



ARISTOCRAT LEISURE LIMITED

A.B.N. 44 002 818 368

APPENDIX 4E

Preliminary Final Report

Year ended: 31 December 2006

Previous corresponding period: 31 December 2005

Results for announcement to the market				December 2006 \$'000
Revenue from ordinary activities	down	-16.9%	to	1,094,710
Profit from ordinary activities after tax attributable to members	down	-1.7%	to	240,055
Net profit for the period attributable to members	down	-2.2%	to	238,998
Earnings before interest and tax	down	-6.4%	to	335,292
Operating cash flow	down	-47.9%	to	204,772

Dividends			
	Amount per security	Franked amount per security	Record date for determining entitlements to dividends
Current year – 2006:			
- Interim dividend	12.0c	12.0c	
- Final dividend	24.0c	24.0c	9 March 2007
Previous year – 2005:			
- Interim dividend	10.0c	10.0c	
- Final dividend	20.0c	20.0c	

Net tangible assets		
	December 2006	December 2005
Net tangible assets per security	\$ 0.47	\$ 0.59

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

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Aristocrat Leisure Limited ABN 44 002 818 368
financial statements for the year ended 31 December 2006

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

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

Aristocrat Leisure Limited
71 Longueville Road
Lane Cove NSW 2066
Australia

A description of the nature of the consolidated Group's operations and its principal activities is included in the management discussion and analysis report and in the directors' report, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 20 February 2007. The Company has the power to amend and reissue the financial report.

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

Financial statements

for the year ended 31 December 2006

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Income statements

for the year ended 31 December 2006

	Notes	2006 \$'000	Consolidated 2005 \$'000	2006 \$'000	Parent entity 2005 \$'000
Revenue from operating activities	5	1,074,534	1,296,323	-	-
Cost of revenue from operating activities		(431,599)	(616,403)	-	-
Gross profit		642,935	679,920	-	-
Other revenue and other income	5	20,176	20,712	108,346	101,974
Research and development costs		(95,206)	(65,776)	-	-
Sales and marketing costs		(95,713)	(129,935)	-	-
General and administration costs		(125,354)	(129,738)	(1,216)	(1,155)
Realised exchange differences arising from the partial settlement of a long-term loan which formed part of the net investment in a foreign operation	5	(5,975)	-	-	-
Finance costs		(15,085)	(11,236)	(7,695)	(9,805)
Share of net profits of jointly controlled entity	30	7,150	-	-	-
Profit from ordinary activities before income tax expense		332,928	363,947	99,435	91,014
Income tax credit / (expense)	6	(92,873)	(119,626)	17	(136)
Profit from ordinary activities after income tax expense		240,055	244,321	99,452	90,878
Profit attributable to minority interest	23	(1,057)	-	-	-
Net profit attributable to members of Aristocrat Leisure Limited		238,998	244,321	99,452	90,878
Earnings per share for profit attributable to the ordinary equity holders of the Company					
Basic earnings per share	36	Cents 51.2	Cents 51.4		
Diluted earnings per share	36	50.9	51.1		

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

Balance sheets

as at 31 December 2006

	Notes	2006 \$'000	Consolidated 2005 \$'000	2006 \$'000	Parent entity 2005 \$'000
Current assets					
Cash and cash equivalents	8	123,496	359,532	30	10
Receivables	9	204,416	285,056	63,200	78,514
Inventories	10	69,902	82,398	-	-
Financial assets	11	7,606	7,558	-	-
Other assets	12	1,797	2,164	-	-
Tax assets		-	1,790	-	-
		407,217	738,498	63,230	78,524
Non-current assets classified as held for sale	13	4,600	-	-	-
Total current assets		411,817	738,498	63,230	78,524
Non-current assets					
Receivables	9	53,613	61,253	86,608	335,232
Financial assets	11	106,088	12,187	21,649	13,190
Property, plant and equipment	14	117,846	116,455	-	-
Deferred tax assets	15	42,206	62,844	1,033	1,728
Intangible assets	16	146,392	76,183	-	-
Total non-current assets		466,145	328,922	109,290	350,150
Total assets		877,962	1,067,420	172,520	428,674
Current liabilities					
Payables	17	190,429	322,527	3,479	735
Borrowings	18	-	175,808	-	175,808
Current tax liabilities		46,417	88,886	49,794	64,510
Provisions	19	24,774	27,912	-	-
Other liabilities	20	19,118	31,767	-	-
Total current liabilities		280,738	646,900	53,273	241,053
Non-current liabilities					
Borrowings	18	164,287	-	-	-
Provisions	19	20,039	18,292	-	-
Other liabilities	20	47,929	50,671	-	-
Total non-current liabilities		232,255	68,963	-	-
Total liabilities		512,993	715,863	53,273	241,053
Net assets		364,969	351,557	119,247	187,621
Equity					
Contributed equity	21	53,633	88,240	53,633	88,240
Reserves	22	(85,131)	(41,928)	37,355	20,627
Retained earnings	22	395,420	305,245	28,259	78,754
Parent entity interest		363,922	351,557	119,247	187,621
Minority interest	23	1,047	-	-	-
Total equity		364,969	351,557	119,247	187,621

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

Statements of changes in equity

for the year ended 31 December 2006

	Notes	Consolidated		Parent entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Total equity at the beginning of the financial year		351,557	374,488	187,621	344,089
Adjustment on adoption of AASB 132 and AASB 139 (net of tax)		-	(731)	-	(731)
Restated total equity at the beginning of the financial year		351,557	373,757	187,621	343,358
Net movement in foreign currency translation reserve	22 (ii)	2,468	(2,762)	-	-
Other		-	(116)	-	-
Changes in fair value of available-for-sale financial assets	22 (v)	(4,303)	-	-	-
Net income recognised directly in equity		(1,835)	(2,878)	-	-
Profit for the financial year		240,055	244,321	99,452	90,878
Total recognised income and expense for the financial year		238,220	241,443	99,452	90,878
Transactions with equity holders in their capacity as equity holders					
Issues of ordinary shares for no consideration during the year under the General Employee Share Plan	21	-	1,213	-	1,213
Proceeds from issue and exercise of options under the Employee Share Option Plan	21	-	12,461	-	12,461
Transfer to share-based payments reserve	21	-	(5,091)	-	(5,091)
Shares bought back on-market and cancelled (including transaction costs)	21	(34,607)	(102,393)	(34,607)	(102,393)
Capital reduction (including transaction costs)	21	-	(100,399)	-	(100,399)
		(34,607)	(194,209)	(34,607)	(194,209)
Net movement in share-based payments reserve	22 (iii)	18,566	16,782	16,728	14,340
Net movement in share trust reserve	22(iv)	(59,934)	(19,470)	-	-
Equity dividends	7	(148,823)	(66,746)	(149,947)	(66,746)
Dividend paid to minority shareholder	23	(508)	-	-	-
Shareholders equity attributable to minority interest on partial sale of subsidiary	23	456	-	-	-
Net movement in reserves attributable to minority interest	23	42	-	-	-
		(224,808)	(263,643)	(167,826)	(246,615)
Total equity at the end of the financial year		364,969	351,557	119,247	187,621
Total recognised income and expense for the financial year is attributable to:					
Members of Aristocrat Leisure Limited		237,238	241,443	99,452	90,878
Minority interest		982	-	-	-
		238,220	241,443	99,452	90,878

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

Statements of cash flows

for the year ended 31 December 2006

	Notes	2006 \$'000	Consolidated 2005 \$'000	2006 \$'000	Parent entity 2005 \$'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		1,264,880	1,345,022	-	-
Payments to suppliers and employees (inclusive of goods and services tax)		(944,952)	(893,627)	(32)	-
		319,928	451,395	(32)	-
Other income	5	617	1,133	-	7
Interest received		11,295	16,807	8,346	9,676
Finance costs		(11,713)	(10,241)	(4,395)	(8,562)
Income taxes paid		(115,355)	(65,941)	-	-
Net cash inflow from operating activities	37	204,772	393,153	3,919	1,121
Cash flows from investing activities					
Payments for purchase of controlled entity net of cash acquired	29	(70,620)	-	-	-
Payments for property, plant and equipment		(35,319)	(35,514)	-	-
Payment for investment in jointly controlled entity	30(a)	(59,639)	-	-	-
Payment for available-for-sale financial assets		(23,217)	-	-	-
Payments for patents, trademarks and computer software		(2,386)	(3,293)	-	-
Loan to non-related party		(8,984)	-	-	-
Loans from related parties		-	-	343,583	249,773
Proceeds from sale of share in subsidiary	28	8,217	-	-	-
Repayment from loan to non-related party		487	-	-	-
Proceeds from sale of property, plant and equipment		1,044	1,886	-	-
Net cash inflow / (outflow) from investing activities		(190,417)	(36,921)	343,583	249,773
Cash flows from financing activities					
Proceeds from issue and exercise of options under the Employee Share Option Plan	32(d)	7,125	15,211	7,125	15,211
Shares purchased by trust	22(iv)	(55,980)	(25,991)	-	-
Payment for shares bought back		(34,592)	(102,393)	(34,592)	(102,393)
Payments for capital return		-	(100,445)	-	(100,445)
Repayment of borrowings		(210,069)	(100)	(170,068)	-
Proceeds from borrowings		204,287	-	-	-
Dividend paid to minority interests in subsidiaries	23	(508)	-	-	-
Dividends paid	7	(148,823)	(66,746)	(149,947)	(66,746)
Net cash (outflow) from financing activities		(238,560)	(280,464)	(347,482)	(254,373)
Net increase / (decrease) in cash and cash equivalents held					
		(224,205)	75,768	20	(3,479)
Cash and cash equivalents at the beginning of the financial year		359,532	285,973	10	3,489
Effects of exchange rate changes on cash and cash equivalents		(11,831)	(2,209)	-	-
Cash and cash equivalents at the end of the financial year	8	123,496	359,532	30	10
Financing arrangements	18				

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

Notes to the financial statements

for the year ended 31 December 2006

Note 1. Summary of significant accounting policies

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

(a) Basis of preparation

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

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRS ensures that the consolidated financial statements and notes of Aristocrat Leisure Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Disclosure and Presentation*.

Early adoption of standard

The Group elected to apply AASB 119 *Employee Benefits* (issued in December 2004) to the reporting periods beginning 1 January 2005.

Historical cost convention

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

Critical accounting estimates

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

(b) Principles of consolidation

(i) *Historical cost convention*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Aristocrat Leisure Limited ('Company' or 'parent entity') as at 31 December 2006 and the results of all subsidiaries for the year then ended. Aristocrat Leisure Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

Notes to the financial statements

for the year ended 31 December 2006

Note 1. Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

(i) *Historical cost convention (continued)*

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

(ii) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) *Jointly controlled entities*

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

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) *Functional and presentation currency*

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

Notes to the financial statements

for the year ended 31 December 2006

Note 1. Summary of significant accounting policies (continued)

(d) Foreign currency translation (continued)

(ii) *Transactions and balances*

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

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

(iii) *Group companies*

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

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

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

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

(e) Revenue recognition

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

(i) *Revenue from the sale of goods*

Platform / machine sales

Revenue is recognised when goods have been despatched to a customer pursuant to a sales order, the associated risks have passed to the customer, and it is probable that future economic benefits will flow to the Group.

Value Added Customer Agreements

Revenue arising from *Value Added Customer Agreements* (VACA) where gaming machines, games, conversions and other incidental items are licensed to customers for extended periods, is recognised on delivery in the case of gaming machines and games, and for other items including conversions, only as the long-term goods or services are delivered. Where appropriate, receivables are discounted to present values at the relevant implicit interest rates.

Value Added Service Agreements

Revenue arising from *Value Added Service Agreements* (VASA) where gaming machines and games are licensed to customers for extended periods and a service fee is payable over the term of the contract for warranty conversions to ensure product performance on or at above the agreed level, is recognised on delivery in the case of gaming machines and games, and over the term of the contract on a straight line basis for the service fee provided for warranty conversions. Where appropriate, receivables are discounted to present values at the relevant implicit interest rates.

Notes to the financial statements

for the year ended 31 December 2006

Note 1. Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(i) Revenue from the sale of goods (continued)

Long-term contracts

Revenue on long-term contracts for systems and similar installations is recognised progressively over the period of individual contracts, wherever a reliable estimate can be made, using the percentage of completion method. Where a reliable estimate cannot be made, revenue is recognised to the extent of costs incurred, where it is probable that the costs will be recovered.

