	36,223
		535,078	960,068
Used at reporting date			
– Bank overdrafts		1,287	–
– Bank loans		298,662	127,104
– Letter of credit		–	–
– Other		7,000	7,245
		306,949	134,349
Unused at reporting date			
– Bank overdrafts		5,680	7,230
– Bank loans		201,338	678,016
– Letter of credit		–	111,495
– Other		21,111	28,978
		228,129	825,719

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

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

Syndicated Facility

- Facility B – \$470,000,000 tranche maturing 23 June 2013.
- Facility C – \$30,000,000 tranche maturing 23 June 2013.

The committed bank facility is secured by a negative pledge that imposes certain financial covenants. The Group was in compliance with the imposed covenants at reporting date.

Borrowings are at a floating rate. The borrowings are drawn under Facility B. The Facility A tranche amounting to \$197,440,000 maturing 5 February 2011 was cancelled at the Group's request on 22 October 2010.

(iii) The letter of credit facility was cancelled by the Group during the year.

(iv) Other facilities relate to:

- JPY 1.5 billion Uncommitted Borrowing facility with Mizuho Bank Ltd (Japan), which is subject to annual review. As at 31 December 2010, there were no drawings made under this facility.
- Uncommitted money market borrowing line with Westpac Banking Corporation.

Note 17. 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 31 December 2010 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) ² \$'000
		1 year or less \$'000	1 to 7 year(s) \$'000	
AUD/USD	0.9256	7,232	–	580
AUD/ZAR	6.8853	413	3,920	(13)
AUD/SEK	6.8775	1,890	–	(45)
SEK/AUD ¹	6.8680	(1,892)	–	42
Total		7,643	3,920	564

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

2 Refer to Note 1(d)(ii). The net fair value of the derivatives above is included in receivables/(payables).

(c) Net fair value of financial assets and liabilities

(i) On-statement of financial position

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 equals 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 17a(ii)).

(ii) Off-statement of financial position

At 31 December 2010, there were no off-statement of financial position financial assets or liabilities, other than those potential liabilities which may arise from certain contingencies disclosed in Note 24.

(d) Foreign currency risk

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

	Consolidated	
	2010 \$'000	2009 \$'000
US dollars	78,662	127,104
Australian dollars	227,000	–
Japanese yen	–	7,245
	305,662	134,349

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

Note 18. Provisions

	Notes	Consolidate	
		2010 \$'000	2009 \$'000
Current			
Employee benefits	1(x)	8,325	8,330
Convertible Bonds litigation		–	267,588
Make good allowances	1(w)	430	537
Progressive jackpot liabilities	1(w)	3,910	4,467
Warranties	1(w)	2,388	2,527
		15,053	283,449
Non-current			
Employee benefits	1(x)	7,736	6,763
Make good allowances	1(w)	2,592	2,348
Progressive jackpot liabilities	1(w)	7,716	9,521
		18,044	18,632

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	Convertible Bonds litigation \$'000	Total \$'000
Consolidated – current and non-current					
Carrying amount at 1 January 2010	2,885	13,988	2,527	267,588	286,988
Payments	(7)	–	(255)	(229,450)	(229,712)
Additional provisions recognised	302	–	1,711	–	2,013
Reversal of provisions recognised	(99)	(709)	(1,567)	(39,825)	(42,200)
Foreign currency exchange differences	(59)	(1,653)	(28)	1,687	(53)
Carrying amount at 31 December 2010	3,022	11,626	2,388	–	17,036

Note 19. Other liabilities

	Consolidated	
	2010 \$'000	2009 \$'000
Current		
Deferred revenue	30,280	32,293
Non-current		
<i>Unsecured</i>		
Deferred revenue	7,737	5,315
Other	18,435	17,215
	26,172	22,530

Note 20. Contributed equity

	Notes	Consolidated 2010 Shares	Consolidated 2009 Shares	Consolidated 2010 \$'000	Consolidated 2009 \$'000
Ordinary shares, fully paid		533,983,910	533,379,348	187,625	185,320
Movements in ordinary share capital					
Ordinary shares at the beginning of the year	(a)	533,379,348	455,329,650	185,320	(67,298)
Shares issued under dividend reinvestment plan (excluding transaction costs)		604,562	3,790,348	2,305	14,577
Shares issued under capital raising (excluding transaction costs)		–	74,259,350	–	241,340
Less:					
Transaction costs arising on share issue		–	–	–	(4,713)
Tax credit recognised directly in equity		–	–	–	1,414
Ordinary shares at the end of the financial year		533,983,910	533,379,348	187,625	185,320

(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) Capital management

The Group's overall strategic capital management objective is to maintain a conservative funding structure, which provides sufficient flexibility to fund the operational demands of the business and to underwrite any strategic opportunities. The Group looks to achieve the maximum equity rating while maintaining an appropriate credit rating. The Group holds a credit rating of 'BB plus' (S&P).

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

	2010	2009
Gearing ratio (gross debt/bank EBITDA ¹)	2.5x	0.7x
Interest coverage ratio (bank EBITDA ¹ /interest expense ²)	9.0x	12.6x

1 Bank EBITDA = EBITDA + Interest Received.

2 Interest expense shown above includes ongoing finance fees relating to bank debt facility arrangements, such as line fees. The ratios for the 2010 and 2009 years have been calculated on this basis.

