DIRECTORS' REPORT

FOR THE 12 MONTHS ENDED 31 DECEMBER, 2002

ARISTOCRAT LEISURE LIMITED
ABN 44 002 818 368

The Directors present their report together with the financial statements of Aristocrat Leisure Limited and its controlled entities (the "Consolidated Entity") for the twelve months ended 31 December 2002. The information in this report is current as at 18 February 2003 unless otherwise specified.

DIRECTORS

Particulars of the Directors of Aristocrat Leisure Limited (the "Company") during the twelve months under review and up to the date of this report are set out below in Table 1.

Table 1

DIRECTORS' PARTICULARS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

Director	Experience	Special Responsibilities
J P Ducker AO, KCSG Age 70	Nominated July 1999; appointed as Non Executive Director effective October 1999. Chairman of Edelman Public Relations Limited. Former Politician and Trade Union Leader. (80,971 shares)	Non-executive Chair, Member of Audit Committee
DH Randall Age 56	Nominated June 1998; appointed Managing Director and Chief Executive Officer in July 1998. Former Chairman and Managing Director of NCR Australia Pty Ltd; former Chairman, South Pacific, AT&T. (303,611 shares and 2,400,000 options)	Chief Executive Officer, Member of Compensation and Nomination Committee
SM Cohn BA (Accounting) Age 49	Nominated November 1996; executive of Consolidated Entity from December 1994 to 31 December 2002; appointed as Executive Director effective December 1997. Acting Chief Executive Officer from October 1997 to July 1998. Director of Finance from July 1997 to October 2000; resigned as Director and Secretary, 31 December 2002. (603,344 shares)	Executive Director and Company Secretary. Member of Audit Committee (until February 2003)
WM Baker BA Age 63	Nominated August 1998; appointed as Non Executive Director effective May 1999. Former Assistant Director of the FBI. Former President of the Motion Picture Association representing the major US film producers. Director, J. Edgar Hoover Foundation.	Chair of Regulatory Compliance Committee
AW Steelman BA, MLA Age 60	Nominated August 1998; appointed as Non Executive Director effective May 1999. Management Consultant and former US Congressman. Chairman, Alexander Proudfoot Consulting Board of Advisers, Board Member, Texas Growth Fund.	Member of Compensation and Nomination Committee
P Draney B Sc Age 53	Nominated July 1999; appointed as Non Executive Director effective October 1999. Computer Industry Executive. Joint Chief Executive Officer of Aspect Computing Pty Limited. Director of Brokenwood Wines Limited.	Chair of Audit Committee
JH Pascoe AO, BA, LLB (Hons) Age 54	Nominated June 2001; appointed as Non Executive Director effective December 2001. Chairman and former Managing Director of George Weston Foods Limited. Chairman of Sealcorp Limited, Managing Director of the Finance & Financial Services Practice of Phillips Fox (Solicitors) (10,108 shares).	Chair of Compensation and Nomination Committee

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity in the twelve months under review were the design, development, manufacture and marketing of gaming machines, software, systems and other related equipment and services. Aristocrat's long-term objectives are to maintain a leading position in its traditional markets and diversify Aristocrat's revenue base globally. There were no significant changes in the nature of those activities during the twelve months under review.

DIVIDENDS

A final dividend in respect of the twelve months ended 31 December 2002 of 6.5 cents per share ($29.7 million) has been declared and will be paid on 18 March 2003 to shareholders on the register at 5:00pm on 4 March 2003. An interim dividend of 5.5 cents per share ($24.9 million), as referred to in the Directors' Statutory Report dated 13 August 2002, was paid on 10 September 2002 in respect of the six months ended 30 June 2002.

The total dividend paid in respect of the year under review is 12 cents per share.

The 2002 dividends (final and interim) were both fully franked and comprised 68.2% of the Company's profit from ordinary activities after income tax.

DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

During the twelve months ended 31 December 2002, Aristocrat made significant progress towards achieving the Company Mission – to be the leading global provider of gaming solutions. Highlights of the year were:

- the launch of Aristocrat's *XCite*™ cabinet in Australia in February 2002,
- the approval of the Mk VI platform and *Mr. Cashman*™ in Nevada and a number of other US jurisdictions,
- the acquisition of Hanson Distributing, Inc. ("Hanson") in the United States,
- the launch of *Kyojin No Hoshi* ™ in Japan,
- the roll-out of *Mr. Cashman*™, Australia-wide, and
- the launch at the Australasian Gaming Expo in August 2002 of an entirely new range of *Reel Power*™ games, 25 line games and niche bonusing products (the 50 cent/$1.00 *King Cashman*™ and 5/10 cent *Lucky Devil*™).

The Board regrets that the achievements of the Company during 2002 have been largely overshadowed by the events of February 2003 (which are dealt with in greater detail on page 15) and assures shareholders that the underlying problems are being addressed.

Senior management of the Company only became aware of relevant issues after 4 February 2003 and it is accordingly not possible to go into greater detail at this point.

However, a comprehensive review, led by the Chief Executive Officer, of the matters that led to the events of February 2003 is taking place. The outcome of that review will be promptly communicated to shareholders.

FINANCIAL RESULTS

Revenue from Ordinary Activities

Revenue from Ordinary Activities for the twelve months ending 31 December 2002 was $976.5 million, a new record and an increase of 25.5% on the revenue ($778.0 million) achieved for the twelve months ended 31 December 2001 (which only included six months of revenue from the former Casino Data Systems ("CDS") business, which the Company acquired in June, 2001).

International revenue improved significantly – from $420.0 million to $611.8 million, driven by North America and Japan, which contributed 68.4% and 23.5%, respectively, of the increase in international revenue. Domestic revenue rose by 2.3%.