(ii) Revenue from gaming operations and services

Participation revenue

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

Rental

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

Service revenue

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

Revenue in advance

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

(f) Income tax

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

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2006

Note 1. Summary of significant accounting policies (continued)

(g) Tax consolidation legislation

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

The head entity, Aristocrat Leisure Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured by applying a group allocation approach, which uses a combination between the 'stand alone tax payer' and 'separate tax payer within a group' approach as described in UIG1052 *Tax Consolidation Accounting*.

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

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

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

(h) Leases

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

(i) Business combinations

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

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

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

(j) Impairment of assets

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

(k) Cash and cash equivalents

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

Notes to the financial statements

for the year ended 31 December 2006

Note 1. Summary of significant accounting policies (continued)

(l) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. The collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(m) Inventories

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

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

(ii) *Contract work in progress*

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

(n) Intellectual property rights

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

(o) Non-current assets held for sale

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

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

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

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

(p) Investments and other financial assets

From 1 January 2005

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Notes to the financial statements

for the year ended 31 December 2006

Note 1. Summary of significant accounting policies (continued)

(p) Investments and other financial assets (continued)

From 1 January 2005 (continued)

(ii) *Loans and receivables*

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

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

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

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

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

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes the fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

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

Notes to the financial statements

for the year ended 31 December 2006

Note 1. Summary of significant accounting policies (continued)

(q) Derivatives

From 1 January 2005

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or (2) hedges of highly probable forecast transactions (cash flow hedges).

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

(i) Fair value hedges

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

(ii) Cash flow hedges

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

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

Notes to the financial statements

for the year ended 31 December 2006

Note 1. Summary of significant accounting policies (continued)

(r) Fair value estimation

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

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

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

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

(s) Property, plant and equipment

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

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

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

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

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

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

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

(t) Intangible assets

(i) Goodwill

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

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

Notes to the financial statements

for the year ended 31 December 2006

Note 1. Summary of significant accounting policies (continued)

(t) Intangible assets (continued)

(ii) Computer technology

Computer technology has a finite useful life and is carried at cost less accumulated amortisation and impaired losses. Computer technology acquired through a business combination is measured at fair value at acquisition date. Amortisation is calculated using the straight-line method to allocate the value of computer technology over its estimated useful life, which vary from 3 to 10 years.

(iii) Trademarks and licences

Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impaired losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives, which vary from 3 to 12 years.

(iv) Research and development

Research expenditure is expensed as incurred.

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

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

As at balance date, there are no capitalised development costs.

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

(u) Payables

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

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

(v) Borrowings

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

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

(w) Borrowing costs

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

Notes to the financial statements

for the year ended 31 December 2006

Note 1. Summary of significant accounting policies (continued)

(x) Provisions

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

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

(i) Progressive jackpot liabilities

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

(ii) Warranties

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

(iii) Make good

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

(y) Employee benefits - payable

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

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

(ii) Retirement benefit obligations

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

(iii) Share-based payments

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

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

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2006

Note 1. Summary of significant accounting policies (continued)

(y) Employee benefits - payable (continued)

(iii) Share-based payments (continued)

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

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

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

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

(iv) Bonus plans

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

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

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

(v) Employee benefit on-costs

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

(vi) Termination benefits

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

(z) Employee benefits - provision

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

(aa) Contributed equity

Ordinary shares are classified as contributed equity.

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

Treasury shares acquired by Aristocrat Employee Equity Plan Trust are recorded in share based reserves. Information relating to these shares are disclosed in Note 22 (a)(iv).

(ab) Dividends

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

Notes to the financial statements

for the year ended 31 December 2006

Note 1. Summary of significant accounting policies (continued)

(ac) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(ad) AASB Accounting Standards issued but not yet effective

The following accounting standards have been issued by AASB but have not been adopted by the Group as they are not effective until after annual reporting periods beginning on or after 1 January 2006 or 1 January 2007:

Accounting Standard AASB 2005-10 *Amendments to Australian Accounting Standard - (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038)* - effective on or after 1 January 2007. The objective of the standard is to amend disclosure requirements to AASB 132 which necessitates consequential amendments to the other listed standards. The amendment in AASB 132 is in line with the issuance of AASB 7.

Accounting Standard AASB 7 *Financial Instruments: Disclosures* - effective on or after 1 January 2007. The objective of AASB 7 is to combine and enhance the disclosure requirements in relation to the risk exposures arising from financial instruments used by the consolidated entity.

UIG Interpretation 8 Scope of AASB 2 Share-based Payment was issued in March 2006 and becomes effective for annual reporting periods beginning on or after 1 May 2006. It applies to transactions whereby an entity grants equity instruments or incurs a liability based on the price of the entity's shares but cannot specifically identify the goods or services received.

UIG Interpretation 9 Reassessment of Embedded Derivatives was issued in April 2006 and becomes effective for annual reporting periods beginning on or after 1 June 2006. This interpretation clarifies when an entity should reassess whether an embedded derivative contained in a host contract is required to be separated from the host contract and accounted for as a derivative under AASB 139 *Financial Instruments: Recognition and Measurement*.

UIG Interpretation 10 Interim Financial Reporting and Impairment clarifies that an entity cannot reverse an impairment loss recognised in a previous interim period in relation to goodwill, an investment in an equity instrument, or in a financial asset carried at cost. It applies to annual periods beginning on or after 1 November 2006.

The consolidated entity will adopt these standards from 1 January 2007. At the date of this report the Group is unable to reasonably estimate the impact of the adoption of these Standards.

(ae) Rounding of amounts

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

Notes to the financial statements

for the year ended 31 December 2006

Note 2. Financial risk management

The Group's activities expose it to a variety of financial risks, these include: operational control, foreign exchange, interest rate, liquidity and credit risk.

The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures when necessary.

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

(a) Operational control risk

Operational control risk refers to the risk to which the Group is exposed as a result of treasury activities, including mismanagement, error, negligence, fraud or unauthorised actions.

This risk is controlled through the Group Treasury policy. Guidelines have been established within which Group Treasury operates and covers how resources should be allocated and delegated.

(b) Foreign exchange risk

Foreign exchange risk is the risk of loss arising from an unfavourable move in market exchange rates. Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures principally to the US dollar.

External foreign exchange contracts are designated at the Group level as hedges of foreign exchange risk on specific foreign currency denominated transactions.

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

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

(c) Interest rate risk

Interest-rate risk is the risk of loss arising from increased interest rates that affect the borrowing costs of the Group. The interest-rate risk mainly arises from borrowings under the Group's bank debt facility. At year end, the Group had floating rate borrowings drawn from the facility.

The Group has the ability to manage floating interest-rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating-rates to fixed rates. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

Group Treasury manages interest-rate risk within prescribed limits as referred to in the Group Treasury Policy.

Notes to the financial statements

for the year ended 31 December 2006

Note 2. Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the financial risk from a possible loss of liquidity. For the Group, this might result from a mismatch of cashflow and debt repayments through forecasting errors or creditor / debtor timing differences.

Prudent liquidity risk management requires maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions.

At balance date the board of directors determined that there was sufficient cash and committed credit lines available to meet the future requirements of the Group.

(e) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that the sales of products and services are made to customers with an appropriate credit history.

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

Note 3. Critical accounting estimates and judgements

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

Critical accounting estimates and assumptions

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

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

Notes to the financial statements

for the year ended 31 December 2006

Note 4. Segment information

Primary reporting - geographical segments

2006	Australia \$'000	North America \$'000	South America \$'000	Japan \$'000	New Zealand \$'000	Other \$'000	Total continuing operations \$'000	Inter-segment eliminations / unallocated \$'000	Consolidated \$'000
Revenue									
Sales to external customers	275,999	564,780	27,505	50,358	26,566	129,326	1,074,534	-	1,074,534
Inter-segment sales	100,516	-	-	-	-	-	100,516	(100,516)	-
Total sales revenue	376,515	564,780	27,505	50,358	26,566	129,326	1,175,050	(100,516)	1,074,534
Other income (excluding interest)	141	454	5	7	-	6,848	7,455	-	7,455
Total segment revenue / income (excluding interest)	376,656	565,234	27,510	50,365	26,566	136,174	1,182,505	(100,516)	1,081,989
Interest income									12,721
Total consolidated revenue									1,094,710
Result									
Segment result	295,137	17,303	11,988	(11,448)	650	13,786	327,416	726	328,142
Share of net profits of jointly controlled entity									7,150
Net interest income / (expense)									(2,364)
Profit before income tax expense									332,928
Income tax expense									(92,873)
Net profit after tax									240,055

Notes to the financial statements

for the year ended 31 December 2006

Note 4. Segment information (continued)

Primary reporting - geographical segments (continued)

2006	Australia \$'000	North America \$'000	South America \$'000	Japan \$'000	New Zealand \$'000	Other \$'000	Total continuing operations \$'000	Inter-segment eliminations / unallocated \$'000	Consolidated \$'000
Assets and liabilities									
Segment assets	515,022	232,097	28,662	84,211	6,985	108,765	975,742	(233,172)	742,570
Unallocated assets									135,392
Total assets									877,962
Segment liabilities	158,280	84,099	3,040	33,720	2,557	13,939	295,635	-	295,635
Unallocated liabilities									217,358
Total liabilities									512,993
Other segment information									
Acquisition of property, plant and equipment, intangibles and other non-current segment assets	10,360	19,734	2,015	1,493	674	85,781	120,057	-	120,057
Depreciation and amortisation expense	11,515	14,720	173	1,194	399	3,414	31,415	-	31,415
Other non-cash expenses	10,745	(1,397)	2,181	6,532	87	342	18,490	-	18,490

Notes to the financial statements

for the year ended 31 December 2006

Note 4. Segment information (continued)

Primary reporting - geographical segments (continued)

2005	Australia \$'000	North America \$'000	South America \$'000	Japan \$'000	New Zealand \$'000	Other \$'000	Total continuing operations \$'000	Inter-segment eliminations / unallocated \$'000	Consolidated \$'000
Revenue									
Sales to external customers	270,305	496,108	13,532	373,699	36,995	105,684	1,296,323	-	1,296,323
Inter-segment sales	134,260	-	-	-	-	-	134,260	(134,260)	-
Total sales revenue	404,565	496,108	13,532	373,699	36,995	105,684	1,430,583	(134,260)	1,296,323
Other income (excluding interest)	752	2,782	-	9	270	92	3,905	-	3,905
Total segment revenue / income (excluding interest)	405,317	498,890	13,532	373,708	37,265	105,776	1,434,488	(134,260)	1,300,228
Interest income									16,807
Total consolidated revenue									1,317,035
Result									
Segment result	247,321	24,036	4,709	58,925	1,136	21,744	357,871	505	358,376
Share of net profits of jointly controlled entity									-
Net interest (expense) / income									5,571
Profit before income tax expense									363,947
Income tax expense									(119,626)
Net profit after tax									244,321

Notes to the financial statements

for the year ended 31 December 2006

Note 4. Segment information (continued)

Primary reporting - geographical segments (continued)

2005	Australia \$'000	North America \$'000	South America \$'000	Japan \$'000	New Zealand \$'000	Other \$'000	Total continuing operations \$'000	Inter-segment eliminations / unallocated \$'000	Consolidated \$'000
Assets and liabilities									
Segment assets	698,725	79,715	23,623	264,953	5,821	20,184	1,093,021	(90,235)	1,002,786
Unallocated assets									64,634
Total assets									1,067,420
Segment liabilities	154,930	96,017	10,404	180,134	2,440	7,403	451,328	(159)	451,169
Unallocated liabilities									264,694
Total liabilities									715,863
Other segment information									
Acquisition of property, plant and equipment, intangibles and other non-current segment assets	11,566	23,386	-	2,179	554	1,088	38,773	(452)	38,321
Depreciation and amortisation expense	12,486	24,391	517	1,565	163	633	39,735	-	39,735
Other non-cash expenses	12,189	4,597	(121)	464	156	(66)	17,219	-	17,219

Notes to the financial statements

for the year ended 31 December 2006

Note 4. Segment information (continued)

Secondary reporting - business

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

Notes to and forming part of the segment information

(a) Accounting policies

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

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

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

(b) Inter-segment transfers

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

Gross margins are measured as revenues less cost of goods sold, being labour and related on-costs as well as direct material costs, as a percentage of revenues.

