



ARISTOCRAT LEISURE LIMITED

A.B.N. 44 002 818 368

APPENDIX 4E

Preliminary Final Report

Year ended: 31 December 2008

Previous corresponding period: 31 December 2007

Results for announcement to the market

				December 2008 \$'000
Revenue from ordinary activities	down	-3.8%	to	1,079,902
Profit from ordinary activities after tax	down	-58.9%	to	101,927
Profit for the period attributable to members	down	-59.1%	to	101,207
Earnings before interest and tax	down	-52.8%	to	156,660
Operating cash flow	down	-47.6%	to	116,409

Dividends

	Amount per security	Franked amount per security	Record date for determining entitlements to dividends
Current year – 2008:			
- Supplementary unfranked dividend	10.0c	-	1 July 2008
- Interim dividend	14.0c	14.0c	30 September 2008
- Supplementary unfranked dividend	2.0c	-	5 January 2009
- Final dividend	10.0c	10.0c	30 March 2009
Previous year – 2007:			
- Interim dividend	14.0c	14.0c	18 September 2007
- Supplementary unfranked dividend	10.0c	-	7 January 2008
- Final dividend	25.0c	25.0c	31 March 2008

Net tangible assets

	December 2008	December 2007
Net tangible assets per security	\$ 0.08	\$ 0.41

For further explanation of the above figures please refer to the Directors' report, media release, management discussion and analysis and market presentations. Other financial information required by the Appendix 4E is contained in the financial statements.

aristocrat



Aristocrat Leisure Limited ABN 44 002 818 368
financial statements for the year ended 31 December 2008

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

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

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

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

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

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

Financial statements

for the year ended 31 December 2008

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Income statements

for the year ended 31 December 2008

	Notes	2008 \$'000	Consolidated 2007 \$'000	2008 \$'000	Parent entity 2007 \$'000
Revenue from operating activities	5	1,079,902	1,121,969	-	-
Cost of revenue from operating activities		(517,190)	(470,443)	-	-
Gross profit		562,712	651,526	-	-
Other revenue and other income	5	30,312	23,381	275,520	198,702
Research and development costs		(117,154)	(104,158)	-	-
Sales and marketing costs		(114,392)	(107,108)	-	-
General and administration costs		(201,274)	(131,576)	(57,553)	(136)
Finance costs		(23,865)	(14,447)	-	-
Share of net profits of jointly controlled entity	28	495	8,613	-	-
Profit from ordinary activities before income tax expense		136,834	326,231	217,967	198,566
Income tax (expense)/credit	6	(34,907)	(78,295)	26,589	1,888
Profit from ordinary activities after income tax expense		101,927	247,936	244,556	200,454
Profit is attributable to:					
Members of Aristocrat Leisure Limited		101,207	247,172	244,556	200,454
Minority interest	23	720	764	-	-
		101,927	247,936	244,556	200,454
Earnings per share for profit attributable to the ordinary equity holders of the Company		Cents	Cents		
Basic earnings per share	34	22.0	53.0		
Diluted earnings per share	34	22.0	52.8		

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

Balance sheets

as at 31 December 2008

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

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

Statements of changes in equity

for the year ended 31 December 2008

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

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

Statements of cash flows

for the year ended 31 December 2008

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

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

Notes to the financial statements

for the year ended 31 December 2008

Note 1. Summary of significant accounting policies

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

(a) Basis of preparation

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

Compliance with IFRS

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

Historical cost convention

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

Critical accounting estimates

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

(b) Principles of consolidation

(i) *Subsidiaries*

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2008

Note 1. Summary of significant accounting policies *continued*

(b) Principles of consolidation *continued*

(i) *Subsidiaries (continued)*

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

(ii) *Jointly controlled entities*

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

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

(iii) *Employee Share Trust*

The Group has formed a trust to 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 Aristocrat Employee Equity Plan Trust are recorded in share-based payment reserves. Information relating to these shares is disclosed in Note 22(a)(ii) and (iii).

(c) Segment reporting

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

(d) Foreign currency translation

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

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

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

Notes to the financial statements

for the year ended 31 December 2008

Note 1. Summary of significant accounting policies *continued*

(d) Foreign currency translation *continued*

(iii) Group companies

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

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

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

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

(e) Revenue recognition

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

(i) Revenue from the sale of goods

Platform/machine sales

Revenue is recognised when goods have been 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.

Notes to the financial statements

for the year ended 31 December 2008

Note 1. Summary of significant accounting policies *continued*

(e) Revenue recognition *continued*

(ii) Revenue from gaming operations and services

Participation revenue

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

Rental

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

Service revenue

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

Revenue in advance

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

(f) Income tax

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

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2008

Note 1. Summary of significant accounting policies *continued*

(g) Tax consolidation legislation

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

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

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

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

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

(h) Leases

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

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

(i) Business combinations

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

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

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

Notes to the financial statements

for the year ended 31 December 2008

Note 1. Summary of significant accounting policies *continued*

(j) Impairment of assets

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

(k) Cash and cash equivalents

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

(l) Receivables

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

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

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

(m) Inventories

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

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

(ii) *Contract work in progress*

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

(n) Intellectual property rights

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

(o) Non-current assets held for sale

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2008

Note 1. Summary of significant accounting policies *continued*

(p) Investments and other financial assets

Classification

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

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

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

(ii) *Loans and receivables*

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

(iii) *Held-to-maturity investments*

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

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

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

Recognition and derecognition

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

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

Subsequent measurement

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2008

Note 1. Summary of significant accounting policies *continued*

(p) Investments and other financial assets *continued*

Impairment

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

(q) Derivatives

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

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

(i) *Fair value hedges*

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

(ii) *Cash flow hedges*

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

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

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

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

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

(r) Fair value estimation

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

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

Notes to the financial statements

for the year ended 31 December 2008

Note 1. Summary of significant accounting policies *continued*

(r) Fair value estimation *continued*

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

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

(s) Property, plant and equipment

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

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

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

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

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

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

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

(t) Intangible assets

(i) Goodwill

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

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

(ii) Computer technology

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

Notes to the financial statements

for the year ended 31 December 2008

Note 1. Summary of significant accounting policies *continued*

(t) Intangible assets *continued*

(iii) Trademarks and licences

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

(iv) Research and development

Research expenditure is expensed as incurred.

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

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

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

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

(u) Payables

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

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

(v) Borrowings

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

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

(w) Borrowing costs

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

(x) Provisions

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

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

Notes to the financial statements

for the year ended 31 December 2008

Note 1. Summary of significant accounting policies *continued*

(x) Provisions *continued*

(i) *Progressive jackpot liabilities*

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

(ii) *Warranties*

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

(iii) *Make good allowances*

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

(y) Employee benefits - payable

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

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

(ii) *Retirement benefit obligations*

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

(iii) *Share-based payments*

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

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

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

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2008

Note 1. Summary of significant accounting policies *continued*

(y) Employee benefits - payable *continued*

(iii) *Share-based payments (continued)*

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

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

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

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

(iv) *Bonus plans*

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

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

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

(v) *Employee benefit on-costs*

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

(vi) *Termination benefits*

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

(z) Employee benefits - provision

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

(aa) Contributed equity

Ordinary shares are classified as contributed equity.

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

(ab) Dividends

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

(ac) Earnings per share

(i) *Basic earnings per share*

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

Notes to the financial statements

for the year ended 31 December 2008

Note 1. Summary of significant accounting policies *continued*

(ac) Earnings per share (continued)

(ii) *Diluted earnings per share*

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

(ad) AASB Accounting Standards issued but not yet effective

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ae) Rounding of amounts

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

Notes to the financial statements

for the year ended 31 December 2008

Note 2. Financial risk management

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

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

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

(a) Market risk

(i) Cash flow and fair value interest rate risk

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

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

Group sensitivity

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

(ii) Foreign exchange risk

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

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

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

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

Group sensitivity

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

(iii) Price risk

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

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

Notes to the financial statements

for the year ended 31 December 2008

Note 2. Financial risk management *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:

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

* Investment in PokerTek.

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

* Investment in Pokertek.

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

(b) Credit risk

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

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

Notes to the financial statements

for the year ended 31 December 2008

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 on the basis of expected cash flow. See Note 18(a) for details of available facilities.

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

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

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

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

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

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

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

(d) Fair value estimation

Refer to Note 1(r).