Gross Profit from Sale of Goods

Gross Profit for 2002 was $449.3 million. Gross Profit as a percentage of revenue from sale of goods was 50.8% in 2002 compared with 47.7% in 2001.

Research and Development

Research and Development expenditure increased by 18.4% from $54.9 million to $65.0 million reflecting increased research and expenditure activities, principally in the United States and Japan.

Selling, Marketing and Administrative Expenses

Selling, Marketing and Administrative Expenses increased from $219.6 million to $336.3 million principally due to the fact that the corresponding figure last year only included six months of selling, marketing and administrative expenses for the former CDS business and due to changed sales arrangements in Japan involving sales through new agents and distributors.

Profit from Ordinary Activities before Income Tax Expense

Profit from Ordinary Activities before Income Tax Expense for 2002 was $120.2 million compared to $127.8 million for 2001.

Income Tax Expense

Income tax expense for the twelve months ended 31 December 2002 was $40.1 million down from $41.6 million in 2001. The Company's effective income tax rate for 2002 was 33.4%.

This has risen from 32.5%, in 2001, due to increasing revenues from the Company's overseas operations which are paying income tax at rates higher than the prevailing rate in Australia.

Profit from Ordinary Activities after Income Tax Expense

Profit from Ordinary Activities after Income Tax Expense for the twelve months ended 31 December 2002 was $80.2 million compared to the $86.0 million achieved during the previous corresponding period.

COMMENTARY ON TRADING

- INTERNATIONAL

(i) North America

Table 2

	2002 - $m	% of Total	2001 - $m	% of Total
Segment Revenue*	294.1	30.2	163.0	21.1
Segment Result*	34.2	24.9	29.7	22.3

* Refer to Note 3 in Financial Statements

Aristocrat North America continued to grow its businesses with a focus on strategic market development. Revenue increased from $163.0 million to $294.1 million. Revenue derived in the United States represented 30.2% of the total revenue earned by the Group.

Aristocrat's two Research and Development teams in the United States, the games team based in Tucson, Arizona and the systems team based in Las Vegas, Nevada, contributed significantly to this result by expanding the Group's portfolio of games in the United States.

Aristocrat's Mk VI platform was approved for use in Nevada and in the 199 *Gaming Laboratories International®* (GLI) jurisdictions[1] during the year. It has proved an outstanding success. *Mr. Cashman™* was also approved for GLI jurisdictions (in October 2002) and is proving to be as popular with American players as it has in Australia. Aristocrat's Mk VI platform and *Mr. Cashman™* featured as two of the top twenty 'most innovative' gaming products named by *Casino Journal®* magazine in its November 2002 issue.

The acquisition of Hanson (announced in 2001) was completed on 8 August 2002. Hanson has been the Company's exclusive distributor in the mid-west region of the United States since 1990.

In May 2002, Version 11.4.1 of the *OASIS™* Casino Management System (which runs on the *Microsoft® Windows®* NT and *Windows®* 2000 operating systems) was released. It included two new software applications and multiple enhancements to existing software modules. The new *Count Interface™* module permits users to capture, process and cash out tickets (*Quickets™*) by scanning in bulk for the first time. It uploads ticket drop information to the *OASIS™ BlackBart®* accounting application. The percentage of *OASIS™* customers under annual maintenance agreements has increased significantly during 2002. As at 31 December 2001, 29% of customers had signed annual maintenance contracts. This figure increased to 90% as at 31 December 2002, reflecting customer endorsement of improved service levels provided by Aristocrat.

Service revenue improved during the year as a result of higher quality and expanded service capabilities. The improvement arose as a result of new training courses, a redesign of work practices and hirings to upgrade the technical competency of staff. The new 'Help Desk' facility in Las Vegas proved to be one of the key elements of this achievement.

Aristocrat's new headquarters in the Americas opened in September 2002 and Aristocrat's Chief Executive Officer, Des Randall, relocated to the United States in December 2002. The new facility provides Aristocrat's 375 Nevada staff with a significantly improved working environment.

[1] GLI tests and certifies gaming products for use in 199 jurisdictions in the United States, Canada and in tribal casinos across North America.

Aristocrat's litigation with International Game Technology over a number of intellectual property issues has been settled.

(ii) South America

Table 3

	2002 - $m	% of Total	2001 - $m	% of Total
Segment Revenue*	38.4	3.9	38.8	5.0
Segment Result*	7.5	5.5	0.4	0.3

* Refer to Note 3 in Financial Statements

Sales in South America occurred principally in Brazil and Peru. The focus in South America during 2002 was on the establishment of infrastructure and logistical support. Subsequent to the end of the financial year, a customer in South America failed to fulfil a number of obligations in relation to a substantial transaction. The Company accordingly elected not to recognise the revenue associated with the transaction in 2002. Discussions with the customer are continuing.

(iii) Japan

Table 4

	2002 - $m	% of Total	2001 - $m	% of Total
Segment Revenue*	181.3	18.6	136.2	17.6
Segment Result*	13.6	9.9	15.6	11.7

*Refer to Note 3 in Financial Statements.

Aristocrat Japan had an excellent year in 2002.

Of the eight new games developed by Aristocrat in Japan during its second full operating year in Japan, the most popular game was *Kyojin No Hoshi*™ ("Star of Giants"), a baseball game derived from a popular 'manga' cartoon (which was itself based on a famous Tokyo baseball team, the Giants).

Aristocrat was one of only two foreign gaming machine manufacturers participating in the Pachinko Pachislo Industrial Trade Fair held in Tokyo in September 2002, the largest of its kind in the World. The 2-day Trade Show is attended by over 100,000 trade attendees and occupies approximately six times the area of the Australasian Gaming Expo.