(c) Head office expenses

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

Notes to the financial statements

for the year ended 31 December 2006

	Notes	2006 \$'000	Consolidated 2005 \$'000	2006 \$'000	Parent entity 2005 \$'000
Note 5. Profit from ordinary activities					
(a) Revenue from operating activities					
Sale of goods	1(e)(i)	821,338	1,062,791	-	-
Gaming operations and services	1(e)(ii)	253,196	233,532	-	-
		1,074,534	1,296,323	-	-
(b) Other revenue and other income					
Interest		12,721	16,807	8,346	9,676
Dividends		-	-	100,000	90,000
Other revenue		12,721	16,807	108,346	99,676
Foreign currency translation gains	5(d)	607	2,511	-	1,078
Gain on disposal of property, plant and equipment	5(e)	12	261	-	-
Gain on disposal of interest in subsidiary	28	6,219	-	-	-
Other income		617	1,133	-	1,220
Other income		7,455	3,905	-	2,298
Total other revenue and other income from ordinary activities		20,176	20,712	108,346	101,974
(c) Expenses					
(i) Depreciation and amortisation					
Depreciation and amortisation of property, plant and equipment					
- Buildings		521	436	-	-
- Leasehold improvements		2,140	1,267	-	-
- Plant and equipment		24,275	35,088	-	-
Total depreciation and amortisation of property, plant and equipment	14	26,936	36,791	-	-
Amortisation of intangibles					
- Computer technology		4,350	2,815	-	-
- Copyrights, patents, trademarks and		129	129	-	-
Total amortisation of intangibles	16	4,479	2,944	-	-
Total depreciation and amortisation	37	31,415	39,735	-	-
(ii) Employee benefits expense					
Salaries and wages		198,437	192,586	-	-
Superannuation costs		9,528	8,144	-	-
Post-employment benefits other than superannuation		1,748	2,900	-	-
Expense of share-based payments	32	9,604	7,712	1,145	1,213
Employee benefits expense		219,317	211,342	1,145	1,213

Notes to the financial statements

for the year ended 31 December 2006

	Notes	2006 \$'000	Consolidated 2005 \$'000	2006 \$'000	Parent entity 2005 \$'000
Note 5. Profit from ordinary activities (continued)					
(c) Expenses (continued)					
(iii) Other significant items					
Other charges against assets					
- Bad and doubtful debts - trade debtors	9	(2,532)	1,622	-	-
- Write down of inventories to net realisable value		12,467	6,588	-	-
Legal costs		19,553	28,938	-	-
Rental expense relating to operating leases					
- Minimum lease payments		12,004	10,514	-	-
Total rental expense relating to operating leases		12,004	10,514	-	-
(d) Net foreign exchange gain / (loss)					
Foreign exchange gain		607	2,511	-	1,078
Foreign exchange loss		(749)	(475)	-	-
Realised exchange differences arising from the partial settlement of a long-term loan which formed part of the net investment in a foreign operation		(5,975)	-	-	-
Net foreign exchange gain / (loss)		(6,117)	2,036	-	1,078
(e) Net gain / (loss) on disposal of property, plant and equipment					
Gain on disposal of property, plant and equipment		12	261	-	-
Loss on disposal of property, plant and equipment		(852)	(191)	-	-
Net gain / (loss) on disposal of property, plant and equipment	37	(840)	70	-	-

Notes to the financial statements

for the year ended 31 December 2006

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

Note 6. Income tax expense

Major components of income tax expense for the years ended 31 December 2006 and 2005 are:

(a) Income tax expense

Current income tax	83,930	120,746	(697)	(885)
Deferred income tax	9,580	498	695	844
Adjustments in respect of current income tax of previous years	(637)	(1,618)	(15)	177
Income tax expense / (credit)	92,873	119,626	(17)	136

Deferred income tax expense included in income tax expense comprises:

Decrease in deferred tax asset	9,936	401	695	844
(Decrease) / increase in deferred tax liabilities	(356)	97	-	-
Deferred income tax expense included in income tax expense	9,580	498	695	844

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

Profit from ordinary activities before income tax expense	332,928	363,947	99,435	91,014
Tax at the Australian tax rate of 30% (2005: 30%)	99,878	109,184	29,831	27,304
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Research and development	(2,159)	(2,310)	-	-
Share-based payments	330	2,085	-	-
Non taxable dividends	336	-	(30,000)	(27,000)
Share of net profit in jointly controlled entity	(2,146)	-	-	-
Partial sale of subsidiary	(1,866)	-	-	-
Tax losses not recognised	2,701	-	-	-
Other	2,219	566	172	(340)
	99,293	109,525	3	(36)
Difference in overseas tax rates	(28)	10,763	-	-
Adjustments in respect of current income tax of previous years				
Current income tax	(637)	(1,618)	(15)	177
Deferred income tax	(5,755)	956	(5)	(5)
Income tax expense / (credit)	92,873	119,626	(17)	136
Average effective tax rate	27.90%	32.87%	-0.02%	0.15%

(c) Amounts recognised directly in equity

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

Current income tax - credited directly to equity	1,942	9,009	-	45
Net deferred tax - (debited) directly to equity	(3,603)	-	-	-
Aggregate current and deferred tax arising in the reporting period directly (debited) or credited to equity	(1,661)	9,009	-	45

Notes to the financial statements

for the year ended 31 December 2006

	2006 \$'000	Consolidated 2005 \$'000	2006 \$'000	Parent entity 2005 \$'000
Note 6. Income tax expense (continued)				
(d) Revenue and capital tax losses				
Unused gross tax losses for which no deferred tax asset has been recognised	9,692	-	-	-
Unused gross capital tax losses for which no deferred tax asset has been recognised	484	530	484	530
	10,176	530	484	530
Potential tax benefit	2,846	159	145	159

Unused revenue losses were incurred by Aristocrat Leisure Limited's overseas subsidiaries. All unused capital tax losses were incurred by Australian entities.

(e) Unrecognised temporary differences

Deferred tax assets on general temporary differences	103	-	-	-
Deferred tax assets on land held for sale	1,140	-	-	-
	1,243	-	-	-

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

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

The deferred tax balances in relation to Aristocrat Leisure Limited's indirect overseas investments have not been recognised. The accounting policy in relation to this is set out in Note 1(f).

(f) Tax consolidation legislation

Aristocrat Leisure Limited and its wholly-owned Australian controlled entities have implemented tax consolidation legislation as of 1 January 2004. The accounting policy in relation to this legislation is set out in Note 1(g).

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

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Aristocrat Leisure Limited for any current tax payable assumed and are compensated by Aristocrat Leisure Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Aristocrat Leisure Limited under the tax consolidation legislation. The funding amounts are determined by reference to the tax funding agreement which applies a group allocation approach, taking into account a combination between the 'stand alone tax payer' and a 'separate tax payer within a group'. There are no equity adjustments arising from the implementation of UIG1052 *Tax Consolidation Accounting*.

The amounts receivable / payable under the tax funding agreement are due upon receipt of the funding advice from the head entity. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables (refer to Note 9).

Notes to the financial statements

for the year ended 31 December 2006

	Consolidated		Parent entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 7. Dividends				
Ordinary shares				
Final dividends paid during the year:				
- 2005 - 20.0 cents, 100% franked on tax paid at 30%, per fully paid share paid on 24 March 2006	93,330	-	93,821	-
- 2004 - 4.0 cents, unfranked, per fully paid share paid on 23 March 2005	-	19,144	-	19,144
Interim dividends paid during the year:				
- 2006 - 12.0 cents, 100% franked on tax paid at 30%, per fully paid share paid on 19 September 2006	55,493	-	56,126	-
- 2005 - 10.0 cents, 100% franked on tax paid at 30%, per fully paid share paid on 21 September 2005	-	47,602	-	47,602
Total dividends paid during the year	148,823	66,746	149,947	66,746
Dividends paid were satisfied as follows:				
Paid in cash	149,947	66,746	149,947	66,746
Dividend received by Aristocrat Employee Equity Plan Trust	(1,124)	-	-	-
	148,823	66,746	149,947	66,746

Dividends not recognised at year end

Since the end of the year the directors have recommended the payment of a final dividend of 24.0 cents (2005 - 20.0 cents) per fully paid ordinary share, 100% franked (2005: 100% franked). The aggregate amount of the proposed final dividend expected to be paid on 23 March 2007 out of retained profits at 31 December 2006, but not recognised as a liability at the end of the year is:

112,251 93,821

Franked dividends	Consolidated		Parent entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Estimated franking credits expected to be available for subsequent financial years based on a tax rate of 30% (2005: 30%)	-	-	95,617	84,218

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

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

Dividend Reinvestment Plan

The directors have determined that the Aristocrat Leisure Limited Dividend Reinvestment Plan will operate in respect of the 2006 final dividend for shareholders in Australia and New Zealand.

Notes to the financial statements

for the year ended 31 December 2006

Notes	Consolidated		Parent entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 8. Cash and cash equivalents				
Cash at bank and in hand	59,787	157,032	30	10
Short-term deposits	63,709	202,500	-	-
18	123,496	359,532	30	10

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

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group. Short-term deposits bear floating interest rates between 4.85% and 6.35% (2005: between 4.08% and 5.77%).

Note 9. Receivables

Current

Trade receivables	192,341	283,300	-	-
Provision for doubtful debts	(7,164)	(10,204)	-	-
	185,177	273,096	-	-
Tax related amounts receivable from wholly-owned entities*	-	-	63,100	78,514
Other receivables	17,749	11,960	100	-
Loans to non-related parties - secured	1,490	-	-	-
	204,416	285,056	63,200	78,514

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

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

Non-current

Trade receivables	45,182	58,723	-	-
Receivable from other controlled entities**	-	-	86,608	335,232
Other receivables	2,283	2,530	-	-
Loans to non-related parties - secured	6,148	-	-	-
	53,613	61,253	86,608	335,232

**Refer to Note 35 for terms and conditions relating to receivables from other controlled entities.

(a) Bad and doubtful trade receivables

The Group has recognised a gain of \$2,531,573 (2005: loss of \$1,622,153) in respect of bad and doubtful trade receivables during the year ended 31 December 2006. The gain / (loss) has been included in 'sales and marketing costs' in the income statement.

(b) Other receivables - current

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

(c) Other receivables - non-current

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

(d) Loans to non-related parties

Represent a loan issued to a third party on the sale of a 28% share in the African operations (refer to Note 28). The loan is for a term of seven years with annual principal and interest payments due in March of each year. The interest rate is the South African prime bank overdraft rate less one percent. The annual repayments are funded from the dividend payment by the African operations to the minority shareholders.

Notes to the financial statements

for the year ended 31 December 2006

	Notes	Consolidated		Parent entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 10. Inventories					
Current					
Raw materials and stores - at cost		44,339	56,082	-	-
Provision for obsolescence		(22,276)	(21,129)	-	-
		<u>22,063</u>	<u>34,953</u>	-	-
Work in progress		543	200	-	-
Finished goods - at cost		55,172	47,423	-	-
Provision for obsolescence		(13,200)	(7,618)	-	-
		<u>41,972</u>	<u>39,805</u>	-	-
Contract work in progress		649	878	-	-
Inventory in transit - at cost		4,675	6,562	-	-
		<u>69,902</u>	<u>82,398</u>	-	-

Inventory expense

Inventories recognised as expense during the year ended 31 December 2006 amounted to \$302,638,398 (2005: \$478,864,481).

Note 11. Financial assets

Current					
Equity securities available-for-sale	11(i)	6,012	6,085	-	-
Debt securities held-to-maturity		1,594	1,473	-	-
	18	<u>7,606</u>	<u>7,558</u>	-	-
Non-current					
Debt securities held-to-maturity		12,902	12,187	-	-
Equity securities available-for-sale	11(i)	18,914	-	-	-
Investment in unlisted controlled entities		-	-	21,649	13,190
Investment in jointly controlled entity	30	74,272	-	-	-
	18	<u>106,088</u>	<u>12,187</u>	<u>21,649</u>	<u>13,190</u>

(i) Equity securities available-for-sale

Balance at the beginning of the year		6,085	5,566	-	-
Additions during the year		23,144	519	-	-
Revaluation shortfall transferred to reserves	22 (v)	(4,303)	-	-	-
Balance at the end of the year		<u>24,926</u>	<u>6,085</u>	-	-

(ii) Investments in jointly controlled entity

Investments in jointly controlled entity are accounted for in the consolidated financial statements using the equity method of accounting.