Notes to the financial statements

for the year ended 31 December 2008

Note 3. Critical accounting estimates and judgements

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

Critical accounting estimates and assumptions

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

Estimated impairment of goodwill

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

Notes to the financial statements

for the year ended 31 December 2008

Note 4. Segment information

Primary reporting - geographical segments

	Australia	North America	South America	Japan	New Zealand	Other	Total continuing operations	Inter-segment eliminations/unallocated	Consolidated
2008	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue									
Sales to external customers	185,257	470,397	43,488	214,312	21,655	144,793	1,079,902	-	1,079,902
Inter-segment sales	55,509	-	-	-	-	-	55,509	(55,509)	-
Total sales revenue	240,766	470,397	43,488	214,312	21,655	144,793	1,135,411	(55,509)	1,079,902
Other income (excluding interest)	22,109	1,968	-	13	-	2,183	26,273	-	26,273
Total segment revenue/income (excluding interest)	262,875	472,365	43,488	214,325	21,655	146,976	1,161,684	(55,509)	1,106,175
Interest income									4,039
Total consolidated revenue									1,110,214
Result									
Segment result	84,054	3,367	11,426	38,511	579	17,630	155,567	598	156,165
Share of net profits of jointly controlled entity									495
Net interest expense									(19,826)
Profit before income tax expense									136,834
Income tax expense									(34,907)
Net profit after tax									101,927
	Australia	North America	South America	Japan	New Zealand	Other	Total continuing operations	Inter-segment eliminations/unallocated	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets and liabilities									
Segment assets	397,209	288,937	54,850	206,987	8,646	145,847	1,102,476	(239,036)	863,440
Unallocated assets									152,931
Total assets									1,016,371
Segment liabilities	55,294	103,291	1,668	112,314	5,062	33,514	311,143	10,889	322,032
Unallocated liabilities									501,910
Total liabilities									823,942
Investments in associates									-
Other segment information									
Acquisition of property, plant and equipment, intangible assets and other non-current segment assets	23,105	29,755	386	2,733	138	4,850	60,967	(245)	60,722
Depreciation and amortisation expense	9,699	19,681	424	1,735	260	8,432	40,231	-	40,231
Other non-cash expenses	40,964	2,883	3,031	2,257	89	632	49,856	-	49,856

Notes to the financial statements

for the year ended 31 December 2008

Note 4. Segment information *continued*

Primary reporting - geographical segments *continued*

	Australia	North America	South America	Japan	New Zealand	Other	Total continuing operations	Inter-segment eliminations/unallocated	Consolidated
2007	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue									
Sales to external customers	280,097	483,562	23,192	91,205	25,233	218,680	1,121,969	-	1,121,969
Inter-segment sales	126,131	-	-	-	-	-	126,131	(126,131)	-
Total sales revenue	406,228	483,562	23,192	91,205	25,233	218,680	1,248,100	(126,131)	1,121,969
Other income (excluding interest)	12,186	1,302	45	164	-	1,264	14,961	-	14,961
Total segment revenue/income (excluding interest)	418,414	484,864	23,237	91,369	25,233	219,944	1,263,061	(126,131)	1,136,930
Interest income									8,420
Total consolidated revenue									1,145,350

Result

Segment result	291,986	(7,848)	8,304	(2,860)	700	27,464	317,746	5,897	323,643
Share of net profits of jointly controlled entity									8,613
Net interest expense									(6,025)
Profit before income tax expense									326,231
Income tax expense									(78,295)
Net profit after tax									247,936

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

Other segment information

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

Notes to the financial statements

for the year ended 31 December 2008

Note 4. Segment information *continued*

Secondary reporting - business segments

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

Accounting policies

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

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

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

Inter-segment transfers

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

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

Head office expenses

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

Notes to the financial statements

for the year ended 31 December 2008

	Notes	2008 \$'000	Consolidated 2007 \$'000	2008 \$'000	Parent entity 2007 \$'000
Note 5. Profit from ordinary activities					
(a) Revenue from operating activities					
Sale of goods	1(e)(i)	828,486	875,988	-	-
Gaming operations and services	1(e)(ii)	251,416	245,981	-	-
		1,079,902	1,121,969	-	-
(b) Other revenue and other income					
Interest		4,039	8,420	35	233
Dividends		-	-	275,474	198,469
Other revenue		4,039	8,420	275,509	198,702
Foreign exchange gains	5(d)	1	6,613	11	-
Gain on disposal of property, plant and equipment	5(e)	21,412	5,286	-	-
Other income		4,860	3,062	-	-
Other income		26,273	14,961	11	-
Total other revenue and other income		30,312	23,381	275,520	198,702
(c) Expenses					
(i) Depreciation and amortisation					
Depreciation and amortisation of property, plant and equipment					
- Buildings		505	518	-	-
- Leasehold improvements		2,607	2,252	-	-
- Plant and equipment		31,153	27,737	-	-
Total depreciation and amortisation of property, plant and equipment	14	34,265	30,507	-	-
Amortisation of intangible assets					
- Computer technology		5,579	5,799	-	-
- Copyrights, patents, trademarks and licensing rights		387	129	-	-
Total amortisation of intangible assets	16	5,966	5,928	-	-
Total depreciation and amortisation	35	40,231	36,435	-	-
(ii) Employee benefits expense					
Salaries and wages		194,971	206,983	-	-
Superannuation costs		8,224	10,168	-	-
Post-employment benefits other than superannuation		3,648	6,236	-	-
Share-based payments expense	30(e)	4,182	9,398	-	-
Employee benefits expense		211,025	232,785	-	-

Notes to the financial statements

for the year ended 31 December 2008

	Notes	2008 \$'000	Consolidated 2007 \$'000	2008 \$'000	Parent entity 2007 \$'000
Note 5. Profit from ordinary activities <i>continued</i>					
(c) Expenses (continued)					
(iii) Lease payments					
Rental expense relating to operating leases					
- Minimum lease payments		14,935	11,860	-	-
Total rental expense relating to operating leases		14,935	11,860	-	-
(iv) Other significant items					
Other charges against assets					
- Bad and doubtful debts - trade debtors		398	423	-	-
- Write down of inventories to net realisable value		23,242	18,390	-	-
- Impairment of available-for-sale equity securities		19,877	-	-	-
- Class Action settlement		57,410	-	57,410	-
- Legal costs		10,530	20,127	-	-
(d) Net foreign exchange gain/(loss)					
Foreign exchange gain		1	6,613	11	-
Foreign exchange loss		(6,889)	(4)	-	-
Net foreign exchange (loss)/gain		(6,888)	6,609	11	-
(e) Net gain/(loss) on disposal of property, plant and equipment					
Gain on disposal of property, plant and equipment		21,412	5,286	-	-
Loss on disposal of property, plant and equipment		(13)	(2,620)	-	-
Net gain on disposal of property, plant and equipment	35	21,399	2,666	-	-

Notes to the financial statements

for the year ended 31 December 2008

	2008	Consolidated 2007	2008	Parent entity 2007
	\$'000	\$'000	\$'000	\$'000

Note 6. Income tax expense

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

(a) Income tax expense/(credit)

Current income tax	44,525	76,542	(25,297)	27
Deferred income tax	(2,004)	6,189	(752)	2
Adjustments in respect of current income tax of previous years	(7,614)	(4,436)	(540)	(1,917)
Income tax expense/(credit)	34,907	78,295	(26,589)	(1,888)

Deferred income tax expense included in income tax expense comprises:

(Increase)/decrease in deferred tax asset	(1,330)	6,859	(752)	2
Decrease in deferred tax liabilities	(674)	(670)	-	-
Deferred income tax expense included in income tax expense	(2,004)	6,189	(752)	2

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

Profit from ordinary activities before income tax expense	136,834	326,231	217,967	198,566
Tax at the Australian tax rate of 30% (2007: 30%)	41,050	97,869	65,390	59,570
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Research and development	(5,467)	(2,180)	-	-
Share-based payments	272	262	-	-
Non-taxable dividends	374	459	(82,641)	(59,541)
Share of net profits in jointly controlled entity	(138)	(2,577)	-	-
Sale of land and buildings not taxable	(6,317)	(1,530)	(6,511)	-
Tax losses not previously recognised	(1,252)	-	-	-
Overseas exempt income and non-creditable taxes	672	(8,694)	-	-
Impairment of available-for-sale equity securities	5,963	-	-	-
Other	292	647	-	-
	35,449	84,256	(23,762)	29
Difference in overseas tax rates	6,934	195	-	-
Difference in exchange rates on overseas tax rates	(315)	621	-	-
Tax losses not recognised	103	1,932	-	-
Decrease in deferred tax liability due to land and buildings held for sale and recognition of capital tax losses	-	(3,005)	-	-
Adjustments in respect of current income tax of previous years				
Current income tax	(7,614)	(4,436)	(540)	(1,917)
Deferred income tax	350	(1,268)	(2,287)	-
Income tax expense/(credit)	34,907	78,295	(26,589)	(1,888)
Average effective tax rate	25.51%	24.00%	(12.2%)	(0.95%)

(c) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit but directly debited or credited to equity

Current income tax - credited directly to equity	113	1,420	-	-
Net deferred tax - debited directly to equity	-	-	-	-
Aggregate current and deferred tax arising in the reporting period directly credited to equity	113	1,420	-	-

Notes to the financial statements

for the year ended 31 December 2008

	2008 \$'000	Consolidated 2007 \$'000	2008 \$'000	Parent entity 2007 \$'000
Note 6. Income tax expense continued				
(d) Revenue and capital tax losses				
Unused gross tax losses for which no deferred tax asset has been recognised	22,486	24,249	-	-
Unused gross capital tax losses for which no deferred tax asset has been recognised	50,894	72,521	50,894	72,521
	73,380	96,770	50,894	72,521
Potential tax benefit	21,533	28,517	15,268	21,756

Unused revenue losses were incurred by 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	99	71	-	-
	99	71	-	-

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

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

The deferred tax balances in relation to 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 installments. The funding amounts are recognised as current intercompany receivables/payables (refer to Notes 9 and 17).