In June 2002, Aristocrat purchased the outstanding 40% of Aristocrat Hanbai Kabushiki Kaisha from Sammy Corporation. Aristocrat continues to maintain a strong relationship with Sammy.

The principal challenge faced by the Company in Japan is the task of producing high quality innovative games in time for each of the four annual selling periods – roughly the middle of each calendar quarter.

To meet this challenge, the Company has significantly expanded its local Research and Development team and established a new direct sales team. Aristocrat is now producing most of its product internally.

(iv) New Zealand

Table 5

	2002 - $m	% of Total	2001 - $m	% of Total
Segment Revenue*	51.4	5.3	52.4	6.8
Segment Result*	1.6	1.2	1.8	1.4

* Refer to Note 3 in Financial Statements.

Aristocrat New Zealand maintained its position as the holder of the largest market share of the installed base of gaming machines in New Zealand for the year.

However, market conditions were difficult as customers' purchasing decisions were significantly influenced by the uncertainty associated with the Responsible Gambling Bill, first introduced to Parliament in February 2002 but not debated for nine months. The Bill still leaves a number of important regulatory questions unanswered and the industry is hoping to clarify these during 2003.

Notwithstanding these challenging market conditions, Aristocrat New Zealand performed well.

Both the range and quality of services made available to venues were enhanced during the year. The number of machines that Aristocrat is contracted to service rose by 11% during 2002. Game conversion kits proved to be very popular during this period of uncertainty as many venues exhibited a preference for changing the games in their machines rather than purchasing new units.

This resulted in a significant increase in software revenue for the period.

Aristocrat Technologies New Zealand continues to maintain the casino systems at all six New Zealand casinos, supplying a DACOM 6000S System to the new Sky Riverside Hamilton casino (which opened during September 2002); upgrades were made to the systems at four of the other five casinos during the year. *Hyperlink* ™ was approved for New Zealand casinos, and installed in the Sky City Auckland Casino in the last quarter of 2002. It has proved an outstanding success.

The Mk VI platform was launched in May and *XCite*™ was launched in August.

(v) Other Regions

Table 6

	2002 - $m	% of Total	2001 - $m	% of Total
Segment Revenue*	46.5	4.8	29.6	3.8
Segment Result*	9.8	7.1	6.1	4.5

* Refer to Note 3 in Financial Statements

(a) Asia Pacific

Aristocrat's Asia Pacific business improved significantly year on year.

Hyperlink ™ and *Mr. Cashman*™ were successfully launched in the Philippines during the year.

Mr. Cashman™ made its first appearance at Malaysia's Genting Highlands Resort Casino during 2002 and further units will be installed during 2003.

Aristocrat actively explored a number of opportunities in Cambodia and Vietnam during the year with a view to developing its business in both countries in the future.

Aristocrat is continuing to perform well in the Singapore market, despite increasing competition. The *Xcite*™ was launched in Singapore during the year and has proved very successful.

Aristocrat installed its first machines in South Korea during the year.

A number of sales of *Hyperlink*™ to cruise ships operating out of Hong Kong and other Asian ports were achieved during the period. Aristocrat's new *Xcite*™ product was launched in both casinos in Noumea.

Macau is expected to offer significant opportunities for Aristocrat in 2003/4 when a number of temporary casino facilities are expected to be established (while permanent facilities are constructed). Macau may become the premier gaming destination for South East Asia as the three concessionaires are each planning multiple casinos. A number of these are likely to be Las Vegas style casinos. These casinos will cater for customers both from the mainland and from the rest of the World. Aristocrat is actively pursuing opportunities in Macau.

(c) South Africa

Aristocrat Africa performed commendably in a weak casino market. Sales of Aristocrat's specialty bonusing products including *Hyperlink*™and *Mr. Cashman*™ permitted the Company to achieve this result.

Aristocrat secured the largest order for the new SunCoast Casino and successfully bid to supply a *System 6000G*™ monitoring solution to the new Pinnacle Point Casino during 2002, increasing Aristocrat's systems installed base in South Africa to 4,500 machines.

The demand for video product continues to increase and Aristocrat is well positioned to cater for this demand. The long awaited Limited Payout Machine Market appears likely to open in 2003. Aristocrat has developed a Limited Payout Machine for this market.

The Company supplied gaming machines into Mauritius for the first time during 2002.

(d) Europe

Aristocrat's European business performed well during 2002 setting a number of new sales records for the Group in European jurisdictions. The Company commenced operations in Bulgaria, Lithuania, Switzerland, Portugal and Russia during 2002, taking to twenty-nine the number of countries serviced by the European office.

The major product launched across Europe during 2002 was *Cash Express*™ *Hyperlink*™. In the Netherlands, eleven of the twelve casino properties owned and operated by Holland Casinos have each installed at least one *Hyperlink*™ bank and orders have been taken for further banks to be installed during 2003. *Cash Express*™ *Hyperlink*™ was installed for the first time in Germany.

Additional *Cash Express*™ *Hyperlink*™ units were installed in venues in Russia, Gibraltar, and the Isle of Man during 2002.

Major regulatory change is occurring across virtually all European jurisdictions. A major overhaul of the United Kingdom's gaming laws is continuing and it is expected that casino style machines will be permitted in the UK during 2004.

In Switzerland, Aristocrat machines were placed in three of the new licensed casinos that opened in 2002.

A major distribution agreement was signed with a Russian distributor during December 2002 and the relationship is working well. The Russian Federation is predominantly a video slot market with at least 90% of the market video based. Aristocrat exhibited its products, in conjunction with its new distributor, at the eleventh *Eastern European Leisure Exhibition®* (EELEX), which took place between 14 and 16 December 2002 at the *Expocentr®* in Moscow. EELEX is the leading gaming expo in Eastern Europe.

