

Corporate governance

The Board is committed to maintaining the highest standards of corporate governance. Furthermore, the Board considers its governance practices and policies comply with the 28 ASX Corporate Governance Council recommendations which are set out in the March 2003 ASX publication *“Principles of Good Corporate Governance and Best Practice Recommendations”*.

Set out below is a summary of Aristocrat’s (“the Company”) corporate governance practices which were in place throughout the 2005 reporting period. For ease of reference this statement has been prepared and presented in a format consistent with the above named publication.

Principle 1 - Lay solid foundations for management and oversight

Board role and responsibilities

The Board has formalised its roles and responsibilities into a Board Charter which is available on the Company’s website, www.aristocratgaming.com. In summary, the Board’s main responsibilities include the:

- review and approval of Company strategy;
- monitoring of Company performance and overall conduct;
- selection, appointment, remuneration and performance evaluation of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO);
- implementation and continued monitoring of appropriate risk management and reporting systems;
- establishment and monitoring of policies to ensure compliance with the legal and regulatory regimes to which the Company is subject and to ensure the highest standards of corporate conduct; and
- promotion of open and proper communication between the Company and its stakeholders.

Delegation to management

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

Principle 2 - Structure the Board to add value

Board Composition

The Board has determined that its optimal size is between seven and nine members. As at 31 December 2005, the Board comprised six non-executive directors and one executive

director. Details, qualifications and information on other directorships held by each member of the Board can be found in the Directors' Report.

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

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

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

The Board Chairman

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

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

Board meetings

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

Director independence

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

- they are not a substantial (5% or greater) shareholder of the Company or an officer of a substantial shareholder of the Company;

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

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

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

The Board determined that all non-executive directors were considered to be independent as at 31 December 2005.

Independent professional advice

Any director may seek independent external advice in relation to any Board matter at the expense of the Company with the prior consent of the Chairman. Whenever practicable the advice should be commissioned in the joint names of the director and the Company and a copy of the advice should be made available to the entire Board.

Board committees

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

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

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

Regulatory and Compliance Committee

This committee is chaired by Mr WM Baker who is a non-executive director. The committee also comprises a number of executive management members. Committee members are appointed for two years by the Board and are subject to approval by certain gaming authorities / bodies. The committee is required to meet four times per year. During the year the committee met nine times. Attendance of committee meetings by its members is contained in the Directors' Report.

The committee responsibilities include:

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

Nomination and Governance Committee

This committee is chaired by the Chairman, Mr DJ Simpson and all directors are members of this committee. The committee is scheduled to meet twice per year. During the year the committee met four times. Attendance of committee meetings by its members is contained in the Directors' Report.

The committee responsibilities include:

- recommendations on Board structure, membership, tenure, succession planning and committee membership;
- induction and training of directors;
- the Board and individual director performance assessment;
- development and review of CEO conditions of employment; and
- overall Company corporate governance policies and procedures.

Audit Committee

This committee is chaired by Mrs P Morris. The Audit Committee comprises four non-executive directors. The committee is scheduled to and did officially meet four times throughout the year. During the year separate meetings in addition to the four scheduled Audit Committee meetings also took place between the Chair of the Audit Committee and both the Company's external and internal auditors. Attendance of committee meetings by its members is contained in the Directors' Report.

The committee responsibilities include:

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

Remuneration Committee

This committee is chaired by Mrs P Morris. The Remuneration committee comprises three non-executive directors. The committee is scheduled to and did officially meet four times throughout the year. Attendance of committee meetings by its members is contained in the Directors' Report.

The committee responsibilities include:

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

Nomination, selection and appointment process of new directors

Recommendations for the nomination of new directors are made by the Nomination and Governance Committee. Generally, external consultants are used to identify potential directors. Those nominated are assessed by the committee against a range of criteria including professional skills, experience, qualifications and background. Any director appointed during the year will stand for election by shareholders at the next annual general meeting (AGM).