Notes to the financial statements

for the year ended 31 December 2008

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

Dividends not recognised at year end

Since the end of the year, the directors have recommended the payment of a final dividend of 10 cents (2007: 25.0 cents) per fully paid ordinary share, 100% franked (2007: 100% franked). The aggregate amount of the proposed final dividend expected to be paid on 31 March 2009 out of retained profits at 31 December 2008, but not recognised as a liability at the end of the year is:

	45,533	116,074
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Franked dividends

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

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

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

Dividend Reinvestment Plan

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

Notes to the financial statements

for the year ended 31 December 2008

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Note 8. Cash and cash equivalents				
Cash at bank and in hand	103,243	55,946	53	38
Short-term deposits	3,000	24,672	-	-
	106,243	80,618	53	38

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

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

Note 9. Trade receivables

Current

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

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

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

Non-current

Trade receivables	8,499	13,866	-	-
Receivable from wholly-owned entities**	-	-	-	64,161
Other receivables	4,025	2,099	-	-
Loans to non-related parties - secured	4,055	4,359	-	-
	16,579	20,324	-	64,161

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

(a) Trade receivables - current

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

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

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

Notes to the financial statements

for the year ended 31 December 2008

	2008	Consolidated 2007	2008	Parent entity 2007
	\$'000	\$'000	\$'000	\$'000

Note 9. Trade Receivables *continued*

(a) Trade receivables - current *continued*

Movements in the provision for doubtful debts are as follows:

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

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

(b) Trade receivables - non-current

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

(c) Other receivables - current

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

(d) Other receivables - non-current

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

(e) Loan to non-related parties

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

(f) Interest rate and foreign exchange risk

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

(g) Fair value risk - current

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

Notes to the financial statements

for the year ended 31 December 2008

Note 9. Trade Receivables *continued*

(h) Fair value - non-current

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

(i) Interest rate and foreign currency risk

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

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

* Other refers to a basket of currencies (Japanese Yen, Euro, South African Rand, New Zealand Dollars, 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:

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

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

Notes to the financial statements

for the year ended 31 December 2008

Notes	Consolidated		Parent entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Note 10. Inventories				
Current				
Raw materials and stores - at cost	92,995	45,918	-	-
Provision for obsolescence	(43,463)	(26,900)	-	-
	49,532	19,018	-	-
Work in progress	1,505	2,054	-	-
Finished goods - at cost	49,084	40,340	-	-
Provision for obsolescence	(7,517)	(6,696)	-	-
	41,567	33,644	-	-
Contract work in progress	-	2,160	-	-
Inventory in transit - at cost	3,209	4,481	-	-
	95,813	61,357	-	-

Inventory expense

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

Note 11. Financial assets

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

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

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

(a) Available-for-sale equity securities

Balance at the beginning of the year		23,513	24,926	-	-
Additions		2,231	1,611	-	-
Revaluation	22(a)(iv)	(12,550)	(3,024)	-	-
Balance at the end of the year		13,194	23,513	-	-

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

(b) Investment in jointly controlled entity

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

Notes to the financial statements

for the year ended 31 December 2008

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.

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

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

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

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

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

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

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

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

		Consolidated		Parent entity	
	Notes	2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000

Note 12. Other assets

Intellectual property rights	1(n)	8,788	4,816	-	-
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Notes to the financial statements

for the year ended 31 December 2008

		Consolidated		Parent entity
	2008	2007	2008	2007
Notes	\$'000	\$'000	\$'000	\$'000

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

Land and buildings	14,387	27,451	-	-
	14,387	27,451	-	-

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

Note 14. Property, plant and equipment

Land and buildings

Land and buildings - at deemed cost	9,853	8,116	-	-
Leasehold improvements - at cost	45,520	18,190	-	-
Accumulated amortisation	(15,695)	(12,059)	-	-
	29,825	6,131	-	-
Total land and buildings	39,678	14,247	-	-

Plant and equipment

Plant and equipment owned - at cost	251,330	191,652	-	-
Accumulated depreciation	(140,232)	(102,895)	-	-
Total plant and equipment	111,098	88,757	-	-
	150,776	103,004	-	-

Reconciliations

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

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

Notes to the financial statements

for the year ended 31 December 2008

	Notes	2008 \$'000	Consolidated 2007 \$'000	2008 \$'000	Parent entity 2007 \$'000
Note 15. Deferred tax assets					
The balance comprises temporary differences attributable to:					
Accruals and other provisions		11,846	10,361	1,044	1,044
Doubtful debts		1,098	529	-	-
Deferred revenue		1,383	1,024	-	-
Employee benefits		11,056	10,828	-	-
Convertible subordinated bonds		449	892	-	-
Plant, equipment and intangible assets		1,171	6,132	-	-
Prepayments		(1,344)	(603)	-	-
Provision for stock obsolescence		12,607	8,525	-	-
Share-based equity		(3,525)	(4,816)	-	-
Overseas tax obligations		3,381	1,794	-	-
Unrealised foreign exchange (gains)/losses		8,758	(1,081)	(17)	(17)
Tax losses		815	8,020	729	-
Other		7,456	4,353	26	3
Gross deferred tax assets		55,151	45,958	1,782	1,030
Intangible assets (not offset above)		(6,097)	(5,430)	-	-
Net deferred tax assets		49,054	40,528	1,782	1,030
Movements					
Opening balance at 1 January		40,528	42,206	1,030	1,033
Charged to the income statement	6(a)	2,004	(6,189)	752	(2)
Charged to equity (share-based equity and foreign currency exchange differences)		440	5,103	-	(1)
Foreign exchange currency movements		6,082	(592)	-	-
Closing balance at 31 December		49,054	40,528	1,782	1,030

Notes to the financial statements

for the year ended 31 December 2008

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

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

(a) Impairment tests for goodwill

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

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

(i) Wholly-owned controlled entities

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

(ii) Jointly controlled entity

	2008 \$'000	2007 \$'000
Other - Elektronček	80,955	63,618
	80,955	63,618

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

Notes to the financial statements

for the year ended 31 December 2008

Note 16. Intangible assets *continued*

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

(i) Value-in-use

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

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

2. a pre-tax annual discount rate of:

	2008	2007
North America	12.3%	15.6%
Other - South Africa	20.7%	18.6%
Other - ACE Interactive	10.4%	15.4%
Other - Elektronček	12.0%	14.6%

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

	2008	2007
North America	3.0%	3.0%
Other - South Africa	3.0%	3.0%
Other - ACE Interactive	5.0%	-
Other - Elektronček	3.0%	3.0%

4. an allocation of head office assets.

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

(c) Impact of possible changes in key assumptions

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

(d) Impairment charge

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

Notes to the financial statements

for the year ended 31 December 2008

	2008 \$'000	Consolidated 2007 \$'000	2008 \$'000	Parent entity 2007 \$'000
Note 17. Trade and other payables				
Current				
Trade creditors	97,252	51,277	-	-
Tax related amounts payable to wholly-owned entities*	-	-	1,764	-
Other creditors	137,220	126,190	3,479	3,479
	234,472	177,467	5,243	3,479

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

Non-current				
Payable to wholly-owned entities**	-	-	46,925	-
Other creditors	275	-	-	-
	275	-	46,925	-

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

(a) Foreign currency risk

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

US dollars	72,317	58,104	-	-
Australian dollars	55,233	82,295	52,168	3,479
Other*	107,197	37,068	-	-
	234,747	177,467	52,168	3,479

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

(b) Fair value

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

Notes to the financial statements

for the year ended 31 December 2008

Notes	2008 \$'000	Consolidated 2007 \$'000	2008 \$'000	Parent entity 2007 \$'000
Note 18. Borrowings				
Current				
<i>Secured</i>				
Bank loans	150,000	45,000	-	-
	150,000	45,000	-	-
Non-current				
<i>Secured</i>				
Bank loans	332,644	147,459	-	-
	332,644	147,459	-	-

(a) Financing arrangements

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

Credit standby arrangements

Total facilities					
- Bank overdrafts	(i)	7,887	5,000	-	-
- Bank loans	(ii)	835,120	400,000	-	-
- Letter of credit	(iii)	288,684	226,860	-	-
- Other	(iv)	25,571	16,200	-	-
		1,157,262	648,060	-	-
Used at balance date					
- Bank overdrafts		-	-	-	-
- Bank loans		482,644	192,459	-	-
- Letter of credit		-	-	-	-
- Other		-	-	-	-
		482,644	192,459	-	-
Unused at balance date					
- Bank overdrafts		7,887	5,000	-	-
- Bank loans		352,476	207,541	-	-
- Letter of credit		288,684	226,860	-	-
- Other		25,571	16,200	-	-
		674,618	455,601	-	-

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

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

Syndicated Facility

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

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

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

Borrowings are at a floating rate. The borrowings are drawn under Facilities A, B and C of the facility.

Renewal of the Group's short-term bank facilities has occurred subsequent to year end. Refer to Note 24.