Note 12. Other assets

Intellectual property rights	1(n)	1,797	2,164	-	-
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Notes to the financial statements

for the year ended 31 December 2006

	Notes	2006 \$'000	Consolidated 2005 \$'000	2006 \$'000	Parent entity 2005 \$'000
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Note 13. Current assets - non-current assets classified as held for sale

Land	14	4,600	-	-	-
		4,600	-	-	-

The Group has commenced the process of selling its surplus land and buildings in Australia. The expected time frame for completion for the initial sale is December 2007.

Note 14. Property, plant and equipment

Land and buildings

Land and buildings - at deemed cost		36,864	42,408	-	-
Leasehold improvements - at cost		17,761	15,074	-	-
Accumulated amortisation		(10,268)	(7,817)	-	-
		7,493	7,257	-	-
Total land and buildings		44,357	49,665	-	-

Plant and equipment

Plant and equipment owned - at cost		177,072	160,673	-	-
Accumulated depreciation		(103,583)	(93,883)	-	-
Total plant and equipment		73,489	66,790	-	-
		117,846	116,455	-	-

Reconciliations

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

	Land and buildings \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Total \$'000
Consolidated				
Carrying amount at 1 January 2005	41,324	8,585	67,553	117,462
Additions	930	399	34,515	35,844
Disposals	-	-	(1,820)	(1,820)
Depreciation / amortisation	(436)	(1,267)	(35,088)	(36,791)
Foreign currency exchange differences	590	301	1,630	2,521
Transfers*	-	(761)	-	(761)
Carrying amount at 31 December 2005	42,408	7,257	66,790	116,455
Additions	260	2,959	33,719	36,938
Disposals	-	(285)	(1,604)	(1,889)
Additions through acquisition of entity	-	-	1,340	1,340
Transfer to current asset - non-current asset held for sale	(4,600)	-	-	(4,600)
Depreciation / amortisation	(521)	(2,140)	(24,275)	(26,936)
Foreign currency exchange differences	(683)	(298)	(2,481)	(3,462)
Carrying amount at 31 December 2006	36,864	7,493	73,489	117,846

*Transfers in 2005 represents the lapsing of leasehold contracts and subsequent reversal of the associated asset.

Notes to the financial statements

for the year ended 31 December 2006

	Notes	Consolidated		Parent entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 15. Deferred tax assets					
The balance comprises temporary differences attributable to:					
<i>Amounts recognised in the income statement</i>					
Accruals and other provisions		13,051	22,060	1,044	-
Doubtful debts		1,070	2,277	-	-
Deferred revenue		1,120	4,834	-	-
Employee benefits		9,223	10,133	-	-
Convertible subordinated bonds		-	178	-	178
Property, plant, equipment and intangible assets		3,943	1,713	-	-
Prepayments		(177)	(481)	-	-
Provision for stock obsolescence		8,002	7,930	-	-
Share based equity		(8,981)	-	-	-
Overseas tax obligations		873	3,852	-	-
Unrealised gains and losses		1	2,508	(17)	2,219
Identifiable intangibles on acquisition of subsidiary		(6,762)	-	-	-
Tax losses		11,377	-	-	-
Other		9,466	7,840	6	(669)
		42,206	62,844	1,033	1,728
Movements					
Opening balance at 1 January		62,844	63,342	1,728	30,149
Charged to the income statement	6	(9,580)	(498)	(695)	(844)
Charged to equity included deferred taxes		(3,603)	-	-	-
Acquisition of subsidiary	29	(7,455)	-	-	-
Reallocation to related entities		-	-	-	(27,577)
Closing balance at 31 December		42,206	62,844	1,033	1,728

Notes to the financial statements

for the year ended 31 December 2006

Notes	Consolidated		Parent entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 16. Intangible assets				
Goodwill	102,501	71,662	-	-
Copyrights, patents, trademarks and licensing rights	1,588	1,591	-	-
Accumulated amortisation	(1,072)	(946)	-	-
	516	645	-	-
Computer technology	66,594	22,954	-	-
Accumulated amortisation	(23,219)	(19,078)	-	-
	43,375	3,876	-	-
	146,392	76,183	-	-

	Goodwill \$'000	Copyrights, patents, trademarks and licensing rights \$'000	Computer technology \$'000	Total \$'000
Consolidated				
Carrying amount at 1 January 2005	67,665	774	4,197	72,636
Additions	-	-	2,477	2,477
Disposals	-	-	(15)	(15)
Amortisation charge*	-	(129)	(2,815)	(2,944)
Foreign currency exchange differences	3,997	-	32	4,029
Carrying amount at 31 December 2005	71,662	645	3,876	76,183
Additions	-	-	2,386	2,386
Additions on acquisitions of subsidiary	29	37,298	42,030	79,328
Amortisation charge*	-	(129)	(4,350)	(4,479)
Foreign currency exchange differences	(6,459)	-	(567)	(7,026)
Carrying amount at 31 December 2006	102,501	516	43,375	146,392

*Amortisation of \$4,479,000 (2005: \$2,944,000) is included in depreciation and amortisation expense in the income statement.

(a) Impairment tests for goodwill

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

A segment level summary of the goodwill allocation is presented below:

(i) Wholly-owned controlled entities

	2006 \$'000	2005 \$'000
North America	65,850	70,702
Other - South Africa	817	960
Other - ACE Interactive	35,834	-
	102,501	71,662

(ii) Jointly controlled entity

	2006 \$'000	2005 \$'000
Other - Elektronček	67,972	-
	67,972	-

In the financial year ended 2006, the recoverable amount of all the Group's CGU's are determined based upon a value-in-use calculation.

The fair value less cost to sell calculation method was used to determine the recoverable amount of the South African CGU in 2005.

Notes to the financial statements

for the year ended 31 December 2006

Note 16. Intangible assets (continued)

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

(i) Value-in-use

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

1. Financial budgets and strategic plans for five years approved by management;
2. A pre-tax discount rate of:

	FY 2006	FY 2005
North America	14.7%	13.6%
Other - South Africa	18.6%	-
Other - ACE Interactive	15.2%	-
Other - Elektronček	14.7%	-

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

	FY 2006	FY 2005
North America	3.0%	3.0%
Other - South Africa	3.0%	-
Other - ACE Interactive	5.0%	-
Other - Elektronček	3.0%	-

4. An allocation of head office assets.

(ii) Fair value less cost to sell

The Earnings Before Interest Tax Depreciation and Amortisation ('EBITDA') multiple methodology was used in the South African CGU in 2005. The following inputs and assumptions were adopted for the calculation:

1. Financial budgets and strategic plans for three years approved by management;
2. An EBITDA multiple of 6;
3. A cost of disposal of 5.0%; and
4. An allocation of head office assets.

Management has based the assumptions in both models on the CGU's past performance and future expectations and forecast growth rates found in local industry reports.

(c) Impact of possible changes in key assumptions

It is determined that there would not be any material change to any key assumption on which management has based its determination of the recoverable amount that would cause the CGU's carrying amount to exceed their recoverable amounts.

(d) Impairment charge

The annual impairment test indicates no impairment charge is required for the CGU's in either 2006 or 2005.

Notes	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

Note 17. Payables

Trade creditors	62,552	160,159	-	-
Other creditors	127,877	162,368	3,479	735
18	190,429	322,527	3,479	735

Notes to the financial statements

for the year ended 31 December 2006

	Notes	Consolidated		Parent entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 18. Borrowings					
Current					
<i>Unsecured</i>					
Convertible subordinated bonds	18 (b)	-	175,808	-	175,808
		-	175,808	-	175,808
Non-current					
<i>Secured</i>					
Bank loans	18 (a)	164,287	-	-	-
		164,287	-	-	-

(a) Bank loans

The committed bank facility which was amended on 2 May 2006, is secured by a negative pledge that imposes certain covenants on the Group. The negative pledge states that the Group is limited in being able to provide security over its assets and will ensure that the following ratios are met:

- (i) Gearing ratio will not exceed 3.0 times at any time;
- (ii) Interest cover will not be less than 4.5 times at any time.

The borrowings are at a floating rate. The borrowings are drawn under Facility B of the facility, which matures on 2 May 2009.

(b) Convertible subordinated bonds

The Company issued US\$130 million of 5% convertible subordinated bonds on 31 May 2001 and 7 June 2001. The bonds matured on 31 May 2006 at the time issued, such bonds were convertible into 31,614,786 ordinary shares between 29 August 2001 and 16 May 2006, unless previously redeemed.

Interest expense was calculated by applying the effective interest rate of 5.70% to the liability. The actual interest was paid on 31 May and 30 November each year. Interest payable in respect of the bonds up to maturity date has now been paid either to the relevant bondholders or into Court.

The Company called the convertible subordinated bonds for redemption and issued a notice of redemption to the Bondholders dated 20 December 2004. In the Company's view, the call for redemption terminated the Bondholders' rights to convert the bonds. For further information refer to Note 25.

(c) Assets pledged as security

The bank loans and overdraft facility, prior to amendments on 2 May 2006, were secured by a mortgage over the consolidated entity's Australian freehold land and buildings, the current market value of which exceeds the value of the mortgage and a floating charge over the consolidated entity's Australian assets, the current market value of which exceeds the value of the bank facilities available.

The carrying amount of assets pledged as security for current and non-current interest bearing liabilities are:

	Notes	Consolidated		Parent entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
<i>Floating charge</i>					
Cash and cash equivalents	8,38	-	184,973	-	10
Receivables	9,38	-	77,801	-	-
Total current assets pledged as security		-	262,774	-	10
Non-current					
<i>First mortgage</i>					
Freehold land and buildings	14,38	-	32,279	-	-
<i>Floating charge</i>					
Receivables - non-current	9,38	-	276,038	-	335,232
Plant and equipment	14,38	-	24,513	-	-
Total non-current assets pledged as security		-	332,830	-	335,232
Total assets pledged as security		-	595,604	-	335,242

Notes to the financial statements

for the year ended 31 December 2006

	Notes	Consolidated		Parent entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 18. Borrowings (continued)					
(d) Financing arrangements					
Unrestricted access was available at balance date to the following lines of credit:					
Credit standby arrangements					
Total facilities					
- Bank overdrafts	(i)	5,000	5,000	-	-
- Bank loans	(ii)	300,000	300,000	-	-
- Letter of credit facility	(iii)	252,749	-	-	-
- Other facilities	(iv)	16,988	18,290	-	-
		574,737	323,290	-	-
Used at balance date					
- Bank overdrafts		-	-	-	-
- Bank loans		164,287	-	-	-
- Letter of credit facility		-	-	-	-
- Other facilities		-	-	-	-
		164,287	-	-	-
Unused at balance date					
- Bank overdrafts		5,000	5,000	-	-
- Bank loans		135,713	300,000	-	-
- Letter of credit facility		252,749	-	-	-
- Other facilities		16,988	18,290	-	-
		410,450	323,290	-	-

(i) The bank overdraft facility is subject to annual review.

(ii) The bank loan facility is structured as follows:

- Facility A & C - totalling \$100 million tranche maturing 1 May 2007. The facility is reviewed annually with extension by mutual agreement.
- Facility B - \$200 million tranche maturing 2 May 2009.

(iii) The letter of credit facility is subject to annual review from 1 May 2007.

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

(e) Forward exchange contracts

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

	Weighted average exchange rate	Maturity profile		Net fair value gain / (loss)** \$'000
		1 year or less \$'000	1 to 7 years \$'000	
AUD/USD:	0.7857	64,461	-	415
AUD/JPY:	92.5300	142	-	(2)
AUD/EUR:	0.5934	7,693	-	(86)
AUD/NZD:	1.1321	3,062	-	(25)
AUD/ZAR:	5.8986	2,583	6,827	222
EUR/ZAR*:	9.3258	491	-	(3)
USD/ZAR**:	7.3000	79	-	(3)
	Totals	78,511	6,827	518

*The EUR amount is converted at the prevailing year-end AUD/EUR exchange rate.

**The USD amount is converted at the prevailing year-end AUD/USD exchange rate.

***Refer to Note 1d(ii).

Notes to the financial statements

for the year ended 31 December 2006

Note 18. Borrowings (continued)

(f) Net fair value of financial assets and liabilities

(i) On-balance sheet

The net fair value of all financial assets and financial liabilities of the Group approximates their carrying amounts.

The net fair value of financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

(ii) Off-balance sheet

At 31 December 2006, there were no off-balance sheet financial assets or liabilities, other than those potential liabilities which may arise from certain contingencies disclosed in Note 25.