Twenty-five new ASP protocol games were released in Europe during the course of 2002 and have proved popular in each jurisdiction in which they were released. The launch of the *XCite™* in 2003 will permit Aristocrat's European business to continue to grow.

- *AUSTRALIA*

Table 7

	2002 - $m	% of Total	2001 - $m	% of Total
Segment Revenue*?	361.7	37.2	353.5	45.7
Segment Result*	72.4	52.8	84.4	63.2

* Refer to Note 3 in Financial Statements
? Australian Segment Revenue includes inter-segment eliminations originating from Australia and eliminated under consolidation principles.

Aristocrat Australia again improved its market position as the leading supplier of gaming solutions to the Australian market during the year. Revenues increased in virtually every jurisdiction notwithstanding a number of regulatory and legislative developments impacting on the industry.

The demand for replacement machines, retrofits (machine upgrades) and conversions (new games) remained strong.

The *XCite™*, launched Australia-wide in February 2002, proved to be one of Aristocrat's most successful products, winning endorsements from customers and players throughout Australia. The Company's unique speciality bonusing products, *Mr. Cashman™* and *Jackpot Carnival™* and the Company's market leading range of *Reel Power™* games combined with *XCite™* to deliver exceptional performanceto customers.

In New South Wales, Australia's largest market, the industry was impacted by a range of new restrictions on venue operations including a mandatory three-hour shutdown period, a rigorous new social impact assessment process and a ban on gaming machine advertising.

A number of major sales initiatives were conceived and successfully implemented in each Australian jurisdiction during the year. These initiatives revolved around a continuing strategic focus on bonusing products (*Hyperlink™* and *Mr. Cashman™*), retrofits (the *Xceed™* - permitting an upgrade from certain MK V products to a MK VI) and conversions (new game kits for a machine).

Stand-alone game performance was also a key focus. Three of the highest performing stand-alone *Reel Power™* games released during the year were *Helen of Troy™* (released during the first half of the year), *Choy Sun Doa™* and *Snap Shot™* (both of which were released at the *Australasian Gaming Expo* ("AGE") in August 2002).

A record number of fourteen entirely new stand-alone games were launched at the AGE. These were embraced by the New South Wales market and contributed strongly to revenues for the second half. They included *Queen of the Nile Special Edition™*, *Venetian Nights™*, *King of the Nile™* and *Big Red™*.

A new range of twenty-five line games was launched successfully during the year. These included *Diamond Eyes™*, *Black Brumby™* and *Peacock Magic™*.

During the second half of the year, the Company launched two new niche bonusing products, the 50 cent/$1.00 *King Cashman™* and 5/10 cent *Lucky Devil™*, released in October and November respectively. These products have performed well in the venues in which they were installed.

King Penguin™, a new twenty line game concept, was released in New South Wales in December. The *King Penguin™* game revolves around an interactive *Big Freeze™* 'top box' feature board game. Wins from the board game are transferred automatically to the player's credit meter.

The *King Penguin™* top box is the first to utilise innovative electro-luminescent lighting which differentiates the product from all other products.

In Victoria, Aristocrat strengthened its position as the leading supplier to Victorian operators. *Mr. Cashman* ™ was installed by Tattersalls and Tabcorp in July and by Crown in December and performed strongly. *Jackpot Carnival™* was launched at Crown Casino in October and has been well received.

Victoria implemented extensive 'responsible gaming' reforms during the year.

In Tasmania, the Company entered into a major new contract with the Federal Group and launched *Mr. Cashman™* and *Jackpot Carnival™* during the second half of the year.

In Queensland, the Company successfully launched the MK. VI, *Jackpot Carnival™* and *Mr. Cashman™* during 2002. A number of Aristocrat's new stand-alone games including *Queen of the Nile Special Edition™* and *Paris Lights™* proved very popular.

Aristocrat improved its position as the leading supplier in the Northern Territory during 2002, following the release of *Jackpot Carnival™* during the year.

The Company performed commendably in South Australia given a difficult and complex gaming environment.

In Western Australia, electronic gaming machines are only permitted in the Burswood Casino. *Ten Hand Poker™* was launched at Burswood in November 2002 and has performed well above the gaming floor average.

In December, Aristocrat launched its innovative *Crazy Balls™* and *Arishenko™* products at Burswood in Western Australia. These games comprise entirely new game concepts similar to pinball machines and pachinko machines respectively. *Crazy Balls™* and *Arishenko™* are scheduled to be rolled out throughout Australia during 2003.

The Jubilee rebuild operation has been successful in opening new markets for the Company. Jubilee will continue its role of establishing an Aristocrat footprint in other emerging markets as they open.

The South African limited payout market is expected to open in the first half of 2003 and this will initially be almost exclusively a market for rebuild product. Opportunities for Jubilee's rebuild sales in Europe are also being actively explored.

The systems business in New South Wales was impacted by the uncertainty over the implications of legislative reform in the player loyalty area during 2002.

The new Aristocrat Technology Services (ATS) twelve-month factory warranty structure offered with the *XCite*™ (which permits customers to purchase a two year or three year upgrade) was launched during the year in each *XCite*™ jurisdiction and proved to be a great success in terms of providing support for the product.

ATS continued to develop its *Field Management System*™ (FMS) during 2002. This innovative hardware and software solution will automate service data capture when it is launched in Australia during 2003. FMS will enhance the efficiency and effectiveness of service technicians in the field by significantly reducing the administration burden thereby enabling them to increase their 'face to face' customer contact time.

