

## ***DIRECTORS' REPORT***

***FOR THE 12 MONTHS ENDED 31 DECEMBER 2003***

### **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 2003. The information in this report is current as at 24 February 2004 unless otherwise specified. The Directors of Aristocrat Leisure Limited (the "Company") during the twelve months under review and up to the date of this report are:

**Table 1  
Directors' Particulars, Experience and Special Responsibilities**

<b>Current Directors</b>		
<b>Director</b>	<b>Experience</b>	<b>Special Responsibilities</b>
JH Pascoe AO, BA, LLB (Hons) Age 55	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), Chairman, Centrelink.(310,707 shares)	Non-Executive Chair (from September 2003). Member of Compensation and Nomination Committee (from October 2001) and Chair from October 2001 to January 2004. Member of Audit Committee from July 2003.
PN Oneile† BEc Age 55	Nominated December 2003 as Chief Executive Officer and Managing Director; former Chairman and Chief Executive Officer, United International Pictures (UIP) and former Managing Director of The Greater Union Organisation Pty. Limited. Non Executive Director of Vue Entertainment Holdings Limited and Film Finance Corporation Australia Limited (6,000 shares)	Chief Executive Officer and Managing Director
WM Baker BA Age 64	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 and Fortress Global Investigations, Inc.	Chair of Regulatory Compliance Committee from October, 2000; Member of Audit Committee from July 2003
JP Ducker AO, KCSG Age 71	Nominated July 1999; appointed as Non Executive Director effective October 1999. Former Politician and Trade Union Leader. (85,642 shares)	Non-executive Chair (to September 2003), Member of Audit Committee from January 2001 to January 2004
AW Steelman BA, MLA Age 61	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. International experience in software gaming strategy and government regulation.	Member of Compensation and Nomination Committee from December 1999; Member of Audit Committee from July 2003 to January 2004
DJ Simpson FCPA Age 63	Nominated July 2003; appointed February 2004; former Executive General Manager, Finance, Southcorp Holdings Limited, former Executive General Manager, Finance, Tabcorp Holdings Limited, former Finance Director, Tabcorp Holdings Limited. (106,000 shares)	Chair of Audit Committee from July 2003
P Morris AM, BArch (Hons) MEnvSc.,Dip CD, FRAIA, FAICD Age 55	Nominated August 2003; appointed February 2004; former Director of Australian and Overseas Property for the Commonwealth Government; former Group Executive, Lend Lease Property Services; Director of Landcom, Sydney Harbour Foreshore Authority and subsidiaries and Principal Real Estate Investors (Australia) Limited. Past Director of Jupiters Limited, Howard Smith Limited, Colonial State Bank, Energy Australia, Country Road Limited, Indigenous Land Corporation and Australia Post.	Chair of Compensation and Nomination Committee (from January 2004); Member of the Audit Committee from August 2003 to January 2004.
<b>Former Directors</b>		
DH Randall Age 57	<i>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&amp;T. Employment as Chief Executive Officer ceased on 4 April 2003 and as a Director on 22 May 2003.</i>	<i>Chief Executive Officer, Member of Compensation and Nomination Committee (until 4 April 2003).</i>
P Draney BSc Age 54	<i>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. Resigned as Director 15 April 2003.</i>	<i>Chair of Audit Committee (until 15 April 2003).</i>

† Subject to regulatory approvals being obtained.

## **PRINCIPAL ACTIVITIES**

The principal activities of the Consolidated Entity during 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 objectives are to maintain a leading position in its traditional markets and increase 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 2003 of 3 cents per share (\$14.1 million) has been declared and will be paid on 24 March 2004 to shareholders on the register at 5:00pm on 10 March 2004. The final dividend will be franked to 40%. A fully franked interim dividend of 3 cents per share (\$13.8 million), as referred to in the Directors' Half Year Report dated 12 August 2003, was paid on 9 September 2003 in respect of the six months ended 30 June 2003. The total dividend paid in respect of 2003 was 6 cents per share.

## **REVIEW AND RESULTS OF OPERATIONS**

A review of the operations of the Consolidated Entity for the year ended 31 December 2003 is set out in the attached Management Discussion and Analysis and Business Segment Review and form part of this Directors' Report. The operating result of the Consolidated Entity attributable to shareholders for the financial year ended 31 December 2003 was a loss of \$106.0 million after tax.

## **SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

Except as outlined below and elsewhere in this report, there were no significant changes in the state of affairs of the Company during the twelve months ended 31 December 2003.

## **EVENTS AFTER BALANCE DATE**

On 9 February 2004, the Company announced that it was named as one of the defendants in a patent infringement suit commenced by an individual in the Nevada District Court.

Regulatory approvals were received for Penny Morris and David Simpson and they were formally appointed Directors of the Company on 13 February 2004.