Note 21. Reserves and retained earnings

	Notes	Consolidated 2010 \$'000	2009 \$'000
(a) Reserves			
Foreign currency translation reserve	(i)	(91,578)	(63,063)
Share-based payments reserves	(ii),(iii)	(26,249)	(28,950)
		(117,827)	(92,013)

(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		(63,063)	2,531
Net exchange differences on translation of foreign controlled entities, net investment in foreign operations		(28,515)	(65,594)
Foreign currency translation reserve at the end of the financial year		(91,578)	(63,063)

(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		(4,388)	(2,360)
Share-based payments expense		3,604	522
Issues from the Trust to satisfy vested shares		(3,048)	(4,371)
Share-based tax adjustment		(903)	1,821
Net movement in share-based payments reserve		(347)	(2,028)
Share-based payments reserve at the end of the financial year		(4,735)	(4,388)

(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		(24,562)	(28,933)
Issues from the Trust to satisfy vested shares		3,048	4,371
Share-based payments trust reserve at the end of the financial year ¹		(21,514)	(24,562)

¹ Represents 1,675,249 shares (2009: 1,945,306).

Total share-based payments reserves at the beginning of the financial year		(28,950)	(31,293)
Net movement in share-based payments reserves		2,701	2,343
Total share-based payments reserve at the end of the financial year		(26,249)	(28,950)

(b) Retained earnings

Retained earnings at the beginning of the financial year		61,498	288,505
Net profit/(loss) attributable to owners of Aristocrat Leisure Limited		77,194	(157,838)
Dividends paid or provided for	7	(18,609)	(69,169)
Retained earnings at the end of the financial year		120,083	61,498

Note 22. Non-controlling interest

	Consolidated	
	2010 \$'000	2009 \$'000
Non-controlling interest in controlled entity comprises:		
Retained earnings – 1 January	(887)	59
Profit/(loss) after income tax expense	557	539
Dividends paid	(1,590)	(1,485)
Retained earnings	(1,920)	(887)
Reserves	(89)	(57)
	(2,009)	(944)

Note 23. Events occurring after reporting date

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

Note 24. Contingent liabilities

The Group and parent entity have contingent liabilities at 31 December 2010 in respect of the following matters:

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

Most intellectual property claims involve highly complex issues. Often, these issues are subject to substantial uncertainties and therefore the probability of damages, if any, being sustained and an estimate of the amount of damages is difficult to ascertain.

With respect to the legal proceedings described in (iv) and (v) below, estimates of the possible damage or range of damages, if any, are unknown at this stage.

However, although there can be no assurance regarding the outcome of any of the legal proceedings referred to in (iv) and (v) below, based on the information currently available for each situation, the Directors do not currently expect them to have a material adverse effect on the Group;

- (iv) in August 2010, Minkus Electronic Display Systems commenced patent infringement proceedings against Aristocrat Technologies Inc. and Aristocrat Leisure Limited in the Delaware Federal District Court claiming that certain aspects of the Group's Oasis 360 System infringe one of Minkus' patents. Aristocrat is one of 37 defendants being sued by Minkus in this action. Aristocrat intends to defend these allegations;
- (v) in November 2010, International Game Technology (NYSE: IGT) commenced patent infringement proceedings against Aristocrat Technologies Inc. and Aristocrat Leisure Limited in the US District Court (San Francisco, California). IGT alleged that Aristocrat is infringing two IGT patents covering a secure boot sequence that is relevant to gaming machine controllers. Aristocrat intends to defend these allegations;
- (vi) under the terms of existing Senior Executive service contracts, termination benefits may be required to be paid by the Group. The amounts (if any) depend upon the specific circumstances of the case and the relevant terms of those contracts;

Note 24. Contingent liabilities continued

- (vii) Aristocrat Leisure Limited, Aristocrat International Pty Ltd, Aristocrat Technologies Australia Pty Ltd, Aristocrat (Asia) Pty Limited and Aristocrat (Macau) Pty Limited are parties to a deed of cross guarantee which has been lodged with and approved by the Australian Securities & Investments Commission, as discussed in Note 35;
- (viii) under the terms of severance agreements with a former Executive Director, who left the Group in 1994, 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 \$101,632 (2009: \$54,963); and
- (ix) on adoption of tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Aristocrat Leisure Limited.

Note 25. Commitments

	Consolidated	
	2010	2009
	\$'000	\$'000
Capital commitments		
Capital equipment and other commitments contracted at the reporting date but not recognised as liabilities, payable within one year	-	-
Lease commitments		
<i>Non-cancellable operating leases</i>		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	14,553	14,247
Later than one year but not later than five years	40,936	42,037
Later than five years	38,244	45,811
Commitments not recognised in the financial statements	93,733	102,095