(g) Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below. Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

	Notes	Weighted average interest rate %	Floating interest rate \$'000	Fixed interest maturing in:		Non-interest bearing \$'000	Total \$'000
				1 year or less \$'000	Over 1 to 5 years \$'000		
2006							
Financial assets							
Cash and cash equivalents	8	4.05	123,496	-	-	-	123,496
Trade receivables	9	-	-	-	-	230,359	230,359
Loans - other	9	10.00	-	1,490	6,148	-	7,638
Financial assets	11	4.88	-	7,606	12,902	93,186	113,694
			123,496	9,096	19,050	323,545	475,187
Financial liabilities							
Payables	17	-	-	-	-	190,429	190,429
Other non-current liabilities	20	-	-	-	-	6,017	6,017
Loans - other	18	5.76	164,287	-	-	-	164,287
Progressive jackpot liabilities*	19	4.93	-	6,494	12,903	-	19,397
			164,287	6,494	12,903	196,446	380,130
Net financial assets / (liabilities)			(40,791)	2,602	6,147	127,099	95,057
2005							
Financial assets							
Cash and cash equivalents	8	4.51	359,532	-	-	-	359,532
Trade receivables	9	-	-	-	-	331,819	331,819
Financial assets	11	3.06	-	7,558	12,187	-	19,745
			359,532	7,558	12,187	331,819	711,096
Financial liabilities							
Payables	17	-	-	-	-	322,527	322,527
Other non-current liabilities	20	-	-	-	-	6,252	6,252
Loans - other	18	5.00	-	175,808	-	-	175,808
Progressive jackpot liabilities*	19	4.65	-	16,231	12,253	-	28,484
			-	192,039	12,253	328,779	533,071
Net financial assets / (liabilities)			359,532	(184,481)	(66)	3,040	178,025

* Refer to Note 1(x)(i) for details on progressive jackpot liabilities.

Notes to the financial statements

for the year ended 31 December 2006

Notes	Consolidated		Parent entity		
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	
Note 19. Provisions					
Current					
Employee benefits	1(y)	8,273	8,279	-	-
Deferred settlement	30	6,653	-	-	-
Make good allowances	1(x)(iii)	233	244	-	-
Progressive jackpot liabilities	1(x)(i)	6,494	16,231	-	-
Warranties	1(x)(ii)	3,121	3,158	-	-
		24,774	27,912	-	-

Non-current					
Employee benefits	1(y)	6,036	4,825	-	-
Make good allowances	1(x)(iii)	1,100	1,214	-	-
Progressive jackpot liabilities	1(x)(i)	12,903	12,253	-	-
		20,039	18,292	-	-

Movements in provisions

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

	Deferred settlement \$'000	Make good allowances \$'000	Progressive jackpot liabilities \$'000	Warranties \$'000	Total \$'000
Consolidated - current and non-current					
Carrying amount at 1 January 2006	-	1,458	28,484	3,158	33,100
Payments	-	(50)	(9,182)	(241)	(9,473)
Foreign currency exchange differences	(195)	(30)	(1,954)	(6)	(2,185)
Additional provisions recognised	6,848	73	2,049	210	9,180
Reversal of provisions recognised	-	(118)	-	-	(118)
Carrying amount at 31 December 2006	6,653	1,333	19,397	3,121	30,504

Note 20. Other liabilities

	Consolidated		Parent entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current				
Deferred revenue	19,118	31,767	-	-
Non-current				
<i>Unsecured</i>				
Deferred revenue	41,912	44,419	-	-
Other	6,017	6,252	-	-
	47,929	50,671	-	-

Notes to the financial statements

for the year ended 31 December 2006

	Notes	2006 Shares	Parent entity 2005 Shares	2006 \$'000	Parent entity 2005 \$'000
Note 21. Contributed equity					
Ordinary shares, fully paid		467,713,246	470,535,639	53,633	88,240
Movements in ordinary share capital					
Ordinary shares at the beginning of the year	(a)	470,535,639	476,898,378	88,240	282,449
Shares bought back on-market and cancelled	(b)	(2,912,848)	(9,148,348)	(34,607)	(102,393)
Capital return	(c)	-	-	-	(100,399)
Employee Share Option Plan issues	(d)	-	2,676,584	-	12,461
General Employee Share Plan issues	(e)	90,455	109,025	-	1,213
Transfer to share-based payments reserve		-	-	-	(5,091)
Ordinary shares at the end of the financial year		467,713,246	470,535,639	53,633	88,240

(a) Ordinary shares

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

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

(b) Shares bought back on-market

Between October 2004 and October 2005, the Company purchased and cancelled a total of 9,456,809 shares (2005: 8,072,348; 2004: 1,384,461) via an on-market share buy back program. The shares were acquired at an average price of \$10.57 per share, with prices ranging from \$7.08 to \$12.50 per share. The total cost of \$100,055,864 including transaction costs of \$100,539 has been deducted from contributed equity. Transaction costs include \$55,866 incurred in 2004.

On 8 December 2005, the Company commenced a second \$100 million on-market share buy back program. The buy back has subsequently been extended for a further twelve month period to December 2007. At 31 December 2006, the Company had purchased 2,912,848 (2005: 1,076,000) shares under the program. The shares were acquired at an average price of \$11.93 (2005: \$12.08) per share with prices ranging from \$11.50 to \$12.90 per share. Transaction costs include \$23,797 have been accrued but not yet paid.

(c) Capital return

On 15 July 2005, the Company paid to shareholders registered as at 1 July 2005, a capital return of \$0.21 per ordinary share. Transaction costs of \$452,232 are included in the total cost of \$100,399,394.

(d) Employee Share Option Plan

Information relating to option plans, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in Note 32(d).

(e) General Employee Share Plan

Information concerning the General Employee Share Plan is set out in Note 32(b).

Notes to the financial statements

for the year ended 31 December 2006

Notes	Consolidated		Parent entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Note 22. Reserves and retained earnings				
(a) Reserves				
Capital profits reserve	(i)	-	-	-
Foreign currency translation reserve	(ii)	(43,059)	(45,527)	-
Share-based payments reserves	(iii),(iv)	(37,769)	3,599	37,355
Available-for-sale investments revaluation reserve	(v)	(4,303)	-	-
		(85,131)	(41,928)	37,355
				20,627

Movements

(i) Capital profits reserve

Capital profits reserve at the beginning of the financial year	-	107	-	-
Transfer of reserves to retained earnings	-	(107)	-	-
Capital profits reserve at the end of the financial year	-	-	-	-

(ii) Foreign currency translation reserve

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

Foreign currency translation reserve at the beginning of the financial year	(45,527)	(40,785)	-	-
Adjustment on adoption of AASB 132 and AASB 139 (net of tax)	-	(1,980)	-	-
	(45,527)	(42,765)	-	-
Realised exchange differences on net investment in a self-sustaining subsidiary (net of tax)	5,975	-	-	-
Exchange differences on sale to minority interest	28	370	-	-
Net exchange differences on translation of foreign controlled entities, net investment in foreign operations and related hedges	(3,877)	(2,762)	-	-
Net movement in foreign translation reserve	2,468	(2,762)	-	-
Foreign currency translation reserve at the end of the financial year	(43,059)	(45,527)	-	-

(iii) Share-based payments reserve

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

Share-based payments reserve at the beginning of the financial year	23,069	6,287	20,627	6,287
Share-based payments expense	9,487	6,498	9,604	6,499
Transfer from contributed equity	-	5,091	-	5,091
Employee Share Option Plan issues*	7,124	2,750	7,124	2,750
Share-based tax adjustment	1,955	2,443	-	-
Net movement in share-based payments reserve	18,566	16,782	16,728	14,340
Share-based payments reserve at the end of the financial year	41,635	23,069	37,355	20,627

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

Notes to the financial statements

for the year ended 31 December 2006

	Notes	2006 \$'000	Consolidated 2005 \$'000	2006 \$'000	Parent entity 2005 \$'000
Note 22. Reserves and retained earnings (continued)					
(a) Reserves (continued)					
Movements (continued)					
<i>(iv) Share-based payments trust reserve</i>					
The share-based payments trust reserve is used to recognise the cost, net of income tax, of shares purchased through the Aristocrat Employee Equity Plan Trust.					
Share-based payments trust reserve at the beginning of the financial year		(19,470)	-	-	-
Purchases		(55,980)	(25,991)	-	-
Tax effect on purchases		(3,954)	6,521	-	-
Net movement in share-based payments trust reserve		(59,934)	(19,470)	-	-
Share-based payments trust reserve at the end of the financial year		(79,404)	(19,470)	-	-
Total share-based payments reserves					
Total share-based payments reserves at the beginning of the financial year		3,599	6,287	20,627	6,287
Net movement in share-based payments reserves		(41,368)	(2,688)	16,728	14,340
Total share-based payments reserves at the end of the financial year		(37,769)	3,599	37,355	20,627
<i>(v) Available-for-sale investments revaluation reserve</i>					
The available-for-sale investment revaluation reserve is used to recognise the changes in the fair value and exchange differences arising on translation of equities classified as available-for-sale financial assets as described in Note 1p(iv). Amounts are recognised in the income statement when the associated assets are sold or impaired.					
Total available-for-sale investments revaluation reserves at the beginning of the financial year		-	-	-	-
Net movement in available-for-sale investments revaluation reserves		(4,303)	-	-	-
Total available-for-sale investments revaluation reserves at the end of the financial year		(4,303)	-	-	-
(b) Retained earnings					
Retained earnings at the beginning of the financial year		305,245	126,430	78,754	55,353
Adjustment on adoption of AASB 132 and AASB 139 (net of tax)		-	1,249	-	(731)
Other		-	(116)	-	-
Transfer of reserves		-	107	-	-
Net profit attributable to members of Aristocrat Leisure Limited		238,998	244,321	99,452	90,878
Dividends paid	7	(148,823)	(66,746)	(149,947)	(66,746)
Retained earnings at the end of the financial year		395,420	305,245	28,259	78,754

Notes to the financial statements

for the year ended 31 December 2006

	Notes	Consolidated		Parent entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Outside equity interests in controlled entity comprise:					
Retained profits at date of acquisition	28	456	-	-	-
Profit from ordinary activities after income tax		1,057	-	-	-
Dividend paid		(508)	-	-	-
Retained profits		1,005	-	-	-
Contributed equity		-	-	-	-
Share of reserves		42	-	-	-
		1,047	-	-	-

Note 24. Events occurring after reporting date

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

Note 25. Contingent liabilities

The parent entity and consolidated entity have contingent liabilities at 31 December 2006 in respect of:

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

(ii) A number of controlled entities within the consolidated entity are parties to civil actions. Based on legal advice, the directors are of the opinion that no material loss will arise as a result of these actions.

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

(iv) Group proceedings against the Company are continuing in the Federal Court of Australia. The proceedings, commenced on behalf of shareholders who acquired shares in the period 19 February 2002 to 26 May 2003, relate to the parent entity's disclosure of information relating to its financial performance during that period. The group seeks unspecified damages, declarations, interest and costs. The proceedings are being defended. The solicitors and funder associated with the group members have made a number of inconsistent announcements concerning the maximum value of the claim. These announcements have included sworn estimates of up to \$180 million (including claims for consequential loss). The matter has been listed for hearing of the issues common to all group members commencing on 24 September 2007.

Notes to the financial statements

for the year ended 31 December 2006

Note 25. Contingent liabilities (continued)

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

Consistent with its view of the parties' agreement, the Company took the steps on 20 December 2004 which it believed necessary and sufficient to call for the redemption of the bonds in accordance with the indenture, thereby terminating Bondholder conversion rights. On the same day, the Company commenced legal action in the United States District Court for the Southern District of New York ('the District Court'), seeking a declaration from the Court that (1) the exchange rate error should be corrected and the indenture reformed to reflect the intended rate; and (2) the call for redemption of the bonds terminated the rights of the Bondholders to convert. Various Bondholders subsequently intervened in the case.

On 12 August 2005, the District Court issued an Opinion and Order that the exchange rate should be corrected and that Bondholder conversion rights had not been terminated as of 20 December 2004. In so holding, the Court adopted an interpretation of the Indenture not argued by the Company or the Bondholders. The Court otherwise deferred ruling on various counterclaims.

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

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

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

(vi) Aristocrat Leisure Limited, Aristocrat International Pty Ltd and Aristocrat Technologies Australia Pty Ltd are parties to a deed of cross guarantee which has been lodged with and approved by the Australian Securities & Investments Commission as discussed in Note 38. During the financial year, Aristocrat (Asia) Pty Limited and Aristocrat (Macau) Pty Limited were added to the deed of cross guarantee.