LOOKING FORWARD

Outlook

The Company has strong businesses in Australia and around the world. In the United States, the Company has a substantial presence that has grown significantly over the past twelve months.

Aristocrat's products are very attractive to customers who recognise the outstanding entertainment value created by Aristocrat's highly skilled research and development teams. Aristocrat's financial position is strong. From this strong business base, the Company believes it will achieve its strategic goals. The lessons learned from events in the United States and South America will result in appropriate remedial action (which is already under way).

All of the Company's businesses, including North and South America, are profitable and are expected to remain so.

In Australia and New Zealand, a broad range of 'responsible gaming' measures have been introduced and have impacted on the gaming industry. As a consequence, growth in Australia and New Zealand has slowed as far as new machine orders are concerned but the replacement and upgrade markets remain strong. Aristocrat is confident that its software and hardware will continue to enhance the Company's reputation in every venue in which they are installed. An example of this is the strong customer response to our *XCite*™ platform, launched during 2002.

Outside Australia and New Zealand, these are exciting times for the gaming industry. Governments in many regions are looking to introduce or expand gaming operations as a means of raising additional revenue with which to fund public works. This is evident across the United States of America, across Europe (where the industry is excited about pending reforms in the United Kingdom), throughout South America and, increasingly, in Asia.

In 2002, Aristocrat's international revenue rose to a record $611.8 million, representing 62.8% of total segment revenue. The Company is pleased to have achieved another record in total revenue. Aristocrat is dedicated to building further on this base while, at the same time, implementing measures to enhance the profitability of the businesses generating this revenue. Many costs incurred in achieving this revenue milestone were unforeseen costs associated with entering new jurisdictions and are not expected to be incurred again.

Commitments for Future Performance

Aristocrat's principal expenditure for future performance during 2002 has been in infrastructure, people, logistics and research and development.

The major infrastructure investments during the year were the establishment of new offices in Las Vegas, Nevada and Tokyo, Japan. The opening of each of these offices comprised a significant element of growing Aristocrat's presence in those markets.

Recruitment of capable, motivated staff to assist the Company to achieve its objectives in international markets also comprised a significant investment during the year.

Investment in logistics management was a major focus during 2002. The Company is learning how to operate efficiently in new jurisdictions and the organisation of warehousing, transportation, supply chains and third parties in international jurisdictions was a major focus during the year.

The Company's Research and Development teams, based in Rosebery, New South Wales, Las Vegas, Nevada, Tucson, Arizona, and Tokyo, Japan are the principal vehicle through which the Company invests in future performance.

Aristocrat's expenditure on research and development increased by 18.4% year on year. The five multifunctional teams based in the Rosebery facility achieved a number of new records in games production during 2002.

Aristocrat's investment in pioneering gas injection moulding, as utilised in the Xcite™ cabinet, has placed the Company in an advantageous position in terms of facilitating future cabinet design changes.

The Company will continue to invest in these areas and on improved methods, processes and training throughout the Group.

Factors Affecting Future Performance

Aristocrat's strategy is to pursue global opportunities in appropriately regulated jurisdictions. This involves operating in countries where the language, culture and business practices are different from Australia. This may cause the Company to experience costs or delays in implementing business plans in conformity with local business practices.

Although Aristocrat believes that its expectations as to future performance as set out in this document are reasonable in all respects, actual performance could be materially different from expectations. Aristocrat's future financial condition and the results of operations are subject to the factors outlined above and other changes, risks and uncertainties including:

- (i) a reduction in demand for Aristocrat's products,
- (ii) a decline in the growth rate of specific markets,
- (iii) reduced levels of gaming arising from changes in sentiment due to events such as threats of war, terrorist attacks or adverse economic conditions,
- (iv) a decline in the public acceptance of gaming,
- (v) fluctuations in exchange rates and interest rates,
- (vi) regulatory risks including unfavourable legislation and/or regulations and adverse determinations by regulatory authorities,
- (vii) industrial disputation, and
- (viii) intellectual property risks.

OTHER MATTERS

Performance Indicators

Each division of the Company is subject to specific internal performance benchmarks as part of the annual and strategic planning process and its performance is evaluated by reference to these performance measures.

The Company does not disclose budgetary targets or performance measures as disclosure is considered prejudicial to the Company's commercial interests.

Franking Credit Position

The final dividend declared for the twelve months ended 31 December 2002 totals $29.7 million.

After providing for the declared dividends and including franking credits generated from income tax provided for at 31 December 2002, the Company has $37.7 million in franking credits available for subsequent periods.

The Company expects to be able to pay fully franked dividends for the foreseeable future but notes that the growing internationalisation of Aristocrat's revenues may in due course limit the Company's ability to frank dividends.

Human Resources

Aristocrat employed 2,408 staff world-wide as at 31 December 2002. In order to achieve its goal of becoming the leading global supplier of gaming machines, Aristocrat is upgrading staff skills, recruiting highly capable people and continuing to make changes to ensure work safety for all staff.

The skills of Aristocrat managers are developed through management programs which included *Rogen®* sales training and customer relations training for 320 staff with direct customer contact, the *Blue Book Culture of Change Program™* (which was provided to all staff) and *Kepner-Tregoe® Decision Making Analysis®* (project management training). Aristocrat's successful graduate trainee program has resulted in the recruitment of 57 staff over the last five years.

During the year, Aristocrat carried out a company wide employee survey to evaluate how employees felt about the Company. The response from employees enabled the Company to thoroughly and accurately assess staff responses to Company initiatives. A number of areas requiring further attention were identified but the overall response to the Company's human relations policies was positive and indicated an improvement in satisfaction levels since the first employee survey was conducted in 1999.