Other than this, no material matters requiring disclosure in this Report have arisen subsequent to 31 December 2003. 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 2003 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 AND EXPECTED RESULTS

Likely developments in the operations of the Consolidated Entity in future financial years and the expected results of operations are referred to in the Management Discussion and Analysis and Business Segment Review and form part of this report. 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' ATTENDANCE AT BOARD MEETINGS

**Table 2**  
**Directors' Attendance at Board and Committee Meetings**  
*(Meetings attended/held)(5)*

<b>Director</b>	<b>Board (1)</b>	<b>Audit Committee (2)</b>	<b>Compensation and Nomination Committee (3)</b>	<b>Regulatory Compliance Committee</b>
<i>Current Directors and Directors Designate</i>				
<b>JH Pascoe</b>	<b>12/12</b>	<b>3/3</b>	<b>1/1</b>	<b>-</b>
<b>PN Oneile (4)</b>	<b>3/3</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>WM Baker</b>	<b>12/12</b>	<b>3/3</b>	<b>-</b>	<b>9/10</b>
<b>JP Ducker</b>	<b>12/12</b>	<b>3/3</b>	<b>-</b>	<b>-</b>
<b>AW Steelman</b>	<b>12/12</b>	<b>2/2</b>	<b>1/1</b>	<b>-</b>
<b>DJ Simpson</b>	<b>7/7</b>	<b>3/3</b>	<b>-</b>	<b>-</b>
<b>P Morris</b>	<b>5/5</b>	<b>2/2</b>	<b>1/1</b>	<b>-</b>
<i>Former Directors</i>				
<b>DH Randall</b>	<b>2/3</b>	<b>1/1</b>	<b>-</b>	<b>-</b>
<b>P Draney</b>	<b>3/3</b>	<b>1/1</b>	<b>-</b>	<b>-</b>

(1) There were two special meetings of the non-executive directors in March and April 2003 which all five non-executive directors, Messrs. Ducker, Baker, Draney, Pascoe and Steelman, attended. There was a special meeting of the voting non-executive directors in November 2003 attended by Messrs. Pascoe, Baker, Ducker and Steelman.

(2) SM Cohn was a member of the Audit Committee at the time of the 10 February, 2003 meeting.

(3) There was no meeting of the Compensation and Nomination Committee in 2003. All relevant discussion took place at Board level. A meeting was held in 2004.

(4) Subject to regulatory approval.

(5) Note: attendance recorded in this table reflects the attendance of members of the Board at Board meetings and attendance of members of Committees at Committee meetings of which they are members (including members elect in respect of whom regulatory approval is pending).

## EMOLUMENTS OF BOARD MEMBERS AND SENIOR EXECUTIVES

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

The emoluments of non-executive directors are determined, based on external advice, 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 (other than the CEO) are approved by the Compensation and Nomination Committee under a delegation from the Board, based on external advice, 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 3**  
**Directors and Five Officers Receiving Highest Emoluments**

Directors	Notes	Salary / Fees	Motor Vehicles	Bonus	Super-annuation	Other benefits <sup>2</sup>	Options granted during year <sup>3</sup>	SUBTOTAL	Options using ASIC guidelines <sup>3</sup>	TOTAL
JH Pascoe	a	144,745	-	-	13,027	-	-	157,772	-	157,772
PN Oneille	b	74,083	-	-	556	-	-	74,639	-	74,639
WM Baker	a	95,935	-	-	-	-	-	95,935	-	95,935
JP Ducker	a	170,807	-	-	15,373	-	-	186,180	-	186,180
AW Steelman	a	93,002	-	-	-	-	-	93,002	-	93,002
DJ Simpson	e	45,048	-	-	4,054	-	-	49,102	-	49,102
P Morris	e	32,869	-	-	2,958	-	-	35,827	-	35,827
<b>Former Directors</b>										
P Draney	d	29,321	-	-	2,639	-	-	31,960	-	31,960
DH Randall	d,f	973,137	-	-	11,589	913,013	-	1,897,739	243,687	2,141,426
<b>Executives<sup>1</sup></b>										
SR Kamo	e	1,667,624	-	490,196	-	170,602	-	2,328,422	-	2,328,422
MR Newburg	g	1,136,589	71,043	-	2,997	41,850	-	1,252,479	37,444	1,289,923
MG Isaacs		409,755	29,933	145,878	10,785	263,541	19,520	879,412	50,017	929,429
DE Barbieri		150,254	37,555	454,631	15,025	4,859	-	662,324	263,999	926,323
DP Creary		600,002	54,089	115,000	11,380	47,409	-	827,880	56,263	884,143

**NOTES**

- <sup>1</sup> Executive remuneration is for the consolidated entity - the parent entity has no employees.
- <sup>2</sup> Other benefits include fringe benefits tax where applicable.
- <sup>3</sup> Options are valued using the TSR model, the methodology for which is described below. Options have been valued using the ASIC 'Guidelines to valuing options in annual directors' reports' issued in June 2003.
- a Director for the entire period under review and at the date of this report.
- b Director elect - subject to regulatory approval.
- c Director as at date of this report. Director for only part of the period under review (refer to table 1 for dates of nomination).
- d Director resigned during the period under review.
- e Executive resigned or terminated during period under review, salary includes retirement benefits.
- f This amount includes contractual entitlements while employed and accommodation benefits.
- g The executives employment was terminated during the period and the executive has received accrued statutory and contracted entitlements.