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

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

Notes to the financial statements

for the year ended 31 December 2008

Note 18. Borrowings *continued*

(b) Forward exchange contracts

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

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

*The USD amount is converted at the prevailing AUD/USD exchange rate

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

(c) Net fair value of financial assets and liabilities

(i) On-balance sheet

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

(ii) Off-balance sheet

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

(d) Foreign currency risk

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

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

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

Notes to the financial statements

for the year ended 31 December 2008

	Notes	2008 \$'000	Consolidated 2007 \$'000	2008 \$'000	Parent entity 2007 \$'000
Note 19. Provisions					
Current					
Dividend	7	9,062	40,465	9,107	40,827
Employee benefits	1(y)	8,359	9,229	-	-
Make good allowances	1(x)(iii)	229	230	-	-
Progressive jackpot liabilities	1(x)(i)	10,648	7,667	-	-
Warranties	1(x)(ii)	2,319	2,186	-	-
		30,617	59,777	9,107	40,827
Non-current					
Employee benefits	1(y)	7,941	5,385	-	-
Make good allowances	1(x)(iii)	2,852	1,379	-	-
Progressive jackpot liabilities	1(x)(i)	14,328	11,244	-	-
		25,121	18,008	-	-

Movements in provisions

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

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

Note 20. Other liabilities

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

Notes to the financial statements

for the year ended 31 December 2008

	Notes	2008 Shares	Parent entity 2007 Shares	2008 \$'000	Parent entity 2007 \$'000
Note 21. Contributed equity					
Ordinary shares, fully paid		455,329,650	464,295,501	(67,298)	1,291
Movements in ordinary share capital					
Ordinary shares at the beginning of the year	(a)	464,295,501	467,713,246	1,291	53,633
Shares bought back on-market and cancelled	(b)	(8,968,881)	(3,423,820)	(68,615)	(52,432)
General Employee Share Plan issues	(c)	-	-	-	-
Shares issued in lieu of unclaimed dividend payments		3,030	6,075	26	90
Ordinary shares at the end of the financial year		455,329,650	464,295,501	(67,298)	1,291

(a) Ordinary shares

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

On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Shares bought back on-market and cancelled

During the year the Company purchased 8,968,881 (2007: 3,423,820) shares under its share buy-back program. The shares were acquired at an average price of \$7.65 (2007: \$15.31) per share with prices ranging from \$6.00 to \$10.39 per share.

(c) General Employee Share Plan

Information concerning the General Employee Share Plan is set out in Note 30(b).

(d) Capital management

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

In light of the current economic climate, in the short to medium term, the Group aims to reduce its debt levels.

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

	2008	2007
Gearing ratio (gross debt/bank EBITDA*)	1.7x	0.5x
Interest coverage ratio (bank EBITDA*/interest expense)	13.9x	29.0x

*Bank EBITDA = EBITDA + Interest Received

Notes to the financial statements

for the year ended 31 December 2008

	Notes	2008 \$'000	Consolidated 2007 \$'000	2008 \$'000	Parent entity 2007 \$'000
Note 22. Reserves and retained earnings					
(a) Reserves					
Foreign currency translation reserve	(i)	2,531	(57,648)	-	-
Share-based payments reserves	(ii),(iii)	(31,293)	(36,660)	54,735	49,921
Available-for-sale investments revaluation reserve	(iv)	-	(7,327)	-	-
		(28,762)	(101,635)	54,735	49,921

Movements

(i) Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency exchange differences arising from the translation of foreign operations, the translation of transactions that hedge the Company's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in foreign operations. Refer to Note 1d(iii).

Foreign currency translation reserve at the beginning of the financial year	(57,648)	(43,059)	-	-
Net exchange differences on translation of foreign controlled entities, net investment in foreign operations and related hedges	60,179	(14,589)	-	-
Net movement in foreign currency translation reserve	60,179	(14,589)	-	-
Foreign currency translation reserve at the end of the financial year	2,531	(57,648)	-	-

(ii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of all shares, options and rights both issued and issued but not exercised under the various employee share plans.

Share-based payments reserve at the beginning of the financial year	10,808	18,095	49,921	37,355
Share-based payments expense	4,182	9,528	4,182	9,537
Employee Share Option Plan issues*	632	3,029	632	3,029
Issues from the Trust to satisfy vested	(18,535)	(26,395)	-	-
Share-based tax adjustment	553	6,551	-	-
Net movement in share-based payments reserve	(13,168)	(7,287)	4,814	12,566
Share-based payments reserve at the end of the financial year	(2,360)	10,808	54,735	49,921

* Represents the proceeds received from employees on the exercise of share options. The shares have been issued to the employees from shares purchased through the Aristocrat Employee Equity Plan Trust.

Notes to the financial statements

for the year ended 31 December 2008

		Consolidated		Parent entity
	2008	2007	2008	2007
Notes	\$'000	\$'000	\$'000	\$'000

Note 22. Reserves and retained earnings *continued*

(a) Reserves *continued*

(iii) Share-based payments trust reserve

The share-based payments trust reserve is used to recognise the cost, post-income tax, of shares purchased through the Aristocrat Employee Equity Plan Trust.

Share-based payments trust reserve at the beginning of the financial year	(47,468)	(55,864)	-	-
Purchases	-	(17,971)	-	-
Tax effect on the purchases	-	(28)	-	-
Issues from the Trust to satisfy vested shares	18,535	26,395	-	-
Net movement in share-based payments trust reserve	18,535	8,396	-	-
Share-based payments trust reserve at the end of the financial year*	(28,933)	(47,468)	-	-

* Represents 2,241,854 shares (2007: 3,630,078)

Total share-based payments reserves				
Total share-based payments reserves at the beginning of the financial year	(36,660)	(37,769)	49,921	37,355
Net movement in share-based payments reserves	5,367	1,109	4,814	12,566
Total share-based payments reserve at the end of the financial year	(31,293)	(36,660)	54,735	49,921

(iv) Available-for-sale investments revaluation reserve

The available-for-sale investments revaluation reserve is used to recognise the changes in the fair value and foreign currency exchange differences arising on translation of equities classified as available-for-sale financial assets as described in Note 1p(iv). Amounts are recognised in the income statement when the associated assets are sold or impaired.

Total available-for-sale investments revaluation reserve at the beginning of the financial year	(7,327)	(4,303)	-	-
Revaluation movement in available-for-sale investments revaluation reserve	(12,550)	(3,024)	-	-
Impairment of available-for-sale investment*	19,877	-	-	-
Total available-for-sale investments revaluation reserves at the end of the financial year	-	(7,327)	-	-

* An impairment loss was recorded at 31 December 2008 as a result of a significant decline in the value of the investment.

(b) Retained earnings

Retained earnings at the beginning of the financial year		395,420	5,058	28,259
Net profit attributable to members of Aristocrat Leisure Limited		247,172	244,556	200,454
Dividends paid or provided for	7	(222,122)	(234,426)	(223,655)
Retained earnings at the end of the financial year		420,470	15,188	5,058

Notes to the financial statements

for the year ended 31 December 2008

Notes	2008 \$'000	Consolidated 2007 \$'000	2008 \$'000	Parent entity 2007 \$'000
Outside equity interest in controlled entity comprise:				
Retained earnings	749	1,005	-	-
Profit from ordinary activities after income tax expense	720	764	-	-
Dividends paid	(1,410)	(1,020)	-	-
Retained earnings	59	749	-	-
Reserves	(75)	(74)	-	-
	(16)	675	-	-

Note 23. Minority interest

Outside equity interest in controlled entity
comprise:

Retained earnings	749	1,005	-	-
Profit from ordinary activities after income tax expense	720	764	-	-
Dividends paid	(1,410)	(1,020)	-	-
Retained earnings	59	749	-	-
Reserves	(75)	(74)	-	-
	(16)	675	-	-

Note 24. Events occurring after reporting date

Other than the refinancing of the Group's debt facilities, referred to in the Management Discussion and Analysis, there has not arisen, in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Note 25. Contingent liabilities

The Group and parent entity have contingent liabilities at 31 December 2008 in respect of the following matters:

(i) a contingent liability exists in relation to a guarantee given by the Company in respect of loans, advances, hire purchase and leasing facilities extended to a controlled entity, Aristocrat Technologies Australia Pty Ltd;

(ii) a number of controlled entities within the Group are parties to civil actions. The Directors are of the opinion that no material loss will arise as a result of these actions;

(iii) under the terms of currently held service contracts, termination benefits may be required to be paid by the Company or a controlled entity to Senior Executives, at the option of the individual parties to the agreements depending on individual circumstances. The amounts, which may be paid, depend upon the specific circumstances in which termination occurs;

(iv) the Company issued USD130 million of 5% convertible subordinated bonds ('bonds') due 31 May 2006 on 31 May 2001 and 7 June 2001. The Indenture permits the Company to call for the redemption of the bonds after the Company's shares have traded for a period of more than 20 trading days during a period of 30 consecutive trading days at a price exceeding 140% of the conversion price.

Consistent with its view of the parties' agreement, the Company took the steps on 20 December 2004 which it believed necessary and sufficient to call for the redemption of the bonds in accordance with the Indenture, thereby terminating bondholder conversion rights. On the same day, the Company commenced legal action in the United States District Court for the Southern District of New York (the 'District Court'), seeking a declaration from the Court that (1) an exchange rate error should be corrected and the Indenture reformed to reflect the intended rate; and (2) the call for redemption of the bonds terminated the rights of the bondholders to convert. Various bondholders subsequently intervened in the case. On 12 August 2005, the District Court issued an Opinion and Order that the exchange rate should be corrected and that bondholder conversion rights had not been terminated as of 20 December 2004. In so holding, the Court adopted an interpretation of the Indenture not argued by the Company or the bondholders. The Court otherwise deferred ruling on various counterclaims.