Aristocrat's human resources strategies include seeking to align employees' aspirations and interests as closely as possible to those of Aristocrat's shareholders. On 29 May 2002, 337,976 General Employee Share Plan ("GESP") shares were issued to staff world-wide (166 shares for each employee). Every permanent employee in the Company has the opportunity to become a shareholder in the Company by virtue of GESP. In many cases, these are the first shares acquired by employees.

Work safety remained a priority during the year. Aristocrat is committed to fundamentally changing the way in which all staff behave and think about safety. A number of programs were carried out to establish agreed safety programs and to change behaviours to improve safety.

Steps are continuously being taken to minimise the possibility of incidents giving rise to Workers' Compensation claims.

Capital Structure

There was no significant change to the Company's capital structure during 2002. Details of shares issued on the exercise of options and pursuant to the Dividend Reinvestment Plan appear in Notes 25 and 33 to the Financial Statements.

Treasury Policy and Foreign Exchange Policy

The Company adopted an expanded Treasury Policy during the year which addresses all significant Treasury management issues.

Aristocrat is exposed to the risk of exchange rate movements on overseas earnings, on its investment in its non-Australian operations and on its obligations to bond holders.

The Company minimises its foreign currency holdings and maintains appropriate hedging arrangements in relation to any significant foreign currency exposures identified from time to time.

The Company does not speculate in foreign exchange or derivatives markets or instruments.

Cash from Operations and Other Sources of Cash

Cash flows from operating activities during the twelve months ended 31 December 2002 amounted to $79.0 million, compared to a cash outflow of $32.6 million in 2001.

Aristocrat's cash flow experience has changed as the Company's international operations have grown. Terms of trade in other countries differ from the '30 day' terms of trade generally prevailing in Australia.

In Japan, sales are concluded on the basis of a one third cash payment at the end of the month followed by five equal monthly instalments pursuant to promissory notes which are then discounted.

In the United States, market conditions require the Company to offer a variety of payment options.

Operating cash flows comprised 8.1% of revenues for 2002 compared with (4.2%) in the corresponding period last year.

During December 2002, the Company entered into an agreement with Westpac Banking Corporation for a $200 million syndicated multi-currency revolving cash facility.

Credit Rating

At balance date, Aristocrat's long and short-term credit ratings continued to be rated 'BBB-' by *Standard and Poors®*.

Risk Management

The Company's Workers Compensation, rehabilitation and occupational health and safety arrangements are effective in minimising costs to the Company. The Company protects itself from intellectual property risks through an intellectual property protection program.

The Company is subject to the requirements of a number of regulatory regimes and, through its compliance officers, maintains close contact with regulators and carefully monitors all developments to ensure that its regulatory obligations are complied with. The Company's insurance policies were renewed during the year and cover the Company for the risks, which the Company has identified, on the basis of its external advice, as risks which should be covered.

Non-Audit Fees

During 2002, the sum of $0.3 million was paid to PricewaterhouseCoopers in relation to non-audit work. This work comprised employee services, legal and compliance work and a benchmarking review.

Continuous Disclosure

Aristocrat is committed to the adequate and timely disclosure of market sensitive information and has implemented internal controls to ensure that such information is released promptly and accurately to the market in accordance with the Australian Stock Exchange Listing Rules and guidance rules. The Company increased both the quality and quantity of financial disclosures and investor communications during the year.

SIGNIFICANT CHANGES DURING THE TWELVE MONTHS ENDED 31 DECEMBER 2002

Except as outlined elsewhere in this report, there were no significant changes in the state of affairs of the Company during the twelve months ended 31 December 2002.

SIGNIFICANT MATTERS SUBSEQUENT TO 31 DECEMBER 2002

On 7 February 2003, the Company announced to the Australian Stock Exchange that a customer had failed to fulfill a number of obligations in relation to a large South American transaction (signed in December) involving the sale of a significant number of gaming machines. The Company announced that it did not propose to recognize this revenue and that, accordingly, Net Profit After Tax for 2002 was expected to be $80.2 million, below consensus market forecasts.

On 10 February 2003, the Company advised the Australian Stock Exchange that analysis conducted after the announcement on 7 February had revealed that the results of the Company's North and South American businesses were inconsistent with information previously provided by the Americas' management.

The Company announced that new information from the Americas indicated that higher costs had been incurred, margins had deteriorated and volumes were less than previously advised. The Company announced that a full review of its North and South American businesses with particular reference to management and financial systems and risk assessments and controls had been initiated, led by the Chief Executive Officer.

On 11 February 2003, a further statement was released to the Australian Stock Exchange providing the Australian Stock Exchange with financial information including the segment contribution profit and working capital details set out in this report.

No other material matters requiring disclosure in this Report have arisen subsequent to 31 December 2002. To the best of their knowledge, other than as set out above, the Directors are not aware of any matter or circumstance that has arisen since 31 December 2002 that has significantly affected or may significantly affect:

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

LIKELY DEVELOPMENTS IN FUTURE FINANCIAL YEARS AND EXPECTED RESULTS

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

DIRECTORS' CONTRACTS AND BENEFITS

(i) Contracts

No Director is a party to a contract under which that Director is entitled to a benefit and which confers a right to call for shares, debentures or interests in a registered scheme made available by the Company or a related body corporate, except as otherwise disclosed in this report.

(ii) Benefits

Information on Directors' benefits is set out in Table 9 and 11 and Note 37 - Related Parties (within the Financial Statements).

Table 8

DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS†
(Meetings attended/held)

Director	Board	Audit Committee	Compensation and Nomination Committee	Regulatory Compliance Committee
JP Ducker	7/7	3/3	2/2	-
DH Randall	7/7	-	2/2	-
SM Cohn	6/6	3/3	-	-
WM Baker	7/7	-	-	9/9
P Draney	7/7	3/3	-	-
AW Steelman	7/7	-	2/2	-
J Pascoe	7/7	-	2/2	-

†Committee members include non-directors.