Note 26. Subsidiaries

	Notes	Country of incorporation	Equity holding	
			2010 %	2009 %
Ultimate parent entity				
Aristocrat Leisure Limited		Australia	–	–
Controlled entities				
Aristocrat Technical Services Pty Ltd	(c)	Australia	100	100
Aristocrat Properties Pty Ltd	(c)	Australia	100	100
Aristocrat (Holdings) Pty Ltd	(a)	Australia	100	100
Aristocrat Technologies Australia Pty Ltd	(a)	Australia	100	100
ASSPA Pty Ltd	(c)	Australia	100	100
Aristocrat Technology Gaming Systems Pty Limited	(c)	Australia	100	100
Aristocrat International Pty Ltd	(a)	Australia	100	100
Aristocrat Leisure Cyprus Limited	(b)	Cyprus	100	100
ACEI AB	(b)	Sweden	100	100
Aristocrat Gaming LLC	(b)	Russia	100	100
Aristocrat (Argentina) Pty Limited	(b)	Australia	100	100
AI (Puerto Rico) Pty Limited	(b)	Australia	100	100
Aristocrat (Latin America) Pty Ltd	(b)	Australia	100	100
Aristocrat Technologies Mexico, S.A. DE C.V.	(b)	Mexico	100	100
Aristocrat Service Mexico, S.A. DE C.V.	(b)	Mexico	100	100
Aristocrat (Asia) Pty Limited	(a)	Australia	100	100
Aristocrat (Macau) Pty Limited	(a)	Australia	100	100
Aristocrat (Philippines) Pty Limited	(b)	Australia	100	100
Aristocrat (Singapore) Pty Limited	(b)	Australia	100	100
Aristocrat (Cambodia) Pty Limited	(b)	Australia	100	100
Aristocrat (Malaysia) Pty Limited	(b)	Australia	100	100
Aristocrat Leisure Technology Development (Beijing) Co. Ltd	(b)	China	100	100
Aristocrat Technologies Europe (Holdings) Limited	(b)	UK	100	100
Aristocrat Technologies Europe Limited	(b)	UK	100	100
ASSPA (UK) Limited	(b)	UK	100	100
Aristocrat Technologies LLC	(b)	Russia	100	100
Aristocrat Technologies Spain S.L.	(b)	Spain	100	100
Aristocrat Technologies NZ Limited	(b)	New Zealand	100	100
Aristocrat Technologies, Inc.	(b)	USA	100	100
Aristocrat Funding Corporation	(c)	USA	100	100
Aristocrat Argentina S.A.	(c)	Argentina	100	100
Aristocrat Funding Corporation Pty Ltd	(c)	Australia	100	100
Aristocrat Technologies Canada, Inc.	(c)	Canada	100	100
Aristocrat CA	(c)	Venezuela	100	100
Aristocrat Research & Development (Africa) Pty Ltd	(b)	South Africa	100	100
Aristocrat Africa (Pty) Ltd	(b)	South Africa	72	72
Aristocrat Technologies Africa (Pty) Ltd	(b)	South Africa	72	72
KK Aristocrat Technologies	(b) & (c)	Japan	100	100
Aristocrat Hanbai KK	(b) & (c)	Japan	100	100
KK Spiky	(b) & (c)	Japan	100	–
Aristocrat Technologies India Private Ltd	(b)	India	100	100
Aristocrat Technologies Hong Kong Limited	(b)	Hong Kong	100	–
Other controlled entities				
Aristocrat Employee Equity Plan Trust	(d)	Australia	100	100
Aristocrat Funding GP	(b)	USA	100	100

Note 26. Subsidiaries continued

- (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.
- (b) Controlled entities audited by other PricewaterhouseCoopers firms.
- (c) Controlled entities for which statutory audits are not required at 31 December 2010 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 Aristocrat employee share plans is 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 27. Investment in jointly controlled entity

On 29 June 2010, the Group signed a contract to dispose of its investment in a jointly controlled entity, Elektronček d.d. In accordance with the contract, the Group ceased to have exposure to the profits or losses made by Elektronček d.d from that date.

Financial information relating to the jointly controlled entity for the period to the date of disposal is set out below.

(a) Group's share of results of jointly controlled entity

	2010 \$'000	2009 \$'000
Revenue	7,700	19,340
Expenses	(8,385)	(21,343)
Loss before income tax expense	(685)	(2,003)
Income tax credit	69	258
Net (losses) – accounted for using the equity method	(616)	(1,745)

(b) Interest in jointly controlled entity

Carrying amount at the beginning of the year	4,634	86,411
Share of jointly controlled entity's net loss after tax	(616)	(1,745)
Carrying amount of investment sold	(4,387)	–
Movement in foreign currency exchange translation reserves	369	(16,617)
Impairment of investment	–	(63,415)
Carrying amount at the end of the year	–	4,634
Share of jointly controlled entity's assets and liabilities:		
Current assets	–	13,169
Non-current assets	–	15,003
	–	28,172
Current liabilities	–	(11,346)
Non-current liabilities	–	(5,086)
	–	(16,432)
Net assets	–	11,740

(c) Gain on disposal of investment in jointly controlled entity

Consideration at date of sale	17,195	–
Carrying amount of investment sold	(4,387)	–
Selling costs	(81)	–
Gain on sale before income tax	12,727	–
Income tax expense	–	–
Gain on sale after income tax	12,727	–

The carrying amount of the investment sold at the date of sale was:

Investment in jointly controlled entity	4,387	–
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Note 28. Employee benefits

	Notes	Consolidated 2010 \$'000	2009 \$'000
Employee benefits and related on-cost liabilities			
Included in payables – current		13,512	17,403
Provision for employee benefits – current	18	8,325	8,330
Provision for employee benefits – non-current	18	7,736	6,763
Aggregate employee benefits and related on-cost liabilities		29,573	32,496

Note 29. Share-based payments

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

(a) Performance Share Plan (PSP)

The PSP is a long-term employee share scheme that provides for eligible employees to be offered conditional entitlements to fully paid ordinary shares in the parent entity (Performance Share Rights). Performance Share Rights issued under the PSP are identical in all respects other than performance conditions and periods, which are detailed below.