Notes to the financial statements

for the year ended 31 December 2008

Note 25. Contingent liabilities *continued*

On 30 May 2006, the District Court issued a further Opinion deciding a summary judgement motion filed by the bondholders. The Court granted the motion insofar as it requested a declaration that the Company was in breach of the Indenture for failing to deliver shares to the bondholders but it denied the bondholders' petition for a specific performance remedy that would have required the Company to deliver shares of its common stock to the bondholders, rather than a cash damages amount determined by the Court. The Court further held that the bondholders would be entitled to prejudgement interest on the damage amounts ultimately awarded at a statutorily prescribed rate of 9%.

The Company intends to appeal the Court's 12 August 2005 Order and certain aspects of the District Court's 30 May 2006 Opinion upon entry of final judgement. As of the date of this report, it is not possible to comment on when final judgement will be entered or when that appeal will take place. To proceed to appeal, it is likely that the Company will provide a surety to the Court.

During 2006, the Company entered into 'Receipt and Release Agreements' with all but three of the bondholders. Under these agreements, the Company paid those bondholders a sum representing an amount equal to their respective pro-rata shares of the principal amount of the bonds. The Company also entered into an agreement with one bondholder under which the Company resolved that bondholder's claim by paying a total of approximately USD1.1 million, being principal and interest to maturity (30 May 2006). An amount of USD0.5 million, equal to the remaining principal, was subsequently deposited in Court. The Company funded these payments, totalling approximately USD130 million, from cash and bank facilities;

(v) 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 36. During the financial year ended 31 December 2008, Aristocrat (Holdings) Pty Ltd was added to the deed of cross guarantee;

(vi) a complaint was served in February 2004 on Aristocrat Leisure Limited, Aristocrat Technologies Australia Pty Ltd and Aristocrat Technologies, Inc. ('Aristocrat') on behalf of a US-based individual. In March 2004, the individual passed away and the administrator for his estate has been substituted as the plaintiff. In February 2005, the Federal District Court, Reno granted an order releasing Aristocrat Leisure Limited from the case;

The plaintiff is seeking unspecified compensation and damages against the Company and third party defendants in the gaming industry. The plaintiff alleges, among other things, that the Company's Hyperlink progressive jackpot gaming machines infringe a US patent and that the Company misappropriated trade secrets of the plaintiff. Another party has made claim to ownership of the patent being asserted as well as to other patents.

On 7 August 2008 the US District Court, District of Nevada found in favour of Aristocrat's application for a declaration of patent invalidity, declaring the US Patent invalid. The plaintiff is continuing its proceedings against Aristocrat for misappropriation of trade secrets.

The proceedings are being defended. As of the date of this report, it is not possible to determine the likely outcome of these proceedings;

Notes to the financial statements

for the year ended 31 December 2008

Note 25. Contingent liabilities *continued*

(vii) the Company and its controlled entities have a contingent liability at 31 December 2008 of \$380,486 (2007: \$380,486) in respect of a guarantee facility provided by Commonwealth Bank of Australia;

(viii) under the terms of severance agreements with a former Executive Director, a controlled entity is obliged to fund certain costs of a motor vehicle provided to the former Executive Director for an indefinite period. The estimated annual cost of providing the motor vehicle and associated benefits amounts to \$56,952 (2007: \$56,952); and

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

	2008 \$'000	Consolidated 2007 \$'000	2008 \$'000	Parent entity 2007 \$'000
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Note 26. Commitments

Capital commitments

Capital equipment and other commitments contracted at the balance date but not recognised as liabilities, payable within one year

	1,241	364	-	-
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Lease commitments

Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year	15,063	10,105	-	-
Later than one year but not later than five years	48,559	42,127	-	-
Later than five years	62,724	63,094	-	-

Commitments not recognised in the financial statements	126,346	115,326	-	-
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Notes to the financial statements

for the year ended 31 December 2008

Note 27. Subsidiaries

	Notes	Country of incorporation	Equity holding	
			2008 %	2007 %
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
ACE Interactive Software Norway AS	(b)	Norway	100	100
Aristocrat Gaming LLC	(b)	Russia	100	100
Aristocrat (Argentina) Pty Limited	(b)	Australia	100	100
AI(Puerto Rico) Pty Limited <i>(formerly known as Aristocrat (Puerto Rico) Pty Ltd)</i>	(b)	Australia	100	100
Aristocrat (Latin America) Pty Ltd	(b)	Australia	100	100
Aristocrat (Asia) Pty Limited	(a)	Australia	100	100
Aristocrat (Macau) Pty Limited	(a)	Australia	100	100
Aristocrat (Philippines) Pty Limited	(b)	Australia	100	100
Aristocrat (Singapore) Pty Limited	(b)	Australia	100	100
Aristocrat (Cambodia) Pty Limited	(b)	Australia	100	100
Aristocrat (Malaysia) Pty Limited	(b)	Australia	100	100
Aristocrat Leisure Technology Development (Beijing) Co. 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	(c)	South Africa	72	
Aristocrat Africa (Pty) Ltd	(b)	South Africa	72	72
Aristocrat Technologies Africa (Pty) Ltd	(b)	South Africa	72	72
Aristocrat Technologies KK	(b) & (c)	Japan	100	100
Aristocrat Hanbai KK	(b) & (c)	Japan	100	100
Other controlled entities				
Aristocrat Employee Equity Plan Trust	(d)	Australia	100	100
Aristocrat Funding GP	(b)	USA	100	100

(a) These controlled entities have been granted relief from the necessity to prepare accounts in accordance with Class Orders issued by the Australian Securities & Investments Commission. For further information, refer to Note 25.

(b) Controlled entities audited by other PricewaterhouseCoopers firms.

(c) Controlled entities for which statutory audits are not required at 31 December 2008 under relevant local legislation.

(d) The trust is a special purpose entity which is consolidated because it meets the following criteria:

- the activity of the Trust which is to purchase and issue shares for the various Aristocrat employee share plans are being conducted on behalf of the Group according to its specific business needs and the Group obtains benefits from the Trust's operation;
- the Group has the decision making powers to obtain the majority of the benefits of the activities of the Trust; and
- the Group has rights to obtain the majority of the benefits of the Trust and is exposed to the risks incident to ownership of the special purpose entity.

Notes to the financial statements

for the year ended 31 December 2008

Note 28. Interest in jointly controlled entity

Elektronček

A subsidiary of Aristocrat Leisure Limited owns 50% of the issued shares in Elektronček d.d. ('Elektronček'), which manufactures a range of electro-mechanical multi-terminal gaming products.

(a) Group's share of results of jointly controlled entity	2008	2007
	\$'000	\$'000
Revenue from ordinary activities	28,581	38,542
Expenses from ordinary activities	(28,205)	(29,040)
Profit from ordinary activities before income tax expense	376	9,502
Income tax expense relating to ordinary activities	119	(1,627)
Profit from ordinary activities after income tax expense	495	7,875
Unrealised profits on related party transactions	-	738
Net profits - accounted for using the equity method	495	8,613
(b) Interest in jointly controlled entity	2008	2007
	\$'000	\$'000
Carrying amount at the beginning of the year	71,744	74,272
Investment in jointly controlled entity	-	(3,776)
Share of jointly controlled entity's net profit after tax	495	8,613
Share of jointly controlled entity's reserves	(113)	41
Movement in foreign currency exchange translation reserves	14,285	955
Dividend declared	-	(8,361)
Carrying amount at the end of the year	86,411	71,744
Share of movement in jointly controlled entity's assets and liabilities:	2008	2007
	\$'000	\$'000
Current assets	4,108	3,234
Non-current assets	3,588	(760)
	7,696	2,474
Current liabilities	(5,162)	6,070
Non-current liabilities	(631)	420
	(5,793)	6,490
Net assets	1,903	8,964

Notes to the financial statements

for the year ended 31 December 2008

	Notes	2008 \$'000	Consolidated 2007 \$'000	2008 \$'000	Parent entity 2007 \$'000
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Note 29. Employee benefits

Employee benefits and related on-cost liabilities

Included in payables - current		24,987	38,223	-	-
Provision for employee benefits - current	19	8,359	9,229	-	-
Provision for employee benefits - non-current	19	7,941	5,385	-	-
Aggregate employee benefits and related on-cost liabilities		41,287	52,837	-	-

Note 30. Share-based payments

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

(a) Performance Share Plan ('PSP')

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

As at 31 December 2008, 177 employees (2007: 200) were entitled to 2,713,093 (2007: 3,211,466) Performance Share Rights under this plan.