EMOLUMENTS OF BOARD MEMBERS AND SENIOR EXECUTIVES

(i) Broad policy for determining nature and amount of emoluments of board members

The emoluments of Board Members are determined having regard to market conditions, the responsibilities of the positions involved and the regulatory regime applicable to the Group. There is no link between Non-executive Directors' remuneration and the Company's performance.

(ii) ***Broad policy for determining nature and amount of emoluments of senior executives***

The emoluments of senior executives are approved by the Compensation and Nomination Committee under a delegation from the Board, having regard to market conditions and the performance of the individuals and the Consolidated Entity.

(iii) ***Relationship between policy and the Company's performance***

The remuneration packages for Executive Directors and executive officers include incentive components related to the performance of the Company, the performance of the relevant business unit and the individual.

(iv) ***Details of the nature and amount of each element of the emoluments of the Directors and each of the five named officers of the Consolidated Entity receiving the highest emoluments***

Table 9

Directors and Five Officers Receiving Highest Emoluments

Director	**Salary/ Fees $**	**Bonus** $	**Superannuation Contributions** $	**Other Benefits? $**	**Total Remuneration** $
J.P. Ducker*	203,703	-	17,144	-	220,847
D.H. Randall*	1,024,823	1,000,000§	100,000	1,149,233‡	3,274,056
S.M. Cohn?†	304,901	75,000	27,441	342,808	750,150
A.W. Steelman*	116,612	-	-	-	116,612
W.M. Baker*	116,612	-	-	-	116,612
P Draney*	87,963	-	7,476	-	95,439
J Pascoe*	87,963	-	7,476	-	95,439
Employee and Position					
M. Newburg	557,050	208,419	22,282	72,893	860,644
G. Isaacs	276,680	136,933	32,083	279,781	725,477
L. Jeyaraj	445,792	190,000	40,121	42,198	718,111
S. Kamo	480,209	218,277	9,392	8,205	716,186
L. Madeley†	279,584	120,000	10,519	172,679	582,782

* Directors for period under review and as at the date of this Report.

? Director for period under review; resigned on 31 December 2002.

§ This bonus was awarded in respect of individual performance in respect of the 2001 calendar year and paid during 2002.

? Excluding options – see page 19: options granted during the year to Executive Directors and employees during 2002 are set out in Table 10 and Table 11 (which sets out the valuation of the options).

† These amounts include retirement benefits.

‡ This amount includes the costs of relocation to the United States and the costs associated with establishing residence in the United States.

The Company itself has no employees.

OPTIONS

Options over Unissued Ordinary Shares of Aristocrat Leisure Limited *(Further details are set out in Notes 25 and 33 to the Financial Statements)*

The Company has two option plans, AESOP, which closed in 1998, and ESOP. Under both plans, the exercise price of options is fixed at the weighted market price of the ordinary shares at the time of grant with no discounts.

The Company does not make loans to executives to exercise options under either plan. A total of 13,323,002 options were outstanding at 31 December 2002, representing 2.9% of the issued share capital; these have a volume-weighted average exercise price of $4.8938 and would raise $65.2 million of new capital if exercised.

Allowing for earnings on the new capital, the dilution effect on earnings per share would range from neutral to positive, depending on the assumed earning rate. A total of 9,041,000 options have exercise prices in excess of the share price on 31 December 2002.

Aristocrat Executive Share Option Plan ("AESOP")

As at the date of this report, a total of 66,666 options are currently held by one executive under AESOP. Each AESOP option is convertible into one ordinary share subject to certain performance criteria.

AESOP was closed in 1998 and replaced with the Employee Share Option Plan ("ESOP").

During the twelve month period ended 31 December, 2002, Aristocrat Leisure Limited issued a total of 1,510,660 shares (0.3% of issued capital) as a result of the exercise of AESOP options with exercise prices of $0.64, $0.73 and $0.90 which was paid in full on exercise.

No AESOP options lapsed during the period commencing 1 January 2002 and ending on the date of this report.

Employee Share Option Plan ("ESOP")

During the twelve months ended 31 December 2002, Aristocrat Leisure Limited issued a total of 1,380,000 shares (0.3% of issued capital) as a result of the exercise of 1,380,000 options with exercise prices between $1.3525 and $3.9125 per share.

There is no amount unpaid as the full exercise price was paid on all options exercised. 1,033,000 ESOP options lapsed during the period from on 1 January 2002 to the date of this report as the holders ceased to be employees. 4,020,000 ESOP options (0.9% of issued capital) were granted during 2002.

Options are granted on the basis that the employee either paid or promises to pay the option price for each option (in the case of a promise to pay, such payment is to be made before the option is exercised).

As at the date of this report, a total of 13,206,336 options (equivalent to 2.9% of issued capital) have been issued to 163 employees under ESOP.