As at 31 December 2010, 118 employees (2009: 164) were entitled to 5,773,387 (2009: 5,034,242) 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 2010 and 31 December 2009 are as follows:

Performance Share Right series	Performance period start date	Performance period expiry date	Performance condition ¹	Accounting valuation date	Accounting valuation ² \$
Issued 2010					
Series 15A ³	1 January 2010	31 December 2012	TSR	28 April 2010	2.00
Series 15B ³	1 January 2010	31 December 2012	EPSP	28 April 2010	3.97
Series 16A ⁴	18 January 2010	18 January 2011	Refer below	28 April 2010	3.97
Series 16B ⁴	18 January 2010	18 January 2011	Refer below	28 April 2010	3.97
Series 17A	1 January 2010	31 December 2012	TSR	1 January 2010	1.72
Series 17B	1 January 2010	31 December 2012	EPSP	1 January 2010	3.41
Issued 2009					
Series 12A	1 January 2009	31 December 2011	TSR	1 January 2009	1.93
Series 12B	1 January 2009	31 December 2011	EPSP	1 January 2009	3.35
Series 13A ³	1 January 2009	31 December 2011	TSR	21 April 2009	2.26
Series 13B ³	1 January 2009	31 December 2011	EPSP	21 April 2009	3.53
Series 14	30 June 2009	31 December 2010	18 months service	30 June 2009	3.79

1 TSR – total shareholder return; EPSP – earnings per share growth.

2 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, EPSP) 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 EPSP vesting condition.

3 In accordance with accounting standards, as these Performance Share Rights were granted to Directors, the accounting valuation, as determined by Deloitte, has been performed at the date of approval by shareholders.

4 Series 16A and 16B Performance Share Rights are conditional on the meeting of personal performance targets in the employment contract of Victor Blanco.

Note 29. Share-based payments continued

(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.

The model inputs for share rights granted during the year ended 31 December 2010 included:

- (a) share rights are granted for no consideration and have a three year life;
- (b) exercise price: zero consideration;
- (c) the grant date and expiry dates: refer to tables below;
- (d) share price at grant date:
2010: series 15A – \$4.30 and series 17A – \$3.56
2009: series 12A – \$3.88 and series 13A – \$3.98;
- (e) price volatility of the Company's shares:
2010: series 15A – 50.06% and series 17A – 47.59%
2009: series 12A – 43.66% and series 13A – 45.78%;
- (f) dividend yield:
2010: series 15A – 3% and series 17A – 2%
2009: series 12A – 5.00% and series 13A – 4.50%; and
- (g) risk-free interest rate:
2010: series 15A – 5.08% and series 17A – 5.31%
2009: series 12A – 3.36% and series 13A – 3.34%.

(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.

The model inputs for share rights granted during the year ended 31 December 2010 included:

- (a) share rights are granted for no consideration and have a three year life;
- (b) exercise price: zero consideration;
- (c) the grant date and expiry dates: refer to tables below;
- (d) share price at grant date:
2010: series 15B – \$4.30 and series 17B – \$3.56
2009: series 12B – \$3.88 and series 13B – \$3.98;
- (e) price volatility of the Company's shares:
2010: series 15B – 50.06% and series 17B – 47.59%
2009: series 12B – 43.66% and series 13B – 45.78%;
- (f) dividend yield:
2010: series 15B – 3% and series 17B – 2%
2009: series 12B – 5.00% and series 13B – 4.50%; and
- (g) risk-free interest rate:
2010: series 15B – 5.08% and series 17B – 5.31%
2009: series 12B – 3.36% and series 13B – 3.34%.

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

Note 29. Share-based payments continued

(a) Performance Share Plan (PSP) continued

Performance Share Rights are detailed in the tables below:

Consolidated – 2010

Right series	Grant date	Performance period expiry date	Rights at start of year Number	Add: new rights issues Number	Less: rights exercised Number	Less: rights lapsed Number	Rights at end of year Number
PSP							
Series 5A	17 October 2005	31 December 2010	9,433	–	–	9,433	–
Series 5B	17 October 2005	31 December 2010	9,433	–	–	9,433	–
Series 5C ¹	17 October 2005	31 December 2010	9,432	–	–	–	9,432
Series 5D ¹	17 October 2005	31 December 2010	9,432	–	–	–	9,432
Series 8A	1 January 2007	31 December 2009	246,582	–	–	246,582	–
Series 8B	1 January 2007	31 December 2009	246,582	–	–	246,582	–
Series 10A ¹	1 January 2008	31 December 2010	460,219	–	–	–	460,219
Series 10B ¹	1 January 2008	31 December 2010	460,219	–	–	–	460,219
Series 12A	1 January 2009	31 December 2011	1,448,190	–	–	118,893	1,329,297
Series 12B	1 January 2009	31 December 2011	1,448,191	–	–	118,894	1,329,297
Series 13A	21 April 2009	31 December 2011	330,311	–	–	–	330,311
Series 13B	21 April 2009	31 December 2011	330,311	–	–	–	330,311
Series 14	30 June 2009	31 December 2010	25,907	–	–	–	25,907
Series 15A	28 April 2010	31 December 2012	–	224,786	–	–	224,786
Series 15B	28 April 2010	31 December 2012	–	224,786	–	–	224,786
Series 16A	28 April 2010	18 January 2011	–	55,087	–	–	55,087
Series 16B	28 April 2010	18 January 2012	–	55,087	–	–	55,087
Series 17A	1 January 2010	31 December 2012	–	508,387	–	43,779	464,608
Series 17B	1 January 2010	31 December 2012	–	508,387	–	43,779	464,608
			5,034,242	1,576,520	–	837,375	5,773,387

¹ On 24 February 2011, the Board determined that the PSRs under Series 5C, 5D, 10A and 10B had not met the required performance criteria and therefore lapsed.