Accounting fair value of Performance Share Rights granted

The assessed accounting fair values of Performance Share Rights granted during the financial years ended 31 December 2008 and 31 December 2007 are as follows:

Performance Share Right series	Performance period start date	Performance period expiry date	Performance condition*	Accounting valuation date	Accounting valuation** \$
Issued 2008					
Series 10A	1-Jan-08	31-Dec-10	TSR	1-Jan-08	5.01
Series 10B	1-Jan-08	31-Dec-10	ESPG	1-Jan-08	9.59
Series 11A***	1-Jan-08	31-Dec-10	TSR	29-Apr-08	3.70
Series 11B***	1-Jan-08	31-Dec-10	ESPG	29-Apr-08	7.09
Issued 2007					
Series 8A	1-Jan-07	31-Dec-09	TSR	1-Jan-07	7.79
Series 8B	1-Jan-07	31-Dec-09	ESPG	1-Jan-07	14.41
Series 9A***	1-Jan-07	31-Dec-09	TSR	2-May-07	8.41
Series 9B***	1-Jan-07	31-Dec-09	ESPG	2-May-07	15.25

* TSR - Total Shareholder Return; EPSG - Earnings Per Share Growth

**In accordance with accounting standards, the accounting valuation, as independently determined by Deloitte Touche Tohmatsu ('Deloitte'), of a Performance Share Right with a market vesting condition (for example, TSR) incorporates the likelihood that the vesting condition will be met. Whereas, the accounting valuation, as independently determined by Deloitte, of a Performance Share Right with a non-market vesting condition (for example, EPSG) does not take into account the likelihood that the vesting condition will be met. Accordingly, the accounting value of a Performance Share Right with a TSR vesting condition is lower than that with an EPSG vesting condition.

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

Notes to the financial statements

for the year ended 31 December 2008

Note 30. 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 (either three, four or five years).

The model inputs for share rights granted during the year ended 31 December 2008 included:

(a) share rights are granted for no consideration and have a three to five year life;

(b) exercise price: zero consideration;

(c) the grant date and expiry dates: refer to tables below;

(d) share price at grant date:

2008: series 10A - \$11.13 and series 11A - \$8.10; and

2007: series 8A - \$15.79 and series 9A - \$16.43.

(e) price volatility of the Company's shares:

2008: series 10A - 28.44% and series 11A - 31.67%; and

2007: series 8A - 29.75% and series 9A - 29.54%.

(f) dividend yield:

2008: series 10A - 5.11% and series 11A - 5.00%; and

2007: series 8A - 3.10% and series 9A - 2.83%.

(g) risk-free interest rate:

2008: series 10A - 7.45% and series 11A - 6.45%; and

2007: series 8A - 6.45% and series 9A - 6.40%.

(ii) Earnings Per Share Growth ('EPSG') model

Deloitte has utilised the Black-Scholes generalised model to determine the fair value of share rights. This pricing model takes into account such factors as the Company's share price at the date of grant, volatility of the underlying share price, expected dividend yield, risk-free rate of return and time to maturity.

The accounting valuation of the rights has been allocated equally over the vesting period (ranging from three to five years).

The model inputs for share rights granted during the year ended 31 December 2008 included:

(a) share rights are granted for no consideration and have a three to five year life;

(b) exercise price: zero consideration;

(c) the grant date and expiry dates: refer to tables below;

(d) share price at grant date:

2008: series 10B - \$11.13 and series 11B - \$8.10; and

2007: series 8B - \$15.79 and series 9B - \$16.43.

(e) price volatility of the Company's shares:

2008: series 10B - 28.44% and series 11B - 31.67%; and

2007: series 8B - 29.75% and series 9B - 29.54%.

(f) dividend yield:

2008: series 10B - 5.11% and series 11B - 5.00%; and

2007: series 8B - 3.10% and series 9B - 2.83%.

(g) risk-free interest rate:

2008: series 10B - 7.45% and series 11B - 6.45%; and

2007: series 8B - 6.45% and series 9B - 6.40%.

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

Notes to the financial statements

for the year ended 31 December 2008

Note 30. Share-based payments (continued)

(a) Performance Share Plan ('PSP') continued

Performance Share Rights are detailed in the tables below:

Consolidated and parent entity - 2008

Right series	Grant date	Performance period expiry date	Rights at start of Year Number	Add: new rights issues Number	Less: rights exercised Number	Less: rights lapsed Number	Rights at end of year Number
PSP							
Series 1B	2-Sep-04	31-Dec-07	903,074	-	884,078	18,996	-
Series 3A	1-Jan-05	31-Dec-07	23,781	-	9,899	13,882	-
Series 3B	1-Jan-05	31-Dec-07	23,781	-	9,899	13,882	-
Series 4A	17-May-05	31-Dec-07	34,172	-	14,224	19,948	-
Series 4B	17-May-05	31-Dec-07	34,171	-	14,223	19,948	-
Series 5A	17-Oct-05	31-Dec-09	9,433	-	-	-	9,433
Series 5B	17-Oct-05	31-Dec-09	9,433	-	-	-	9,433
Series 5C	17-Oct-05	31-Dec-10	9,432	-	-	-	9,432
Series 5D	17-Oct-05	31-Dec-10	9,432	-	-	-	9,432
Series 6A*	1-Jan-06	31-Dec-08	423,198	-	-	83,613	339,585
Series 6B*	1-Jan-06	31-Dec-08	423,198	-	-	83,613	339,585
Series 7A*	2-May-06	31-Dec-08	124,124	-	-	99,001	25,123
Series 7B*	2-May-06	31-Dec-08	124,124	-	-	99,001	25,123
Series 8A	1-Jan-07	31-Dec-09	418,569	-	-	88,987	329,582
Series 8B	1-Jan-07	31-Dec-09	418,569	-	-	88,987	329,582
Series 9A	1-May-07	31-Dec-09	111,488	-	-	89,859	21,629
Series 9B	1-May-07	31-Dec-09	111,487	-	-	89,859	21,628
Series 10A	1-Jan-08	31-Dec-10	-	693,445	-	109,348	584,097
Series 10B	1-Jan-08	31-Dec-10	-	693,445	-	109,348	584,097
Series 11A	29-Apr-08	31-Dec-10	-	177,387	-	139,721	37,666
Series 11B	29-Apr-08	31-Dec-10	-	177,387	-	139,721	37,666
			3,211,466	1,741,664	932,323	1,307,714	2,713,093

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

Consolidated and parent entity - 2007

Right series	Grant date	Performance period expiry date	Rights at start of year Number	Add: new rights issues Number	Less: rights exercised Number	Less: rights lapsed Number	Rights at end of year Number
PSP							
Series 1A	2-Sep-04	31-Dec-06	1,055,172	-	1,055,172	-	-
Series 1B	2-Sep-04	31-Dec-07	1,055,172	-	18,652	133,446	903,074
Series 2	21-Dec-04	31-Dec-06	380,000	-	380,000	-	-
Series 3A	1-Jan-05	31-Dec-07	23,781	-	-	-	23,781
Series 3B	1-Jan-05	31-Dec-07	23,781	-	-	-	23,781
Series 4A	17-May-05	31-Dec-07	34,172	-	-	-	34,172
Series 4B	17-May-05	31-Dec-07	34,171	-	-	-	34,171
Series 5A	17-Oct-05	31-Dec-09	14,149	-	-	4,716	9,433
Series 5B	17-Oct-05	31-Dec-09	14,149	-	-	4,716	9,433
Series 5C	17-Oct-05	31-Dec-10	14,149	-	-	4,717	9,432
Series 5D	17-Oct-05	31-Dec-10	14,148	-	-	4,716	9,432
Series 6A	1-Jan-06	31-Dec-08	498,997	-	-	75,799	423,198
Series 6B	1-Jan-06	31-Dec-08	498,997	-	-	75,799	423,198
Series 7A	2-May-06	31-Dec-08	124,124	-	-	-	124,124
Series 7B	2-May-06	31-Dec-08	124,124	-	-	-	124,124
Series 8A	1-Jan-07	31-Dec-09	-	440,845	-	22,276	418,569
Series 8B	1-Jan-07	31-Dec-09	-	440,845	-	22,276	418,569
Series 9A	1-May-07	31-Dec-09	-	111,488	-	-	111,488
Series 9B	1-May-07	31-Dec-09	-	111,487	-	-	111,487
			3,909,086	1,104,665	1,453,824	348,461	3,211,466

Notes to the financial statements

for the year ended 31 December 2008

Note 30. Share-based payments (continued)

(b) General Employee Share Plan ('GESP')

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

During the year, the Company issued 168,461 shares (2007: 80,040) to 1,073 employees (2007: 1,160) in Australia under this plan. Due to tax complexities, certain eligible staff located overseas were issued either a deferred bonus of A\$1,000 cash or a contingent allocation of an equivalent number of shares (120,733 shares to 769 employees; 2007: 51,681 shares to 749 employees) in lieu of a share allocation under the General Employee Share Plan, subject to their continued employment for a period of three years.

The number of shares issued to participants in the Plan is the offer amount divided by the weighted average price at which the Company's shares are traded on the Australian Stock Exchange during the five days immediately before the date of the offer.

	Weighted average market price \$	2008 Number	Consolidated 2007 Number	2008 Number	Parent entity 2007 Number
Shares issued under the Plan to participating employees on:					
30-Jun-08*	6.35	168,461	-	-	-
30-Jun-07*	14.47	-	80,040	-	-
		168,461	80,040	-	-

* Issued from the Aristocrat Employee Equity Plan Trust.