Options over Aristocrat Leisure Limited shares granted to the Directors and most highly remunerated officers of the Consolidated Entity

Table 10

Total Holdings of Options of Directors and Five Officers Receiving Highest Emoluments

Directors	No. of Options	Date Granted	Option Price - $	Expiry Date
DH Randall (CEO)	800,000	1.8.2000	5.7605	1.8.2005
	800,000	2.7.2001	6.9814	2.7.2006
	800,000	2.7.2002	5.4102	2.7.2007
SM Cohn (Executive Director*)	Nil	N/A	N/A	N/A
Officers				
M. Newburg	400,000	19.2.01	5.6224	19.2.06
	100,000	2.7.02	5.4102	2.7.07
G. Isaacs	100,000	8.1.99	1.7750	8.1.04
	100,000	6.9.99	3.3725	6.9.04
	50,000	7.3.02	5.9531	7.3.07
L. Jeyaraj	400,000	14.7.2000	5.4128	14.7.2005
	100,000	7.3.2002	5.9531	7.3.2007
L. Madeley	-	-	-	Lapsed
S. Kamo	100,000	25.8.99	2.7975	25.8.04

* Resigned 31 December 2002

Options Granted to Directors and Five Officers Receiving Highest Emoluments During 2002

Table 11

Options Granted to Directors and Five Officers Receiving Highest Emoluments During 2002

	Options Granted In 2002	Exercise Price $	Black-Scholes Value* $	Binomial Method Value†	First Exercise Date
Director					
D.H. Randall	800,000	5.4102	621,000	589,000	2.1.2004
Employee and Position					
M. Newburg	100,000	5.4102	77,826	75,217	2.1.2004
G. Isaacs	50,000	5.9531	44,461	43,064	7.9.2003
L. Jeyaraj	100,000	5.9531	88,923	86,128	7.9.2003
L. Madeley	100,000	5.9531	88,923	86,128	Lapsed
S. Kamo	-	-	-	-	-
W. Jowett	50,000	5.9531	44,461	43,064	7.9.2003

* The valuation method utilised for options in reference to prior years is the revised Black -Scholes model. This valuation method has been used again to permit comparison with previous years.

†Valuation calculated pursuant to the Binomial Valuation Method.

INDEMNITIES AND INSURANCE PREMIUMS

The Company's Constitution provides that: "the Company must indemnify every person who is or has been a director, secretary or executive officer of the Company".

The liabilities covered by those indemnities are those arising as a result of the indemnified party serving or having served as a Director, Secretary or Executive Officer of the Company or of its subsidiaries but are restricted so as not to cover: (i) liability in respect of conduct involving a lack of good faith; (ii) conduct which an indemnified party knows to be wrongful; and (iii) liability which arises out of a personal matter of the indemnified party.

The Company renewed its Directors and Officers Insurance policy in respect of insurance cover of Directors and officers; it is primarily a Company reimbursement policy. Premium paid and the terms of cover secured by that premium are confidential.

The Company has not been required to pay any amount or take any action in connection with an obligation to indemnify an officer during the twelve month period ended 31 December 2002.

The assets of the Consolidated Entity are adequately insured for reasonably foreseeable contingencies, in line with normal business practices.

ENVIRONMENTAL REGULATION

The Company's operations have a limited impact on the environment. The Company manufactures gaming machines, games and systems at its Rosebery facilities which are zoned Industrial (4) under Local Environmental Plan 114 and are the subject of New South Wales and Australian Federal Government environmental legislation. The Company integrates (assembles) machines in Las Vegas, Nevada.

Gaming machines are manufactured from coated steel and a composite material used to fabricate the door (which is fabricated off-site by a contractor). The Company also manufactures circuit boards, using components purchased from third parties.

The Company integrates and assembles machines at two sites, Rosebery, New South Wales and Las Vegas, Nevada. Machines are assembled under contract in Japan.

The Company does not emit any greenhouse gases (except from vehicles and emergency generators when in use) and uses limited amounts of chemicals in its manufacturing process. The use of chemicals is confined to the Company's photographic and screen printing operations, its paint shop and some assembly processes. Chemicals are stored in secure storage areas.

The Company utilises electricity and compressed air (produced by electrically driven compressors) for cabinet assembly purposes.

Waste liquids used in the production process include oil, plating and paint shop waste. Plating and paint shop wastes are treated before discharge into the sewer. The Company holds trade waste licenses to discharge these trade wastes as set out below. The Company employs eight staff with environmental control responsibilities.

The Company uses approximately 7 million KWh of energy in its global manufacturing operations and estimates that it uses less than 3 million KWh of energy in its remaining global operations. In Australia, the Company uses approximately 4.5 million KWh of energy in its manufacturing operations at Rosebery, New South Wales and estimates that it uses 2.4 million KWh of energy in its remaining operations. In the United States, the Company uses approximately 2.6 million KWh of energy in its integration operations and less than 400,000 KWh of energy in its remaining operations.

The Company recycles both waste steel and trade-in machines (when possible). Trade-in machines are 'rebuilt' by Jubilee, which strips down the trade-in machines and reuses and/or refurbishes as many parts as possible.

Cooling towers are cleaned regularly in accordance with Department of Health recommendations.

The Company held the following licences/certificates and registrations in Australia in relation to the financial year:

(a) WorkCover (New South Wales) and Environmental Protection Authority (New South Wales) Licences for the Keeping and Handling of Dangerous Goods and an EPA Generators Licence.

(b) Trade Waste Certificates

The Company holds three Trade Waste Certificates and permits issued by Sydney Water for discharges to the sewer from Plant 1, Plant 2 and Plant 3 respectively.

The Company regularly monitors effluent discharge to ensure that the discharge limits prescribed by Sydney Water are not exceeded.

(c) Cooling Tower Registration

The Company holds registration certificates in relation to its cooling towers.

The Company has received no complaints or notices under any legislation or regulations in relation to any of its activities from an environmental perspective. The Directors are not aware of any environmental issues which would materially affect the Aristocrat Group and believe that the Company's environmental performance has been satisfactory given the limited impact on the environment that its activities could have and the environmental regulation to which it is subject.

AUDITOR

PricewaterhouseCoopers continue in office in accordance with Section 327 of the Corporations Act, 2001.

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

John Ducker

JP Ducker
Director

18 February 2003