Note 29. Share-based payments continued

(a) Performance Share Plan (PSP) continued
 Consolidated – 2009

Right series	Grant date	Performance period expiry date	Rights at start of year Number	Add: new rights issues Number	Less: rights exercised Number	Less: rights lapsed Number	Rights at end of year Number
PSP							
Series 5A ¹	17 October 2005	31 December 2009	9,433	–	–	–	9,433
Series 5B ¹	17 October 2005	31 December 2009	9,433	–	–	–	9,433
Series 5C	17 October 2005	31 December 2010	9,432	–	–	–	9,432
Series 5D	17 October 2005	31 December 2010	9,432	–	–	–	9,432
Series 6A	1 January 2006	31 December 2008	339,585	–	–	339,585	–
Series 6B	1 January 2006	31 December 2008	339,585	–	–	339,585	–
Series 7A	2 May 2006	31 December 2008	25,123	–	–	25,123	–
Series 7B	2 May 2006	31 December 2008	25,123	–	–	25,123	–
Series 8A ¹	1 January 2007	31 December 2009	329,582	–	–	83,000	246,582
Series 8B ¹	1 January 2007	31 December 2009	329,582	–	–	83,000	246,582
Series 9A	1 May 2007	31 December 2009	21,629	–	–	21,629	–
Series 9B	1 May 2007	31 December 2009	21,628	–	–	21,628	–
Series 10A	1 January 2008	31 December 2010	584,097	–	–	123,878	460,219
Series 10B	1 January 2008	31 December 2010	584,097	–	–	123,878	460,219
Series 11A	29 April 2008	31 December 2010	37,666	–	–	37,666	–
Series 11B	29 April 2008	31 December 2010	37,666	–	–	37,666	–
Series 12A	1 January 2009	31 December 2011	–	1,612,290	–	164,100	1,448,190
Series 12B	1 January 2009	31 December 2011	–	1,612,290	–	164,099	1,448,191
Series 13A	21 April 2009	31 December 2011	–	434,563	–	104,252	330,311
Series 13B	21 April 2009	31 December 2011	–	434,563	–	104,252	330,311
Series 14	30 June 2009	31 December 2010	–	25,907	–	–	25,907
			2,713,093	4,119,613	–	1,798,464	5,034,242

¹ On 23 February 2010, the Board determined that the PSRs under Series 5A, 5B, 8A and 8B had not met the required performance criteria and therefore lapsed.

Note 29. Share-based payments *continued*

(b) General Employee Share Plan (GESP)

The General Employee Share Plan (GESP) is designed to provide employees with shares in the parent entity under the provisions of section 139CD of the Australian *Income Tax Assessment Act 1936* (Cth).

During the year, the Company issued 234,936 shares (2009: 266,060) to 936 employees (2009: 1,004) in Australia under this plan. Due to tax complexities, certain eligible staff located overseas were issued either a deferred bonus of \$1,000 cash or a contingent allocation of an equivalent number of shares (212,597 shares to 847 employees; 2009: 206,965 shares to 781 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 Securities Exchange during the five days immediately before the date of the offer.

	Weighted average market price \$	Consolidated 2010 Number	2009 Number
Shares issued under the Plan to participating employees on:			
30 June 2010 ¹	3.97	234,936	–
30 June 2009 ¹	3.77	–	266,060
		234,936	266,060

¹ Issued from the Aristocrat Employee Equity Plan Trust.

(c) Long-term Performance Option Plan (POP)

The Long-term Performance Option Plan (POP), an executive incentive scheme to drive the continuing improvement in the Company's performance, was approved at the 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 date with vesting to the eligible employee dependent on the satisfaction of performance criteria and within a performance period specified by the Board of Directors (the Performance Criteria and Performance Period, respectively).

If the Performance Criteria are satisfied at the end of the Performance Period, the POP provides for shares to be allocated and registered in the name of the eligible employee on exercise of the option and payment of the exercise price, subject to disposal restrictions, until the eligible employee is entitled to have the disposal restrictions lifted, in accordance with the rules of the POP. Shares allocated under the POP may be forfeited by the Company, but only in limited circumstances such as where eligible employees act fraudulently or dishonestly.

The POP rules permit the Company, in its discretion, to issue or acquire on-market shares which are then registered in the name of the eligible employee or in the name of an agent or trustee on behalf of the eligible employee prior to the eligible employee becoming entitled to be allocated the shares – that is, prior to Performance Criteria being satisfied and the option being exercised. These are called unallocated shares. Rights to unallocated shares (and the associated options) will expire and they will be forfeited and sold if the Performance Criteria are not satisfied.

There have been no invitations issued to participate in this Plan.

(d) 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:

	Consolidated 2010 \$'000	2009 \$'000
Share rights issued under Performance Share Plan	1,971	(1,370)
Shares issued under General Employee Share Plan	1,633	1,823
Options issued under Employee Share Option Plan	–	69
	3,604	522

Note 30. Key management personnel disclosures

Remuneration

Key management personnel compensation

Key management personnel includes all Non-Executive Directors, Executive Directors and Senior Executives who were responsible for the overall planning, directing and controlling of activities of the Group.