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

The Long-term Performance Option Plan, an executive incentive scheme to drive the continuing improvement in the Company's performance, was approved at the Annual General Meeting of the Company in May 2005. The POP provides for eligible employees to be offered conditional entitlements to options over fully paid ordinary shares in the Company, such that shares may, on exercise of such options, be allocated to eligible employees, subject to meeting performance criteria specified by the Board within a set performance period.

Performance options will have an exercise price based on the value of the underlying fully paid shares at grant with vesting to the eligible employee dependent on the satisfaction of performance criteria and within a performance period specified by the Board of Directors (the 'Performance Criteria' and 'Performance Period', respectively).

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

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

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

Notes to the financial statements

for the year ended 31 December 2008

Note 30. Share-based payments (continued)

(d) Employee Share Option Plan ('ESOP')

The Employee Share Option Plan was established to issue options over ordinary shares in the parent entity to employees of the Group.

As at 31 December 2008, one employee (2007: 5) was entitled to 250,000 (2007: 537,500) options under this plan.

The Employee Share Option Plan was discontinued in 2004. Options issued pursuant to the plan are exercisable subject to the Employee Share Option Plan rules.

Options are detailed in the tables below:

Consolidated and parent entity - 2008

Option series	Notes	Grant date	Expiry date	Exercise price \$*	Options at start of year Number	Add: new issues Number	Less: options exercised Number	Less: options lapsed Number	Options at end of year Number
ESOP									
Series 28	(a)	26-Aug-03	26-Aug-08	1.3497	112,500	-	112,500	-	-
Series 29D	(a)	1-Sep-03	1-Sep-08	2.9503	125,000	-	125,000	-	-
Series 30	(a)	3-Nov-03	3-Nov-08	2.2177	50,000	-	50,000	-	-
Series 31C	(b)	1-Sep-04	1-Sep-09	7.7016	125,000	-	-	-	125,000
Series 31D	(b)	1-Sep-04	1-Sep-09	8.2016	125,000	-	-	-	125,000
					537,500	-	287,500	-	250,000
Weighted average exercise price					\$4.87		\$2.20		\$7.95

* The option exercise price has been adjusted for the \$0.21 per share capital return paid in July 2005.

The weighted average share price at the date of exercise of those options exercised during the year ended 31 December 2008 was \$9.55.

The weighted average remaining contractual life of options outstanding as at 31 December 2008 was 0.67 years. No options were forfeited during the year ended 31 December 2008.

Notes:

- (a) Options are exercisable in four equal tranches at intervals of 18 months, 30 months, 42 months and 54 months after grant date.
- (b) Options under Tranche C are exercisable 42 months after grant date.
Options under Tranche D are exercisable 54 months after grant date.

Notes to the financial statements

for the year ended 31 December 2008

Note 30. Share-based payments (continued)

(d) Employee Share Option Plan ('ESOP') (continued)

Consolidated and parent entity - 2007

Option series	Notes	Grant date	Expiry date	Exercise price* \$	Options at Start of Year Number	Less: options exercised Number	Less: options lapsed Number	Options at End of Year Number
ESOP								
Series 26	(a)	7-Mar-02	7-Mar-07	5.7431	85,000	85,000	-	-
Series 27	(a)	2-Jul-02	2-Jul-07	5.2002	45,000	45,000	-	-
Series 28	(a)	26-Aug-03	26-Aug-08	1.3497	225,000	112,500	-	112,500
Series 29C	(b)	1-Sep-03	1-Sep-08	2.4503	125,000	125,000	-	-
Series 29D	(b)	1-Sep-03	1-Sep-08	2.9503	125,000	-	-	125,000
Series 30	(a)	3-Nov-03	3-Nov-08	2.2177	100,000	50,000	-	50,000
Series 31A	(b)	1-Sep-04	1-Sep-09	6.7016	125,000	125,000	-	-
Series 31B	(b)	1-Sep-04	1-Sep-09	7.2016	125,000	125,000	-	-
Series 31C	(b)	1-Sep-04	1-Sep-09	7.7016	125,000	-	-	125,000
Series 31D	(b)	1-Sep-04	1-Sep-09	8.2016	125,000	-	-	125,000
					1,205,000	667,500	-	537,500
Weighted average exercise price					\$4.69	\$4.54	-	\$4.87

* The option exercise price has been adjusted for the \$0.21 per share capital return paid in July 2005.

The weighted average share price at the date of exercise of those options exercised during the year ended 31 December 2007 was \$16.44.

The weighted average remaining contractual life of options outstanding as at 31 December 2007 was 1.15 years. No options were forfeited during the year ended 31 December 2007.

Notes:

- (a) Options are exercisable in four equal tranches at intervals of 18 months, 30 months, 42 months and 54 months after grant date.
- (b) Options under Tranche A are exercisable 18 months after grant date.
Options under Tranche B are exercisable 30 months after grant date.
Options under Tranche C are exercisable 42 months after grant date.
Options under Tranche D are exercisable 54 months after grant date.

Notes to the financial statements

for the year ended 31 December 2008

Note 30. Share-based payments (continued)

(d) Employee Share Option Plan ('ESOP') *continued*

Options exercised during the financial year and number of shares issued to employees on the exercise of options are detailed below:

Consolidated and parent entity					
Exercise date	Value of shares at issue date* \$	2008 Number	Exercise date	Value of shares at issue date* \$	2007 Number
ESOP			ESOP		
27-Feb-08	9.47	50,000	12-Feb-07	10.50	7,500
29-Feb-08	9.10	50,000	26-Feb-07	11.63	15,000
1-Mar-08	7.50	125,000	26-Feb-07	11.68	5,000
20-Mar-08	8.19	12,500	26-Feb-07	11.68	2,500
18-Jun-08	4.29	50,000	26-Feb-07	12.22	20,000
			1-Mar-07	11.01	15,000
			2-Mar-07	13.28	125,000
			2-Mar-07	9.03	125,000
			2-Mar-07	14.38	50,000
			2-Mar-07	9.99	40,000
			7-Mar-07	15.00	50,000
			7-Mar-07	11.15	25,000
			21-Mar-07	15.20	12,500
			29-May-07	13.23	50,000
			28-Aug-07	5.76	125,000
		287,500			667,500

* The value reflected above is the intrinsic value of the option, which is calculated as the market price less the exercise price on the date of exercise of the option.

There have been no options exercised since the end of the financial year.

Notes to the financial statements

for the year ended 31 December 2008

Note 30. Share-based payments (continued)

(d) Employee Share Option Plan ('ESOP') continued

	2008 Number	Consolidated 2007 Number	2008 Number	Parent entity 2007 Number
Options vested and exercisable at the reporting date	125,000	130,000	125,000	130,000
	2008 \$	Consolidated 2007 \$	2008 \$	Parent entity 2007 \$
Aggregate proceeds received from employees on the exercise of options and recognised in reserves	631,514	3,029,086	631,514	3,029,086
Value of shares issued to employees on the exercise of options as at their issue date	2,182,986	7,257,389	2,182,986	7,257,389
	2008 \$'000	Consolidated 2007 \$'000	2008 \$'000	Parent entity 2007 \$'000

(e) Share-based payments expense

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

Share rights issued under Performance Share Plan	2,714	8,000	-	-
Shares issued under General Employee Share Plan	1,384	1,158	-	-
Options issued under Employee Share Option Plan	84	240	-	-
	4,182	9,398	-	-

Note 31. Key management personnel disclosures

Remuneration

The Company has taken advantage of the relief provided by Australian Securities and Investments Commission Class Order 06/50 and has transferred the detailed remuneration disclosures to the Remuneration Report, presented in the Directors' Report which is separately attached.

Key management personnel compensation

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

	Consolidated		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
Short-term employee benefits	5,425,312	7,959,452	-	-
Post-employment benefits	220,429	247,035	-	-
Long-term benefits	239,731	11,698	-	-
Termination benefits	884,931	-	-	-
Share-based payments	(631,654)	3,254,742	-	-
	6,138,749	11,472,927	-	-

Performance Share Plan rights provided as remuneration and rights holdings

Details of Performance Share Rights in the Company held during the financial year by any key management personnel 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 key management personnel of the Group can be found in the Remuneration Report.

Notes to the financial statements

for the year ended 31 December 2008

Note 31. Key management personnel disclosures (continued)

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

Loans to key management personnel

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

Other transactions with key management personnel

Refer to Note 33 for details of other transactions with key management personnel.

	2008	Consolidated 2007	2008	Parent entity 2007
	\$	\$	\$	\$

Note 32. Remuneration of auditors

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

Assurance services

Audit services

Fees paid to PricewaterhouseCoopers Australian firm:

Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	469,333	428,339	-	-
Fees paid to related practices of PricewaterhouseCoopers Australian firm	706,203	730,044	-	-
Total remuneration for audit services	1,175,536	1,158,383	-	-

Other assurance services

Fees paid to PricewaterhouseCoopers Australian firm	-	87,985	-	-
Fees paid to related practices of PricewaterhouseCoopers Australian firm	137,131	98,037	-	-
Total remuneration for other assurance services	137,131	186,022	-	-
Total remuneration for assurance services	1,312,667	1,344,405	-	-

Advisory services

Fees paid to PricewaterhouseCoopers Australian firm:

Legal and compliance	-	13,318	-	-
Fees paid to related practices of PricewaterhouseCoopers Australian firm	12,968	-	-	-
Total remuneration for advisory services	12,968	13,318	-	-

Audit fees for the parent entity were paid by a subsidiary.