Formal letters of appointment are issued to those invited to join the Board and individual service agreements are entered into with all directors. All new directors undergo an induction program.

Other directorships

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

Principle 3 - Promote ethical & responsible decision making

Code of Conduct

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

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

The full Code of Conduct is available on the Company's website
www.aristocratgaming.com

"Tip-Offs Anonymous" program

"Tip-offs Anonymous" is an independent, confidential telephone, email and postal service that provides an effective channel for employees to anonymously report instances of suspected workplace misconduct. The service is available to all employees worldwide. All reported incidents are reviewed by a select group of senior executives who decide on the appropriate course of action to be taken. A summary of all reported incidents and action taken is provided to the Audit Committee. Any reported incidents involving senior executives are reported directly to the Chairman of the Audit Committee by the Tip-offs Anonymous service provider.

Securities trading policy

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

- the announcement of the half year and full year results;
- the issue of any prospectus by the Company; and
- the Company's annual general meeting.

The policy can be found on the Company's website, www.aristocratgaming.com.

Principle 4 - Safeguard integrity in financial reporting

Certifications from the CEO and CFO

The Board received a written certification on 23 February 2006 from both the CEO and CFO that the Company's financial reports for the year ended 31 December 2005 present a true and fair view in all material respects of the company's financial condition and operational results and are in accordance with relevant accounting standards.

Audit Committee

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

Selection of auditors

In February 2005, the Board invited submissions from a number of professional accounting firms for the provision of external audit services.

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

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

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

After careful consideration of the above criteria, the Audit Committee recommended to the Board the re-appointment of Pricewaterhouse Coopers (PwC) as the Company's external auditors.

Auditor independence

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

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

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

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

Non audit services provided

Non audit services provided by the external auditor are disclosed and explained in both the Directors' Report and Note 29 to the financial statements.

The Board is satisfied that the nature and scope of these services did not compromise auditor independence. When making this assessment the Board used the Corporations Act and the Company's Charter of Audit Independence. The auditor's independence declaration for the year ended 31 December 2005 has been received and is attached to the Directors' Report.

Principle 5 - Make timely and balanced disclosure

The Company has written policies dealing with the Company's disclosure obligations and responsibilities under both the ASX Listing Rules and the Corporations Act. The Company's policy on continuous disclosure is available on the Company's website www.aristocratgaming.com.

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

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

Principle 6 - Respect the rights of shareholders

The Company promotes effective communication with shareholders and encourages effective participation at general meetings. The Company maintains a website which is regularly updated with all recent announcements to the ASX, annual reports, briefing materials and presentations to investors and analysts. The Corporate Governance section of the website allows shareholders direct access to the Board charter, committee charters and key governance policies.

Principle 7 - Recognise and manage risk

The Company is licensed to sell products in over 200 jurisdictions and operates from six major regional offices being Australia, USA, Japan, New Zealand, United Kingdom and South Africa. The Board accepts that risk exists in all aspects of the Company's business activities.

The Company's major risks include (but are not limited to) increased regulation by Governments, protection of the Company's gaming licenses, action by competitors, product development, product approvals, infringement of intellectual property rights, availability and quality of raw materials and manufacturing equipment used in the production of products and occupational health and safety.

Risk management plays a key role in helping to identify, measure and treat risk which in turn assists the Company in achieving its goals and objectives. The Company has in place an effective risk management system to ensure that business risks are identified, assessed, monitored and properly managed.