	Consolidated	
	2010	2009
	\$	\$
Short-term employee benefits	5,102,832	5,461,497
Post-employment benefits	288,915	390,479
Long-term benefits	66,746	156,180
Termination benefits	–	1,298,620
Share-based payments	1,567,437	175,109
	7,025,930	7,481,885

Performance Share Plan rights provided as remuneration and rights holdings

Details of PSRs in the Company held during the financial year by any KMP of the Group can be found in the Remuneration Report.

Options provided as remuneration and option holdings

Details of options over ordinary shares in the Company provided as remuneration to any KMP of the Group can be found in the Remuneration Report.

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, can be found in the Remuneration Report.

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 KMP of the Group, including their personally related entities, can be found in the Remuneration Report.

Loans to key management personnel

No KMP held any loans with the Company during the financial year.

Other transactions with key management personnel

Refer to Note 32 for details of other transactions with KMP.

Note 31. Remuneration of auditors

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

	Consolidated	
	2010	2009
	\$	\$
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	413,010	409,266
Fees paid to related practices of PricewaterhouseCoopers Australian firm	516,566	650,621
Total remuneration for audit services	929,576	1,059,887
Other assurance services		
Fees paid to PricewaterhouseCoopers Australian firm	29,528	–
Fees paid to related practices of PricewaterhouseCoopers Australian firm	58,038	101,251
Total remuneration for other assurance services	87,566	101,251
Total remuneration for assurance services	1,017,142	1,161,138
Advisory services		
Fees paid to PricewaterhouseCoopers Australian firm	83,500	–
Fees paid to related practices of PricewaterhouseCoopers Australian firm	3,289	9,238
Total remuneration for advisory services	86,789	9,238

Note 32. Related parties

(a) Other transactions with key management personnel

There were no transactions with Directors and other KMP during the year ended 31 December 2010.

(b) Transactions with related parties

The following transactions occurred with related parties:

	2010	2009
	\$	\$
Net amount receivable from non-controlling interest as at reporting date		
Current		
Receivable from related entity – interest	1,494,965	1,332,081
Receivable from related entity – loan	1,248,169	1,693,854
Non-current		
Receivable from related entity – loan	2,624,323	2,674,729

On 31 May 2006, Aristocrat International Pty Ltd, a wholly-owned entity, advanced to Yabohle Investments (Pty) Limited, the non-controlling 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 33. Earnings per share

	Consolidated 2010 Cents	2009 Cents
Basic earnings per share	14.5	(31.3)
Diluted earnings per share	14.5	(31.3)

	Consolidated 2010 Number	2009 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	531,726,425	504,628,236
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	531,726,425	504,628,236
Effect of Performance Share Rights	1,377,151	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share ¹	533,103,576	504,628,236

¹ In 2009 Performance Share Rights are excluded from the calculation of diluted earnings per share as they were anti-dilutive as at 31 December 2009.

	Consolidated 2010 \$'000	2009 \$'000
Reconciliation of earnings used in calculating diluted earnings per share		
Net profit/(loss) attributable to members of Aristocrat Leisure Limited	77,194	(157,838)
Earnings used in calculating diluted earnings per share	77,194	(157,838)

Information concerning the classification of securities

(a) Options

Options granted to employees under the ESOP are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details of options in relation to the year ended 31 December 2010 are set out in Note 29.

Included within the weighted average number of potential ordinary shares related to options, there were nil (2009: nil) options that had lapsed during the year and nil (2009: nil) options that had been exercised during the year.

(b) Performance Share Rights

Rights granted to employees under the PSP are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The rights have not been included in the determination of basic earnings per share. Details relating to the rights are set out in Note 29.

Included within the weighted average number of potential ordinary shares are Performance Share Rights, none of which relate to the rights that lapsed during the year (2009: nil).

(c) Share-based payments trust

Shares purchased on-market through the Aristocrat Employee Equity Plan Trust have been treated as shares bought back and cancelled for the purpose of the calculation of the weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.

Shares issued through the Aristocrat Employee Equity Plan Trust on the exercise of options have been treated as shares issued from contributed equity capital for the purpose of the calculation of the weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.

Note 34. Reconciliation of profit for the year after income tax to net cash flow from operating activities

	Consolidated	
	2010 \$'000	2009 \$'000
Profit/(loss) for the year	77,751	(157,299)
Depreciation and amortisation	36,911	42,814
Equity-settled share-based payments	3,604	522
Non-cash interest expense	(720)	(769)
Net loss/(gain) on sale of property, plant and equipment	178	(8,654)
Share of net losses of jointly controlled entity	616	1,745
Net gain on sale of jointly controlled entity	(12,727)	–
Revaluation of available-for-sale equity securities	–	155
Impairment of assets and investments	12,506	83,127
Convertible Bonds litigation	(38,138)	267,588
Net foreign currency exchange differences	(8,851)	(28,634)
Change in operating assets and liabilities:		
– Decrease/(increase) in receivables and deferred revenue	41,195	16,605
– (Increase)/decrease in inventories	(12,198)	52,549
– Increase in other operating assets	(334)	13,276
– Increase/(decrease) in tax balances	4,815	(55,443)
– Decrease in payables	(36,282)	(73,958)
– Decrease in other provisions	(230,846)	(12,183)
Net cash (outflows)/inflow from operating activities	(162,520)	141,441

Note 35. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998 (Class Order), the wholly owned subsidiaries listed below are relieved from the *Corporations Act 2001* (Cth) requirements for preparation, audit and lodgement of a financial report and Directors' Report.