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

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

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

Notes to the financial statements

for the year ended 31 December 2006

Note 25. Contingent liabilities (continued)

(viii) The Company and its controlled entities have a contingent liability at 31 December 2006 of \$380,486 (2005: \$380,486) in respect of a guarantee facility provided by Commonwealth Bank of Australia.

(ix) Under the terms of severance agreements with a former executive director, a controlled entity is obliged to fund certain costs of a motor vehicle provided to the former executive director for an indefinite period. The estimated annual cost of providing the motor vehicle and associated benefits amounts to \$60,952 (2005: \$62,475).

(x) Aristocrat Technologies, Inc. is involved in legal proceedings in Peru arising out of the breach of contractual obligations of a former customer. As of the date of this report, it is not possible to determine the likely outcome of these proceedings.

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

(xii) On 15 December 2005, IGT filed a Demand for Arbitration relating to an alleged controversy arising out of contracts between Aristocrat and IGT. On 23 January 2006, Aristocrat filed a Statement of Defence and Counterclaim. In the arbitration, IGT seeks 'reimbursement' of USD4,545,000 purportedly paid 'under protest' under a licence between the companies and a declaration that IGT need not comply with certain provisions of that licence. In its counterclaim, Aristocrat seeks a declaration that IGT must comply with the provisions of the licence, or, that this and other agreements with IGT are no longer valid or enforceable. As of the date of this report, it is not possible to determine the likely outcome of these proceedings.

	Consolidated		Parent entity
	2006	2005	2006
	\$'000	\$'000	\$'000

Note 26. Commitments

Capital commitments

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

	2,011	602	-	-
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Lease commitments

Operating leases

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

Within one year	6,911	8,588	-	-
Later than one year but not later than five years	34,905	17,519	-	-
Later than five years	55,469	8,464	-	-
Commitments not recognised in the financial statements	97,285	34,571	-	-

Notes to the financial statements

for the year ended 31 December 2006

Note 27. Subsidiaries

	Notes	Country of incorporation	2006 %	Equity holding 2005 %
Ultimate parent entity				
Aristocrat Leisure Limited		Australia	-	-
Controlled entities				
Aristocrat Technologies Australia Pty Ltd	(a)	Australia	100	100
ASSPA Pty Ltd	(c)	Australia	100	100
Aristocrat Technology Gaming Systems Pty Limited	(c)	Australia	100	100
Aristocrat Technical Services Pty Ltd	(c)	Australia	100	100
Aristocrat Properties Pty Ltd	(c)	Australia	100	100
Aristocrat International Pty Ltd	(a)	Australia	100	100
Aristocrat Leisure Cyprus Limited	(b)	Cyprus	100	100
Aristocrat (Argentina) Pty Limited	(c)	Australia	100	100
AI(Puerto Rico) Pty Limited (formerly known as Aristocrat (Puerto Rico) Pty Limited)	(c)	Australia	100	100
Aristocrat (Asia) Pty Limited	(a)	Australia	100	100
Aristocrat (Macau) Pty Limited	(a)	Australia	100	100
Aristocrat (Philippines) Pty Limited	(b)	Australia	100	100
Aristocrat (Malaysia) Pty Limited	(b)	Australia	100	-
Aristocrat (Cambodia) Pty Limited	(b)	Australia	100	-
Aristocrat (Singapore) Pty Limited	(b)	Australia	100	100
Aristocrat Technologies Europe (Holdings) Limited	(b)	UK	100	100
Aristocrat Technologies Europe Limited	(b)	UK	100	100
ASSPA (UK) Limited	(b)	UK	100	100
Aristocrat Technologies LLC	(b)	Russia	100	100
Aristocrat Technologies NZ Limited	(b)	New Zealand	100	100
Aristocrat Technologies, Inc.	(b)	USA	100	100
Aristocrat Technologies Canada, Inc.	(c)	Canada	100	100
Aristocrat Funding Corporation	(c)	USA	100	100
Aristocrat Argentina S.A.	(c)	Argentina	100	100
Aristocrat Funding Corporation Pty Ltd	(c)	Australia	100	100
Aristocrat CA	(c)	Venezuela	100	100
Aristocrat Africa (Pty) Ltd	(b)	South Africa	72	100
Aristocrat Technologies Africa (Pty) Ltd	(b)	South Africa	72	100
Aristocrat Technologies KK	(b) & (c)	Japan	100	100
Aristocrat Hanbai KK	(b) & (c)	Japan	100	100
Other controlled entities				
Aristocrat Employee Equity Plan Trust	(d)	Australia	-	-

(a) These controlled entities have been granted relief from the necessity to prepare accounts in accordance with Class Orders issued by the Australian Securities & Investments Commission. For further information, refer to Note 38.

(b) Controlled entities audited by other PricewaterhouseCoopers firms.

(c) Controlled entities for which statutory audits are not required at 31 December 2006 under relevant local legislation.

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

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

Notes to the financial statements

for the year ended 31 December 2006

Note 28. Partial sale of subsidiary

On 26 June 2006, a wholly owned entity of Aristocrat Leisure Limited completed the sale of a 28% interest in its African operations to local company, Yabohle Investments (Pty) Ltd, a consortium led by Matemeku Investments (Pty) Limited ('Matemeku').

	Notes	\$'000
Details of the partial sale are as follows:		
Consideration		
Cash proceeds		8,217
Cost of sale		(1,172)
Cash and cash equivalents		7,045
Book value of portion of net assets sold		
Current assets		
Cash assets		503
Receivables		1,069
Inventories		693
Non current assets		
Receivables		183
Property, plant and equipment		201
Deferred tax assets		171
Intangible assets		245
Current liabilities		
Payables (includes intercompany)		(2,721)
Current tax liabilities		181
Provisions		(31)
Other		(38)
Portion of net assets disposed	23	456
Portion of foreign currency translation reserve disposed	22(a)(ii)	370
Total net assets sold		826
Gain on partial sale of share in subsidiary	5	6,219
Cash and cash equivalents		7,045

Notes to the financial statements

for the year ended 31 December 2006

Note 29. Business combinations

ACE Interactive

On 5 May 2006, a wholly owned entity of Aristocrat Leisure Limited acquired all of the issued shares in the Scandinavian based high technology gaming company, Essnet Interactive AB.

The acquired business contributed revenues of \$2,409,000 and net loss of \$6,803,000 to the Group for the period from 5 May 2006 to 31 December 2006. Disclosure of pre-acquisition consolidated revenue and consolidated profit for the year ended 31 December 2006 would be impractical due to the legal and operating structure of Essnet Interactive AB within the seller's legal structure up to the date of sale.

(a) Summary of acquisition

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	\$'000
Purchase consideration (refer to (b) below):	
Cash paid	70,512
Direct costs relating to the acquisition	699
Total purchase consideration	<u>71,211</u>
Less fair value of net identifiable assets acquired (refer to (c))	33,913
Goodwill	<u>37,298</u>

The goodwill is attributable to the Group's future cashflows from the sale of Interactive's server based video lottery product offerings.

(b) Purchase consideration

	\$'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	71,211
Less cash balances acquired:	
Cash	591
Outflow of cash	<u>70,620</u>

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount \$'000	Fair value \$'000
Cash	591	591
Trade receivables	138	138
Other receivables	216	216
Inventories	3,044	554
Other current assets	135	135
Plant and equipment	1,340	1,340
Intangible assets: computer technology	15,403	42,030
Trade payables	(3,570)	(3,570)
Other liabilities	(66)	(66)
Deferred tax liabilities	-	(7,455)
Net assets	<u>17,231</u>	<u>33,913</u>
Net identifiable assets acquired	<u>17,231</u>	<u>33,913</u>

Notes to the financial statements

for the year ended 31 December 2006

Note 30. Interest in jointly controlled entity

Elektronček

On 27 January 2006, a wholly owned entity of Aristocrat Leisure Limited acquired 50% of the issued shares in Elektronček d.d., which manufactures a range of electro-mechanical multi-terminal gaming products.

The acquired business contributed net profit of \$9,410,000 to the Group for the period from 27 January 2006 to 31 December 2006. If the acquisition had occurred on 1 January 2006, consolidated profit for the year ended 31 December 2006 would have been \$9,864,000.

(a) Summary of acquisition

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	\$'000
Purchase consideration:	
Cash paid	59,110
Direct costs relating to the acquisition	529
	<u>59,639</u>
Deferred settlement	6,848
Total purchase consideration	<u>66,487</u>
Fair value of net identifiable assets / (liabilities) acquired	<u>(907)</u>
Goodwill	<u>67,394</u>

The goodwill is attributable to Elektronček's strong market position and profitability in the increasingly popular multi-terminal segment of the gaming market and therefore for the future cashflows generated from this business.

(b) The Group's share of results of jointly controlled entity

	\$'000
Revenue from ordinary activities	39,006
Expenses from ordinary activities	<u>(26,148)</u>
Profit from ordinary activities before income tax expense	12,858
Income tax expense relating to ordinary activities	<u>(3,448)</u>
	9,410
Unrealised profit on related party transactions	<u>(2,260)</u>
Net profit - accounted for using the equity method	<u>7,150</u>

(c) Interest in jointly controlled entity

	\$'000
Carrying amount at beginning of year	-
Investment in jointly controlled entity acquired during the year	66,487
Share of jointly controlled entity's net profit after tax	7,150
Share of jointly controlled entity's reserves	63
Movement in foreign currency exchange translation reserves	572
Carrying amount of investment in jointly controlled entity	<u>74,272</u>

Share of jointly controlled entity's assets and liabilities:

	\$'000
Current assets	10,787
Non-current assets	319
	<u>11,106</u>
Current liabilities	509
Non-current liabilities	<u>(2,236)</u>
	<u>(1,727)</u>
Net assets	<u>9,379</u>

Notes to the financial statements

for the year ended 31 December 2006

Notes	Consolidated		Parent entity		
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	
Note 31. Employee benefits					
Employee benefits and related on-cost liabilities					
Included in payables - current	17	39,598	51,066	-	-
Provision for employee benefits - current	19	8,273	8,279	-	-
Provision for employee benefits - non-current	19	6,036	4,825	-	-
Aggregate employee benefits and related on-cost liabilities		53,907	64,170	-	-
		Number	Number	Number	Number
Employee numbers					
Number of employees at the end of the financial year		2,282	2,140	-	-

Note 32. Share-based payments

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

(a) Performance Share Plan (PSP)

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

As at 31 December 2006, 168 employees (2005: 157) were entitled to 3,909,090 (2005: 2,864,366) Performance Share Rights under this plan.

Accounting fair value of Performance Share Rights granted

The assessed accounting fair values of Performance Share Rights granted during the financial years ended 31 December 2006 and 31 December 2005 are as follows:

Performance Share Right series	Performance period start date	Performance period expiry date	Performance condition*	Accounting valuation date	Accounting valuation** \$
Issued 2006					
Series 6A	1-Jan-06	31-Dec-08	TSR	1-Jan-06	6.010
Series 6B	1-Jan-06	31-Dec-08	ESPG	1-Jan-06	11.250
Series 7A***	1-Jan-06	31-Dec-08	TSR	2-May-06	8.180
Series 7B***	1-Jan-06	31-Dec-08	ESPG	2-May-06	13.090
Issued 2005					
Series 3	1-Jan-05	31-Dec-07	TSR	1-Jan-05	6.101
Series 4***	1-Jan-05	31-Dec-07	TSR	17-May-05	6.096
Series 5A	1-Jan-06	31-Dec-09	TSR	17-Oct-05	5.380
Series 5B	1-Jan-06	31-Dec-09	ESPG	17-Oct-05	9.680
Series 5C	1-Jan-06	31-Dec-10	TSR	17-Oct-05	5.340
Series 5D	1-Jan-06	31-Dec-10	ESPG	17-Oct-05	9.520

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

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

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

Notes to the financial statements

for the year ended 31 December 2006

Note 32. Share-based payments (continued)

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

The accounting valuation represents the independent valuation of each tranche of Performance Share Rights at their respective grant dates. The valuations have been performed by Deloitte using a Total Shareholder Return ("TSR") model and an Earnings Per Share Growth ("EPSG") model.