Notes to the financial statements

for the year ended 31 December 2008

Note 33. Related parties

(a) Other transactions with key management personnel

There were no transactions with directors and other key management personnel during the year ended 31 December 2008.

(b) Wholly-owned group

The wholly-owned group consists of the parent entity and its wholly-owned controlled entities set out in Note 27.

All transactions between entities within the wholly-owned group during the years ended 31 December 2008 and 31 December 2007 have been eliminated on consolidation.

Transactions between the Company and other entities in the wholly-owned group during the years ended 31 December 2008 and 31 December 2007 consisted of:

- (i) the payment of dividends to the Company;
- (ii) a tax sharing and funding agreement.

	2008	Parent entity 2007
	\$	\$
Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly-owned group		
Dividend revenue	275,474,246	198,468,716
Aggregate net amount (payable)/receivable from entities in the wholly-owned group at balance date		
<i>Current</i>		
Tax related amounts (payable)/receivable from wholly-owned entities	(1,763,500)	22,684,866
<i>Non-current</i>		
(Payable)/receivable from wholly-owned entities	(46,925,575)	64,160,889

Notes to the financial statements

for the year ended 31 December 2008

Note 33. Related parties (continued)

(iii) Transactions with related parties

The following transactions occurred with related parties:

	2008	Consolidated 2007	2008	Parent entity 2007
	\$	\$	\$	\$
Jointly controlled legal entity				
<i>Revenue</i>				
Service fee	173,943	175,030	-	-
Expense recharges	13,385	-	-	-
Other revenue	12,627	-	-	-
<i>Purchase of goods and services</i>				
Purchase of gaming equipment	2,050,046	4,406,711	-	-
Current receivables (<i>service fee</i>)	-	171,046	-	-
Other receivables (<i>dividend receivable from Electronček</i>)	8,389,292	8,361,204	-	-
Net amount receivable from minority interest as at balance date				
<i>Current</i>				
Receivable from related entity - interest	1,408,683	1,121,585	-	-
Receivable from related entity - loan	833,394	1,499,892	-	-
<i>Non-current</i>				
Receivable from related entity - loan	4,054,988	4,358,737	-	-

On 31 May 2006, Aristocrat International Pty Ltd, a wholly-owned entity, advanced to Yabohle Investments (Pty) Limited, the minority shareholder of the Group's South African operations, a seven year loan of ZAR43,400,000.

The loan is secured over the shares of the South African legal entity and the shareholder's dividends are redirected as repayments against the loan balance.

The annual interest rate payable is at 1% less than the prime bank overdraft rate charged by an approved bank of the Republic of South Africa.

Notes to the financial statements

for the year ended 31 December 2008

Note 34. Earnings per share

	2008 Cents	Consolidated 2007 Cents
Basic earnings per share	22.0	53.0
Diluted earnings per share	22.0	52.8

	2008 Number	Consolidated 2007 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	459,640,457	466,587,598
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	459,640,457	466,587,598
Effect of options	42,912	574,427
Effect of Performance Share Rights	447,261	1,207,988
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	460,130,630	468,370,013

	2008 \$'000	Consolidated 2007 \$'000
Reconciliation of earnings used in calculating diluted earnings per share		
Net profit attributable to members of Aristocrat Leisure Limited	101,207	247,172
Earnings used in calculating diluted earnings per share	101,207	247,172

Information concerning the classification of securities

(a) Options

Options granted to employees under the Aristocrat Employee Share Option Plan and the Employee Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details of options in relation to the year ended 31 December 2008 are set out in Note 30.

Included within the weighted average number of potential ordinary shares related to options, there were nil (2007: nil) options that had lapsed during the year and 42,912 (2007: 125,790) options that had been exercised during the year.

(b) Performance Share Rights

Rights granted to employees under the Performance Share Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The rights have not been included in the determination of basic earnings per share. Details relating to the rights are set out in Note 30.

Included within the weighted average number of potential ordinary shares related to Performance Share Rights are 184,541 (2007: 50,322) Performance Share Rights that had lapsed during the year.

Notes to the financial statements

for the year ended 31 December 2008

Note 34. Earnings per share (continued)

(c) Share-based payments trust

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

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

Note 35. Reconciliation of profit from ordinary activities after income tax to net cash flow from operating activities

	2008 \$'000	Consolidated 2007 \$'000	2008 \$'000	Parent entity 2007 \$'000
Profit from ordinary activities after income tax	101,927	247,936	244,556	200,454
Depreciation and amortisation	40,231	36,435	-	-
Dividends	-	-	(275,474)	(198,469)
Equity-settled share-based payments	4,182	9,398	-	-
Non-cash interest expense	(798)	(934)	-	-
Net gains on sale of property, plant and equipment	(21,399)	(2,666)	-	-
Share of net profits of jointly controlled entity	(495)	(8,613)	-	-
Impairment of available-for-sale equity securities	19,877	-	-	-
Net foreign currency exchange differences	31,127	(6,333)	-	-
Change in operating assets and liabilities:				
- Decrease/(increase) in receivables and deferred revenue	(56,653)	(21,057)	25,817	37,792
- Decrease/(increase) in inventories	(30,168)	8,341	-	-
- Increase in other operating assets	(9,677)	(2,808)	-	-
- Decrease in tax balances	(32,919)	(23,712)	(46,073)	(39,681)
- (Decrease)/increase in payables	61,819	(13,186)	-	-
- (Decrease)/increase in other provisions	9,355	(644)	-	-
Net cash inflow from operating activities	116,409	222,157	(51,174)	96

Notes to the financial statements

for the year ended 31 December 2008

Note 36. Deed of cross guarantee

The Company, Aristocrat International Pty Ltd and Aristocrat Technologies Australia Pty Ltd were parties to a deed of cross guarantee in 2005 that has been lodged with and approved by the Australian Securities & Investments Commission. Aristocrat (Holdings) Pty Limited joined the deed on 27 October 2008 and Aristocrat (Asia) Pty Limited and Aristocrat (Macau) Pty Limited joined the deed on 22 December 2006. Under the deed, each of the abovenamed companies guarantees the debts of the other named companies. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended by Class Orders 98/2017, 00/0321, 01/1087, 02/0248 and 02/1017) issued by the Australian Securities & Investments Commission.

The abovenamed companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the deed that are controlled by the Company, they also represent the 'Extended Closed Group'.

Set out below is a condensed consolidated income statement of the Closed Group:

	2008	2007
	\$'000	\$'000
Profit before income tax	40,548	309,240
Income tax expense	(2,378)	(75,026)
Profit for the year	38,170	234,214

Set out below is a summary of movements in consolidated retained earnings of the Closed Group:

Retained earnings at the beginning of the financial year	342,456	329,428
Profit for the year	38,170	234,214
Dividends paid	(234,426)	(221,186)
Retained earnings at the end of the financial year	146,200	342,456

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

Current assets		
Cash and cash equivalents	37,185	44,719
Receivables	68,614	262,769
Inventories	17,100	17,289
Tax assets	26,385	-
Total current assets	149,284	324,777
Non-current assets		
Receivables	-	28,371
Financial assets	252,432	107,841
Property, plant and equipment	48,286	50,380
Deferred tax assets	31,873	20,241
Intangible assets	1,693	2,393
Total non-current assets	334,284	209,226
Total assets	483,568	534,003

Notes to the financial statements

for the year ended 31 December 2008

Note 36. Deed of cross guarantee (continued)

	2008 \$'000	2007 \$'000
Current liabilities		
Payables	60,714	88,807
Borrowings	150,000	45,000
Current tax liabilities	-	18,265
Provisions	19,513	52,215
Other liabilities	5,263	12,707
Total current liabilities	235,490	216,994
Non-current liabilities		
Payables	37,638	-
Interest bearing liabilities	145,000	-
Provisions	5,587	3,510
Other liabilities	6,095	10,388
Total non-current liabilities	194,320	13,898
Total liabilities	429,810	230,892
Net assets	53,758	303,111
Equity		
Contributed equity	(67,358)	1,231
Reserves	(25,084)	(40,576)
Retained earnings	146,200	342,456
Total equity	53,758	303,111

Directors' declaration

for the year ended 31 December 2008

In the directors' opinion:

- (a) the financial statements and notes set out on pages 3 to 67 are in accordance with the *Corporations Act 2001* including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2008 and of their performance, for the financial year ended on that date;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 36 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 36.

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

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



DJ Simpson
Chairman

Sydney
24 February 2009

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

Report on the financial report

We have audited the accompanying financial report of Aristocrat Leisure Limited (the company), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Aristocrat Leisure Limited and the Aristocrat Leisure Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Aristocrat Leisure Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 36 of the directors' report for the year ended 31 December 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Aristocrat Leisure Limited for the year ended 31 December 2008, complies with section 300A of the *Corporations Act 2001*.

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

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Aristocrat Leisure Limited (the company) for the year ended 31 December 2008 included on Aristocrat Leisure Limited web site. The company's directors are responsible for the integrity of the Aristocrat Leisure Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.



PricewaterhouseCoopers



R L Gavin
Partner

Sydney
24 February 2009