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

The subsidiaries subject to the deed are:

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

The above named companies represent a Closed Group for the purposes of the 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 consolidated statement of comprehensive income of the Closed Group:

	2010 \$'000	2009 \$'000
Revenue	264,176	302,527
Other income	6,505	6,272
Cost of revenue and other expenses	(51,808)	(345,460)
Employee benefits expense	(117,419)	(130,583)
Finance cost	(15,313)	(14,877)
Depreciation and amortisation expense	(11,440)	(11,513)
Profit/(loss) before income tax	74,701	(193,634)
Income tax (expense)/benefit	(20,775)	54,987
Profit/(loss) for the year	53,926	(138,647)

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	(64,927)	146,200
(Loss)/profit for the year	53,926	(138,647)
Dividends paid	(18,668)	(72,480)
Retained earnings at the end of the financial year	(29,669)	(64,927)

Note 35. Deed of cross guarantee continued

	2010 \$'000	2009 \$'000
Set out below is a consolidated statement of financial position of the Closed Group:		
Current assets		
Cash and cash equivalents	2,286	12,866
Trade and other receivables	69,668	63,806
Inventories	15,601	22,334
Other financial assets	–	103
Tax assets	3,591	3,155
Total current assets	91,146	102,264
Non-current assets		
Financial assets	246,613	221,631
Property, plant and equipment	38,312	43,166
Deferred tax assets	92,851	105,629
Intangible assets	8,885	3,141
Total non-current assets	386,661	373,567
Total assets	477,807	475,831
Current liabilities		
Trade and other payables	47,276	55,082
Borrowings	7,000	–
Provisions	10,167	278,324
Other liabilities	9,938	13,388
Total current liabilities	74,381	346,794
Non-current liabilities		
Payables	37,374	23,254
Interest bearing liabilities	220,000	–
Provisions	5,148	4,466
Other liabilities	7,737	5,314
Total non-current liabilities	270,259	33,034
Total liabilities	344,640	379,828
Net assets	133,167	96,003
Equity		
Contributed equity	185,576	185,471
Reserves	(22,740)	(24,541)
Retained earnings	(29,669)	(64,927)
Total equity	133,167	96,003

Note 36. Parent entity financial information

(a) Summary financial information

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

	2010 \$'000	2009 \$'000
Statement of financial position		
Current assets	91	24,311
Total assets	98,906	332,516
Current liabilities	3,478	271,067
Total liabilities	3,478	271,067
Shareholders' equity		
Contributed equity	187,625	185,320
Reserves	58,816	55,244
Retained earnings	(151,014)	(179,115)
	95,427	61,449
Profit/(loss) for the year after tax	46,770	(124,823)
Total comprehensive income after tax	46,770	(124,823)

(b) Guarantees entered into by the parent entity

Cross guarantees given by the parent entity are set out in Note 35.

(c) Contingent liabilities of the parent entity

Contingent liabilities of the parent entity are set out in Note 24.

Directors' Declaration

for the year ended 31 December 2010

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 57 to 118 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 consolidated entity's financial position as at 31 December 2010 and of its 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; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 35 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 35.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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



Dr ID Blackburne

Chairman

Sydney

24 February 2011

Independent Auditor's Report



PricewaterhouseCoopers
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Australia
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Independent auditor's report to the members of Aristocrat Leisure Limited

Report on the financial report

We have audited the accompanying financial report of Aristocrat Leisure Limited (the company), which comprises the balance sheet as at 31 December 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Aristocrat Leisure Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report

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

Liability limited by a scheme approved under Professional Standards Legislation

Independent Auditor's Report continued



Independent auditor's report to the members of Aristocrat Leisure Limited (continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Aristocrat Leisure Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 23 to 45 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Aristocrat Leisure Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'S. Humphries', written over a faint circular stamp or watermark.

Stephen Humphries
Partner

Sydney
24 February 2011

Shareholder Information

Distribution of equity securities as at 24 February 2011

Size of holding	Holders of Performance Share Rights ¹	Shareholders	Number of shares ²	% of issued capital
1-1,000	849	6,521	2,832,314	0.530
1,001-5,000	19	4,989	11,987,273	2.245
5,001-10,000	29	1,014	7,271,035	1.362
10,001-100,000	90	584	13,203,229	2.473
100,001-over	10	89	498,690,059	93.390
Total	997	13,197	533,983,910	100.000
Less than a marketable parcel of \$500.00	3	1,825	117,017	0.022

1 All share rights allocated under the Long Term Incentive Programs to take up ordinary shares in the capital of the Company subject to the rules of the Plan are unquoted and non-transferable.