On 20 February 2004, DP Creary advised the Company of his intention to retire effective 29 February 2004. In addition to his statutory entitlements, the Directors, after receiving legal advice, have agreed to pay Mr Creary a retirement benefit totalling \$880,000.

## OPTIONS

### *Valuation of Options*

An independent valuation of each tranche of options at their respective grant dates has been performed by Deloitte Touche Tohmatsu (“Deloitte”). In undertaking the valuation of the options, Deloitte have used a Total Shareholder Return model (“TSR”), a modified version of the Merton Reiner Rubinstein Barrier Option model.

It is called a “Barrier” model because it takes into account that the options are subject to a performance hurdle. Deloitte have advised that it is more appropriate than the Black Scholes or Binomial models. This pricing model takes into account factors such as the Company’s share price at the date of the grant, current price of the underlying shares, volatility of the underlying share price, risk free rate of return, expected dividend yield and time to maturity.

The value of options has been allocated equally over the period from grant date to vesting date (5 years). This amount has been included in the executive remuneration disclosures only; no amounts have been expensed in the year ended 31 December 2003.

Details of the ESOP and AESOP, including grant dates and vesting conditions, are set out in Note 34 to the Financial Statements.

### *Options over Unissued Ordinary Shares of Aristocrat Leisure Limited (Further details are set out in Notes 26 and 34 to the Financial Statements)*

The Company has one option plan, the Employee Share Option Plan (“ESOP”). Options are granted for no consideration and are exercisable, subject to performance hurdles, at the market price at the time of grant. 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.

A total of 8,927,336 options were outstanding at 31 December 2003, representing 1.9% of the issued share capital; these have a volume-weighted average exercise price of \$4.4069 and would raise \$39.3 million of new capital if exercised. Allowing for earnings on the new capital, the effect on earnings per share would range from neutral to positive, depending on the assumed earning rate. A total of 7,952,336 options have exercise prices in excess of the share price on 31 December 2003.

During the twelve months ended 31 December 2003, Aristocrat Leisure Limited issued a total of 363,000 shares (0.08% of issued capital) as a result of the exercise of 363,000 options with an exercise price of \$1.3525 per share. An additional 160,000 shares were issued on the exercise of options with an exercise price of \$1.7750 up to the date of this report. There is no amount unpaid as the full exercise price was paid on all options exercised.

A total of 6,203,000 ESOP options lapsed during the period from on 1 January 2003 to the date of this report as the holders ceased to be employees or the options lapsed on the end of their five year term. 1,650,000 ESOP options (0.35% of issued capital) were granted during 2003 at exercise prices between \$1.56 and \$3.16.

As at the date of this report, a total of 8,180,336 options (equivalent to 1.74% of issued capital) have been issued to 123 employees under ESOP.

### *Aristocrat Executive Share Option Plan (“AESOP”)*

The remaining 66,666 options issued under this plan were exercised during the year and the plan has been closed.

**Table 4**

#### **Holdings of Options of Five Officers Receiving Highest Emoluments**

<b>Executive</b>	<b>Number of options</b>	<b>Date granted</b>	<b>Expiry date</b>	<b>Exercise price per option</b>
Gavin Isaacs	200,000	26/08/03	26/08/08	1.5597
	100,000	6/09/99	6/09/04	3.3725
	50,000	7/03/02	7/03/07	5.9531
Dominic Barbieri	20,000	6/09/99	6/09/04	3.3725
	75,000	3/04/00	3/04/05	3.9125
	350,000	7/03/02	7/03/07	5.9531
David Creary	40,000	6/9/99	6/9/04	3.3725
	80,000	3/4/00	3/4/05	3.9125

*As at the date of this report, none of the existing directors hold or have ever held options*

### **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. The premium paid and the terms of cover secured by that premium are confidential under the terms of the insurance contract. 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. Machines are also assembled under contract in Japan.

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 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 licences 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 (4.5 million KWh in Australia) and estimates that it uses less than three million KWh of energy in its remaining global operations (2.4 million KWh in Australia).

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.

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) Three Trade Waste Certificates issued by Sydney Water for discharges to the sewer from Plant 1, 2 and 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

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

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.

**PROCEEDINGS ON BEHALF OF COMPANY**

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

**ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS**

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

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



**JH Pascoe**  
**Director**

**24 February 2004**