Elements of the Company's risk management system include:

- a formal risk management policy which is based on Standards Australia AS 4360:2004;
- the training of key executives and managers in the area of risk and the requirements of the Company's risk management policy;
- formal risk identification workshops and meetings across the business to identify and rate significant business risks (financial, operational and strategic);
- the rating of risks for the likelihood of occurrence, possible consequence and the level of current controls and strategies which exist to manage the risk;
- formal risk management updates are provided to the Board on a monthly basis. These updates summarise the likelihood, consequence and mitigating controls around key risks and highlight any new risks identified. The Audit Committee receive a full consolidated risk register on an annual basis;
- a dedicated "Group Risk & Audit Manager" responsible for assisting management in implementing the Board's risk management policies;
- the monthly review of risks by the Senior Executive and Risk Review Committee;
- the establishment of an internal audit function which has unrestricted access to the Board and management and which assists the Board in ensuring compliance with internal controls, policies and risk management programs by performing reviews;
- the development of a risk based internal audit plan;
- a clearly defined organisation structure together with documented expenditure authority and approval limits;
- detailed financial policies and procedures in the areas of expenditure authorisations, credit, treasury and required internal controls;
- annual budgeting and monthly reporting systems for all operating units;
- a group wide regulatory compliance program covering licensure, environment, occupational health and safety and employment practices;
- a comprehensive insurance program; and
- a confidential tip-offs anonymous program deployed worldwide.

In the fourth quarter of 2005, the Company implemented new risk management software to facilitate the update and maintenance of the Company's risk register. This new system is expected to be operational by January 2006.

Risk management certification

The Board of directors have received a written declaration from both the CEO and CFO that the financial certification given by them on the Company's financial reports:

- is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control system is operating effectively and efficiently in all material respects.

This declaration provides a reasonable but not absolute level of assurance and it does not in any way imply or guarantee against adverse events or more volatile outcomes from arising.

More information on the Company's risk management framework and policy can be found on the Company's website, www.aristocratgaming.com.

Principle 8 - Encourage enhanced performance

Review of Board performance

The Board Charter requires the annual review of its own performance as a Board including its committees as well as the performance of individual directors. The Board conducted in the fourth quarter of 2005 a "peer review process" whereby directors evaluated and assessed the overall performance of the Board as a whole and of its committees.

The "peer review" process is administered by the Nomination and Governance Committee using comprehensive written questionnaires. These questionnaires are completed by each director and cover the performance of the Board in the following areas:

- Board governance, structure and roles;
- Board responsibilities;
- Board processes;
- Board committees;
- Performance of individual directors and
- Continuing improvement

A detailed report on the findings of this review was formally presented to the Board in December 2005.

Principle 9 - Remunerate fairly and responsibly

Remuneration Committee

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

Remuneration of non executive directors

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

Remuneration of senior executives and linkage with corporate performance

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

Equity based remuneration

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

- Long Term Performance Option Plan (POP) – Established 2005
- Performance Share Plan (PSP) – Established 2004
- Employee Share Option Plan (ESOP) – Established 1998

The POP is an executive incentive scheme designed to drive the continuing improvement in the Company's performance. The POP provides for eligible employees to be offered conditional entitlements to options over fully paid shares in the Company. The POP was approved by shareholders at the last AGM of the Company as required under ASX listing rules.

The PSP was implemented in 2004. Approval from shareholders was obtained at a special meeting held in December 2004 for the participation of the Chief Executive Officer and Managing Director, Mr PN Oneile. Shareholder approval was not required or obtained (under the ASX Listing Rules or Corporations Act) for the other participants. The PSP replaced the older Employee Share Option Plan (ESOP) which was approved by shareholders in 1998. The PSP plan is more stringent than the ESOP plan as it includes a vesting scale and tougher performance hurdles. A more detailed description of equity based remuneration is provided in the Directors' Report.

Principle 10 - Recognise the legitimate interests of stakeholders

The Board and senior management of the Company are committed to the "Code of Conduct" and the principles contained within it. More information on the Code is provided under Principle 3 of this statement. The Code is also available on the Company's website, www.aristocratgaming.com

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

- Occupational, Health and Safety;
- Trade practices;
- Conflicts of interest;
- Gifts, gratuities and donations;
- Dealing in Company securities;
- Market disclosure; and
- Privacy.