2 Fully paid ordinary shares (excludes unvested performance share rights that have not been converted into shares).

Substantial shareholders as at 24 February 2011

As at 24 February 2011, the following shareholders were registered by the Company as a substantial shareholder, having declared a relevant interest in accordance with the *Corporations Act 2001* (Cth), in the voting shares below:

Name of shareholder	Number of ordinary shares held	% of issued capital	Date of notice
IOOF Holdings Limited	33,326,255	6.241	21/12/2010
Commonwealth Bank of Australia	52,404,419	9.81	06/12/2010
Lazard Asset Management Pacific Co.	40,872,775	7.65	03/12/2010
Maple-Brown Abbott Limited	40,126,516	8.81	01/12/2008

Twenty largest ordinary shareholders as at 24 February 2011

Name of shareholder	Number of ordinary shares held	% issued capital
National Nominees Limited	115,144,817	21.563
Citicorp Nominees Pty Limited	73,478,365	13.760
JP Morgan Nominees Australia Limited	72,634,938	13.602
HSBC Custody Nominees (Australia) Limited	65,939,336	12.349
Writeman Pty Limited	31,994,622	5.992
Serioso Pty Limited	30,819,564	5.772
Thunderbirds Are Go Pty Limited	25,003,208	4.682
Cogent Nominees Pty Limited	15,895,246	2.977
Maaku Pty Limited	15,104,872	2.829
RBC Dexia Investor Services Australia Nominees Pty Limited	9,678,853	1.813
ECA 1 Pty Limited	8,757,359	1.640
Arminella Pty Limited	7,655,500	1.434
Tasman Asset Management Limited	6,091,206	1.141
UBS Wealth Management Australia Nominees Pty Ltd	3,195,871	0.598
M F Custodians Limited	3,016,072	0.565
Australian Executor Trustees Limited	2,365,249	0.443
Argo Investments Limited	2,241,000	0.420
AMP Life Limited	1,547,079	0.290
Australian Reward Investment Alliance	1,364,091	0.255
Queensland Investment Corporation	1,334,396	0.250

Voting rights

At meetings of shareholders, each shareholder may vote in person or by proxy, attorney or (if the shareholder is a body corporate) corporate representative. On a show of hands, every person present who is a shareholder or a representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy or attorney has one vote for each fully paid ordinary share. Performance share right holders have no voting rights.

Regulatory considerations affecting shareholders

Aristocrat Leisure Limited and its subsidiaries could be subject to disciplinary action by gaming authorities in some jurisdictions if, after receiving notice that a person is unsuitable to be a shareholder, that person continues to be a shareholder. Because of the importance of licensing to the Company and its subsidiaries, the Constitution contains provisions that may require shareholders to provide information and also gives the Company powers to divest or require divestiture of shares, suspend voting rights and withhold payments of certain amounts to shareholders or other persons who may be unsuitable.

Shareholder enquiries

You can access information about Aristocrat Leisure Limited and your holdings via the internet. Aristocrat's website, www.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.registries.com.au and access a wide variety of holding information, make changes to your holding record and download forms. You can access this information via a security login using your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as well as your InvestorServe PIN.

Dividends

Electronic funds transfer

In 2007, the Company introduced a mandatory direct payment of dividends program for shareholders resident in Australia who were requested to complete and submit a *Direct Credit of Dividends Form* (available from the Company's website) and return it to the Company's share registrar. Shareholders who have not completed and returned this form will receive a notice from the Company's share registrar advising that:

- (i) the relevant dividend amount is being held as direct credit instructions have not been received;
- (ii) the relevant dividend will be credited to the nominated bank account as soon as possible on receipt of direct credit instructions; and
- (iii) no interest is payable on the dividend being withheld.

Such notices are sent to shareholders who have not completed and submitted a *Direct Credit of Dividends Form* on the payment date of the relevant dividend.

Dividend cheques

Dividend cheques (shareholders resident outside Australia) should be banked as soon as conveniently possible.

Dividend Reinvestment Plan

The Directors consider whether the Company's Dividend Reinvestment Plan (DRP) should operate each time a dividend is declared.

The DRP Rules and the *Dividend Reinvestment Plan Application or Variation Form* are available from the Company's share registrar, Registries Limited on +61 2 9290 9682 or email registries@registries.com.au.

Shareholders should note that: (i) shareholders who elect to participate in the DRP and who do not revoke their elections will automatically participate on the next occasion the DRP is activated; (ii) the fact that the DRP operated in respect of any dividend does not necessarily mean that the DRP will operate in respect of any further dividends (a separate decision is made for each dividend); and (iii) when the DRP does operate, the DRP rules provide that the number of shares that DRP participants will receive will not be determinable on the Record Date determined by the Board.

Corporate Directory

Directors

ID Blackburne

Chairman

JR Odell

Chief Executive Officer and
Managing Director

DCP Banks

Non-Executive Director (Elect)

RA Davis

Non-Executive Director

RV Dubs

Non-Executive Director

LG Flock

Non-Executive Director (Elect)

SW Morro

Non-Executive Director

SAM Pitkin

Non-Executive Director

Company Secretary

A Korsanos

Global headquarters

Aristocrat Leisure Limited
Building A, Pinnacle Office Park
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Australia
Telephone: +61 2 9013 6300
Facsimile: +61 2 9013 6200

Internet site

www.aristocratgaming.com

Australia

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The Americas

North America

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Asia

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Corner Saturn Crescent
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Facsimile: +27 11 608 0030

Investor contacts

Share registry

Registries Limited
Level 7, 207 Kent Street
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Telephone: +61 2 9290 9682
Fax: +61 2 9279 0664
Email: registries@registries.com.au
Website: www.registries.com.au

Auditor

PricewaterhouseCoopers
201 Sussex Street
Sydney NSW 1171 Australia

Stock exchange listing

Aristocrat Leisure Limited
Ordinary shares are listed on the
Australian Securities Exchange
Code: ALL

Investor email address

Investors may send email queries to:
investor.relations@ali.com.au