(i) Total Shareholder Return model

Deloitte have developed a Monte-Carlo simulation-based model which incorporates the impact of performance hurdles and the vesting scale on the value of the share rights. This pricing model takes into account such factors as the Company's share price at the date of grant, volatility of the underlying share price, risk free rate of return, expected dividend yield and time to maturity.

The accounting valuation of the rights has been allocated equally over the vesting period (either 3, 4 or 5 years).

The model inputs for share rights granted during the year ended 31 December 2006 included:

- (a) share rights are granted for no consideration and have a 3 to 5 year life;
- (b) exercise price: zero consideration;
- (c) the grant date and expiry dates: refer to tables below;
- (d) share price at grant date:
 - 2006: series 6A - \$12.32 and series 7A - \$14.00; and
 - 2005: series 3 - \$9.91, series 4 - \$9.858, series 5A - \$10.83 and series 5C - \$10.83; and
- (e) price volatility of the Company's shares:
 - 2006: series 6A - 27.28% and series 7A - 30.38%; and
 - 2005: series 3 - 63.96%, series 4 - 66.83%, series 5A - 29.26% and series 5C - 29.26%; and
- (f) dividend yield:
 - 2006: series 6A - 3.03% and series 7A - 3.00%; and
 - 2005: series 3 - 3.31%, series 4 - 3.45%, series 5A - 2.80% and series 5C - 2.57%; and
- (g) risk-free interest rate:
 - 2006: series 6A - 5.61% and series 7A - 6.04%; and
 - 2005: series 3 - 5.666%, series 4 - 5.655%, series 5A - 5.78% and series 5C - 5.80%.

(ii) Earnings Per Share Growth model

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

The accounting valuation of the rights has been allocated equally over the vesting period (ranging from 3 to 5 years).

The model inputs for share rights granted during the year ended 31 December 2006 included:

- (a) share rights are granted for no consideration and have a 3 to 5 year life;
- (b) exercise price: zero consideration;
- (c) the grant date and expiry dates: refer to tables below;
- (d) share price at grant date:
 - 2006: series 6B - \$12.32 and series 7B - \$14.00;
 - 2005: series 5B - \$10.83 and series 5D - \$10.83; and
- (e) price volatility of the Company's shares:
 - 2006: series 6B - 27.28% and series 7B - 30.38%;
 - 2005: series 5B - 29.76% and series 5D - 29.26%; and
- (f) dividend yield:
 - 2006: series 6B - 3.03% and series 7B - 3.00%;
 - 2005: series 5B - 2.80% and series 5D - 2.57%; and
- (g) risk-free interest rate:
 - 2006: series 6B - 5.61% and series 7B - 6.04%;
 - 2005: series 5B - 5.78% and series 5D - 5.80%.

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

Notes to the financial statements

for the year ended 31 December 2006

Note 32. Share-based payments (continued)

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

Performance Share Rights are detailed in the tables below:

Consolidated and parent entity - 2006

Right series	Grant date	Performance period expiry date	Rights at start of year Number	Add: new rights issues Number	Less: rights exercised Number	Less: rights lapsed Number	Rights at end of year Number
PSP							
Series 1A	2-Sep-04	31-Dec-06	1,155,933	-	-	100,760	1,055,173
Series 1B	2-Sep-04	31-Dec-07	1,155,933	-	-	100,760	1,055,173
Series 2	21-Dec-04	31-Dec-06	380,000	-	-	-	380,000
Series 3	1-Jan-05	31-Dec-07	47,562	-	-	-	47,562
Series 4	17-May-05	31-Dec-07	68,343	-	-	-	68,343
Series 5A	17-Oct-05	31-Dec-09	14,149	-	-	-	14,149
Series 5B	17-Oct-05	31-Dec-09	14,149	-	-	-	14,149
Series 5C	17-Oct-05	31-Dec-10	14,149	-	-	-	14,149
Series 5D	17-Oct-05	31-Dec-10	14,148	-	-	-	14,148
Series 6A	1-Jan-06	31-Dec-08	-	553,130	-	29,009	524,121
Series 6B	1-Jan-06	31-Dec-08	-	553,127	-	29,007	524,120
Series 7A	2-May-06	31-Dec-08	-	99,001	-	-	99,001
Series 7B	2-May-06	31-Dec-08	-	99,002	-	-	99,002
			2,864,366	1,304,260	-	259,536	3,909,090

Consolidated and parent entity - 2005

Right series	Grant date	Performance period expiry date	Rights at start of year Number	Add: new rights issues Number	Less: rights exercised Number	Less: rights lapsed Number	Rights at end of year Number
PSP							
Series 1A	2-Sep-04	31-Dec-06	1,208,755	-	-	52,822	1,155,933
Series 1B	2-Sep-04	31-Dec-07	1,208,691	-	-	52,758	1,155,933
Series 2	21-Dec-04	31-Dec-06	380,000	-	-	-	380,000
Series 3	1-Jan-05	31-Dec-07	-	53,113	-	5,551	47,562
Series 4	17-May-05	31-Dec-07	-	68,343	-	-	68,343
Series 5A	17-Oct-05	31-Dec-09	-	14,149	-	-	14,149
Series 5B	17-Oct-05	31-Dec-09	-	14,149	-	-	14,149
Series 5C	17-Oct-05	31-Dec-10	-	14,149	-	-	14,149
Series 5D	17-Oct-05	31-Dec-10	-	14,148	-	-	14,148
			2,797,446	178,051	-	111,131	2,864,366

Notes to the financial statements

for the year ended 31 December 2006

Note 32. Share-based payments (continued)

(b) General Employee Share Plan (GESP)

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

During the year, the Company issued 90,455 shares (2005: 109,025) to 1,145 employees (2005: 1,225) in Australia under this plan. Due to tax complexities certain eligible staff located overseas were issued either a deferred bonus of A\$1,000 cash or a contingent allocation of an equivalent number of shares (47,212 shares to 638 employees) in lieu of a share allocation under the General Employee Share Plan, subject to their continued employment for a period of three years.

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

	Weighted average market price \$	2006 Number	Consolidated 2005 Number	2006 Number	Parent entity 2005 Number
Shares issued under the plan to participating employees on:					
29-Jun-05	11.13	-	109,025	-	109,025
30-Jun-06	12.64	90,455	-	90,455	-
		90,455	109,025	90,455	109,025

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

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

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2006

Note 32. Share-based payments (continued)

(d) Employee Share Option Plan (ESOP)

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

As at 31 December 2006, 13 employees (2005: 62) were entitled to 1,205,000 (2005: 2,888,000) options under this plan.

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

Options are detailed in the tables below:

Consolidated and parent entity - 2006

Option series	Notes	Grant date	Expiry date	Exercise price \$*	Options at start of year Number	Less: options exercised Number	Less: options lapsed Number	Options at end of year Number
ESOP								
Series 21	(a)	20-Jul-01	20-Jul-06	6.3303	106,750	106,750	-	-
Series 22	(a)	13-Aug-01	13-Aug-06	6.5720	50,000	50,000	-	-
Series 24	(a)	25-Oct-01	25-Oct-06	6.1415	15,000	-	15,000	-
Series 25	(a)	18-Dec-01	18-Dec-06	6.0928	1,250	1,250	-	-
Series 26	(a)	7-Mar-02	7-Mar-07	5.7431	987,500	872,500	30,000	85,000
Series 27	(a)	2-Jul-02	2-Jul-07	5.2002	140,000	95,000	-	45,000
Series 28	(a)	26-Aug-03	26-Aug-08	1.3497	562,500	187,500	150,000	225,000
Series 29B	(b)	1-Sep-03	1-Sep-08	1.9503	125,000	125,000	-	-
Series 29C	(b)	1-Sep-03	1-Sep-08	2.4503	125,000	-	-	125,000
Series 29D	(b)	1-Sep-03	1-Sep-08	2.9503	125,000	-	-	125,000
Series 30	(a)	3-Nov-03	3-Nov-08	2.2177	150,000	50,000	-	100,000
Series 31A	(b)	1-Sep-04	1-Sep-09	6.7016	125,000	-	-	125,000
Series 31B	(b)	1-Sep-04	1-Sep-09	7.2016	125,000	-	-	125,000
Series 31C	(b)	1-Sep-04	1-Sep-09	7.7016	125,000	-	-	125,000
Series 31D	(b)	1-Sep-04	1-Sep-09	8.2016	125,000	-	-	125,000
					2,888,000	1,488,000	195,000	1,205,000

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

Weighted average exercise price	\$4.58	\$4.79	\$2.39	\$4.69
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The weighted average share price at the date of exercise of those options exercised during the year ended 31 December 2006 was \$13.26.

The weighted average remaining contractual life of share options outstanding as at 31 December 2006 was 1.52 years. No options were forfeited during the period covered by the above table.

Notes:

(a) Options are exercisable in 4 equal tranches at intervals of 18 months, 30 months, 42 months and 54 months after grant date.

(b) Options under Tranche A are exercisable 18 months after grant date.

Options under Tranche B are exercisable 30 months after grant date.

Options under Tranche C are exercisable 42 months after grant date.

Options under Tranche D are exercisable 54 months after grant date.

Notes to the financial statements

for the year ended 31 December 2006

Note 32. Share-based payments (continued)

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

Consolidated and parent entity - 2005

Option series	Notes	Grant date	Expiry date	Exercise price \$	Options at start of year Number	Less: options exercised Number	Less: options lapsed Number	Options at end of year Number
ESOP								
Series 12	(a)	3-Apr-00	3-Apr-05	3.7025	923,334	923,334	-	-
Series 14B	(b)	1-Aug-00	1-Aug-05	5.5505	70,000	70,000	-	-
Series 16B	(b)	4-Sep-00	4-Sep-05	5.8189	23,000	23,000	-	-
Series 17A	(a)	1-Nov-00	1-Nov-05	5.8005	50,000	50,000	-	-
Series 17B	(b)	1-Nov-00	1-Nov-05	5.8005	419,000	419,000	-	-
Series 18	(a)	19-Feb-01	19-Feb-06	5.4124	180,000	180,000	-	-
Series 21	(a)	20-Jul-01	20-Jul-06	6.3303	215,000	108,250	-	106,750
Series 22	(a)	13-Aug-01	13-Aug-06	6.5720	50,000	-	-	50,000
Series 24	(a)	25-Oct-01	25-Oct-06	6.1415	20,000	5,000	-	15,000
Series 25	(a)	18-Dec-01	18-Dec-06	6.0928	5,000	3,750	-	1,250
Series 26	(a)	7-Mar-02	7-Mar-07	5.7431	2,007,500	966,250	53,750	987,500
Series 27	(a)	2-Jul-02	2-Jul-07	5.2002	180,000	40,000	-	140,000
Series 28	(a)	26-Aug-03	26-Aug-08	1.3497	750,000	187,500	-	562,500
Series 29A	(c)	1-Sep-03	1-Sep-08	1.4503	125,000	125,000	-	-
Series 29B	(c)	1-Sep-03	1-Sep-08	1.9503	125,000	-	-	125,000
Series 29C	(c)	1-Sep-03	1-Sep-08	2.4503	125,000	-	-	125,000
Series 29D	(c)	1-Sep-03	1-Sep-08	2.9503	125,000	-	-	125,000
Series 30	(a)	3-Nov-03	3-Nov-08	2.2177	200,000	50,000	-	150,000
Series 31A	(c)	1-Sep-04	1-Sep-09	6.7016	125,000	-	-	125,000
Series 31B	(c)	1-Sep-04	1-Sep-09	7.2016	125,000	-	-	125,000
Series 31C	(c)	1-Sep-04	1-Sep-09	7.7016	125,000	-	-	125,000
Series 31D	(c)	1-Sep-04	1-Sep-09	8.2016	125,000	-	-	125,000
					6,092,834	3,151,084	53,750	2,888,000
Weighted average exercise price					\$4.63	\$4.66	\$5.74	\$4.58

The weighted average share price at the date of exercise of those options exercised during the year ended 31 December 2005 was \$10.84.

The weighted average remaining contractual life of share options outstanding as at 31 December 2005 was 2.82 years. No options were forfeited during the period covered by the above table.

Notes:

- (a) Options are exercisable in 4 equal tranches at intervals of 18 months, 30 months, 42 months and 54 months after grant date.
- (b) Options are exercisable in 2 equal tranches at intervals of 12 months and 24 months after grant date.
- (c) Options under Tranche A are exercisable 18 months after grant date.
Options under Tranche B are exercisable 30 months after grant date.
Options under Tranche C are exercisable 42 months after grant date.
Options under Tranche D are exercisable 54 months after grant date.

Notes to the financial statements

for the year ended 31 December 2006

Note 32. Share-based payments (continued)

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

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

Consolidated and parent entity					
Exercise date	Fair value of shares at issue		Exercise date	Fair value of shares at issue	
	date	2006		date	2005
	\$	Number		\$	Number
ESOP			ESOP		
3-Mar-06	12.75	403,750	19-Jan-05	10.35	20,000
6-Mar-06	12.77	95,000	26-Jan-05	10.71	30,000
14-Mar-06	13.06	103,750	4-Feb-05	10.70	100,000
24-Mar-06	13.63	22,500	7-Feb-05	10.72	40,000
29-Mar-06	13.40	10,000	23-Feb-05	10.34	120,000
5-Apr-06	14.10	153,750	25-Feb-05	10.56	230,000
10-May-06	13.69	22,500	2-Mar-05	10.72	371,834
1-Jun-06	13.54	58,750	7-Mar-05	11.16	302,500
15-Jun-06	12.63	19,250	9-Mar-05	11.09	475,250
20-Jun-06	12.60	3,750	11-Mar-05	10.60	10,000
14-Sep-06	13.13	332,500	16-Mar-05	10.51	60,000
18-Sep-06	13.07	32,500	22-Mar-05	10.57	175,000
20-Sep-06	13.41	22,500	30-Mar-05	10.11	80,000
27-Sep-06	14.13	90,000	1-Apr-05	10.24	40,000
4-Oct-06	13.83	87,500	5-Apr-05	10.51	203,500
16-Oct-06	13.83	10,000	8-Apr-05	10.68	44,000
20-Oct-06	13.57	5,000	20-Apr-05	10.17	20,000
4-Dec-06	15.47	10,000	4-May-05	9.95	20,000
19-Dec-06	16.02	5,000	5-May-05	10.18	50,000
			18-May-05	10.19	7,000
			27-May-05	10.53	26,500
			31-May-05	10.42	2,500
			1-Jun-05	10.52	25,000
			17-Jun-05	10.90	50,000
			24-Jun-05	11.11	41,250
			17-Aug-05	12.97	22,500
			29-Aug-05	12.56	44,750
			31-Aug-05	12.57	15,000
			2-Sep-05	12.21	50,000
			7-Sep-05	12.59	35,000
			8-Sep-05	12.58	60,000
			12-Sep-05	12.38	8,750
			13-Sep-05	12.38	87,500
			14-Sep-05	12.44	18,750
			20-Sep-05	11.77	17,500
			21-Sep-05	11.68	5,000
			22-Sep-05	11.62	87,000
			26-Sep-05	11.95	70,000
			27-Sep-05	11.71	3,750
			30-Sep-05	11.85	66,250
			10-Oct-05	11.19	10,000
			27-Oct-05	11.42	5,000
		1,488,000			3,151,084

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

The fair value of the shares issued on the exercise of options is the average price at which the Company's shares were traded on the Australian Stock Exchange on the day the options were exercised.

Notes to the financial statements

for the year ended 31 December 2006

Note 32. Share-based payments (continued)

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

	2006 Number	Consolidated 2005 Number	2006 Number	Parent entity 2005 Number
Options vested at the reporting date	210,000	629,250	210,000	629,250

	2006 \$	Consolidated 2005 \$	2006 \$	Parent entity 2005 \$
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Aggregate proceeds received from employees on the exercise of options and recognised as contributed equity and reserves	7,124,591	15,211,321	7,124,591	15,211,321
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Fair value of shares issued to employees on the exercise of options as at their issue date	19,733,365	34,679,750	19,733,365	34,679,750
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(e) Expenses arising from share-based payment transactions

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

Options issued under Employee Share Option Plan	367	767	-	-
Share rights issued under Performance Share Plan	8,092	5,732	-	-
Shares issued under General Employee Share Plan	1,145	1,213	1,145	1,213
	9,604	7,712	1,145	1,213

Note 33. Key management personnel disclosures

Directors

The following persons were directors of the Company during the financial year:

Chairman - non-executive	DJ Simpson
Executive director	PN Oneile - Chief Executive Officer and Managing Director
Non-executive directors	WM Baker
	RA Davis
	P Morris
	SAM Pitkin
	AW Steelman

Executive key management personnel

The executives who are responsible for the overall planning, directing and controlling of activities of the consolidated entity ('executive key management personnel') during the financial year are as follows:

Name	Position
SCM Kelly*	Chief Financial Officer
SJ Parker	Group General Manager, Sales, Marketing and Research & Development
GS Phillips	Chief Technology Officer
IH Timmis	Group General Manager, Business and Strategic Development
BJ Yahl	Group General Manager, Commercial and Legal and Company Secretary

All of the above persons were considered executive key management personnel for the full year ended 31 December 2006.

* SCM Kelly was appointed an executive director on 20 February 2007. In accordance with disclosure requirements, SCM Kelly is included in the definition of executive key management personnel for the full year ended 31 December 2006.

Notes to the financial statements

for the year ended 31 December 2006

Note 33. Key management personnel disclosures (continued)

Remuneration

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

Performance Share Plan rights provided as remuneration and rights holdings

The numbers of Performance Share Rights in the Company held during the financial year by any key management personnel of the consolidated entity, including their personally related entities, are set out below:

2006	Series	Performance period expiry date	Accounting value per right at grant date	Balance as at 31 December 2005	Granted during the year as remuneration	Balance as at 31 December 2006
Executive director						
PN Oneile	2	31-Dec-06	\$8.68	380,000	-	380,000
	4	31-Dec-07	\$6.10	68,343	-	68,343
	7A	31-Dec-08	\$8.18	-	99,001	99,001
	7B	31-Dec-08	\$13.09	-	99,002	99,002
Executive key management personnel						
SCM Kelly	4	31-Dec-07	\$6.10	21,707	-	21,707
	6A	31-Dec-08	\$6.01	-	25,123	25,123
	6B	31-Dec-08	\$11.25	-	25,122	25,122
SJ Parker	1A	31-Dec-06	\$6.45	38,166	-	38,166
	1B	31-Dec-07	\$6.25	38,165	-	38,165
	6A	31-Dec-08	\$6.01	-	16,138	16,138
GS Phillips	6B	31-Dec-08	\$11.25	-	16,137	16,137
	1A	31-Dec-06	\$6.45	41,572	-	41,572
	1B	31-Dec-07	\$6.25	41,572	-	41,572
IH Timmis	6A	31-Dec-08	\$6.01	-	13,920	13,920
	6B	31-Dec-08	\$11.25	-	13,920	13,920
	1A	31-Dec-06	\$6.45	41,628	-	41,628
BJ Yahf	1B	31-Dec-07	\$6.25	41,627	-	41,627
	6A	31-Dec-08	\$6.01	-	16,838	16,838
	6B	31-Dec-08	\$11.25	-	16,837	16,837
BJ Yahf	1A	31-Dec-06	\$6.45	30,000	-	30,000
	1B	31-Dec-07	\$6.25	30,000	-	30,000
	6A	31-Dec-08	\$6.01	-	24,746	24,746
	6B	31-Dec-08	\$11.25	-	24,746	24,746

2005	Series	Performance period expiry date	Accounting value per right at grant date	Balance as at 31 December 2004	Granted during the year as remuneration	Balance as at 31 December 2005
Executive director						
PN Oneile	2	31-Dec-06	\$8.68	380,000	-	380,000
	4	31-Dec-07	\$6.10	-	68,343	68,343
Executive key management personnel						
SCM Kelly	4	31-Dec-07	\$6.10	-	21,707	21,707
SJ Parker	1A	31-Dec-06	\$6.45	38,166	-	38,166
	1B	31-Dec-07	\$6.25	38,165	-	38,165
GS Phillips	1A	31-Dec-06	\$6.45	41,572	-	41,572
	1B	31-Dec-07	\$6.25	41,572	-	41,572
IH Timmis	1A	31-Dec-06	\$6.45	41,628	-	41,628
	1B	31-Dec-07	\$6.25	41,627	-	41,627
BJ Yahf	1A	31-Dec-06	\$6.45	30,000	-	30,000
	1B	31-Dec-07	\$6.25	30,000	-	30,000

Notes to the financial statements

for the year ended 31 December 2006

Note 33. Key management personnel disclosures (continued)

Options provided as remuneration and option holdings

Details of options over ordinary shares in the Company provided as remuneration to any key management personnel of the consolidated entity are set out below. When exercisable, each option is convertible into one ordinary share of the Company.

2006	Note	Series	Expiry date	Exercise price	Balance as at 31 December 2005	Exercised during the year	Balance as at 31 December 2006	Vested during the year	Fair value at exercise date	Vested and exercisable at the end of the year
Executive key management personnel										
SCM Kelly	2	29B	01-Sep-08	\$1.95	125,000	125,000	-	125,000	\$ 1,593,750	-
	3	29C	01-Sep-08	\$2.45	125,000	-	125,000	-	-	-
	4	29D	01-Sep-08	\$2.95	125,000	-	125,000	-	-	-
	1	31A	01-Sep-09	\$6.70	125,000	-	125,000	-	-	125,000
	2	31B	01-Sep-09	\$7.20	125,000	-	125,000	-	-	-
	3	31C	01-Sep-09	\$7.70	125,000	-	125,000	-	-	-
	4	31D	01-Sep-09	\$8.20	125,000	-	125,000	-	-	-
SJ Parker	5	28	26-Aug-08	\$1.35	150,000	50,000	100,000	50,000	\$ 637,500	-
GS Phillips	5	30	03-Nov-08	\$2.22	150,000	50,000	100,000	50,000	\$ 677,000	-

2005	Note	Series	Expiry date	Exercise price*	Balance as at 31 December 2004	Exercised during the year	Balance as at 31 December 2005	Vested during the year	Fair value at exercise date	Vested and exercisable at the end of the year
Executive key management personnel										
SCM Kelly	1	29A	01-Sep-08	\$1.45	125,000	125,000	-	125,000	\$ 1,132,463	-
	2	29B	01-Sep-08	\$1.95	125,000	-	125,000	-	-	-
	3	29C	01-Sep-08	\$2.45	125,000	-	125,000	-	-	-
	4	29D	01-Sep-08	\$2.95	125,000	-	125,000	-	-	-
	1	31A	01-Sep-09	\$6.70	125,000	-	125,000	-	-	-
	2	31B	01-Sep-09	\$7.20	125,000	-	125,000	-	-	-
	3	31C	01-Sep-09	\$7.70	125,000	-	125,000	-	-	-
	4	31D	01-Sep-09	\$8.20	125,000	-	125,000	-	-	-
SJ Parker	5	28	26-Aug-08	\$1.35	200,000	50,000	150,000	50,000	\$ 480,015	-
GS Phillips	5	30	03-Nov-08	\$2.22	200,000	50,000	150,000	50,000	\$ 423,615	-

*The option exercise price has been adjusted for the \$0.21 per share capital return paid in July 2005. Where options were exercised prior to the capital return the exercise price was \$0.21 higher than shown above.

Notes:

- 1 – Options are exercisable 18 months after grant date.
- 2 – Options are exercisable 30 months after grant date.
- 3 – Options are exercisable 42 months after grant date.
- 4 – Options are exercisable 54 months after grant date.
- 5 – Options are exercisable in 4 equal tranches at intervals of 18, 30, 42 and 54 months after the grant date.

Notes to the financial statements

for the year ended 31 December 2006

Note 33. Key management personnel disclosures (continued)

General Employee Share Plan provided as remuneration

The numbers of shares held under the General Employee Share Plan ('GESP') during the financial year by any of the key management personnel of the consolidated entity, including their personally related entities, are set out below:

	Balance as at 31 December 2005	Shares vested/granted during the year	Shares issued during the year	Balance as at 31 December 2006
Executive key management personnel				
SCM Kelly	352	-	79	431
SJ Parker	951	599	79	431
GS Phillips*	263	-	74	337
IH Timmis	352	-	79	431
BJ Yahl	89	-	79	168
	Balance as at 31 December 2004	Shares vested during the year	Shares issued during the year	Balance as at 31 December 2005
Executive key management personnel				
SCM Kelly	263	-	89	352
SJ Parker	862	-	89	951
GS Phillips	263	-	-	263
IH Timmis	263	-	89	352
BJ Yahl	-	-	89	89

*As an overseas employee, GS Phillips was granted a contingent right to 74 shares during the year in lieu of a share allocation under the General Employee Share Plan, subject to continued employment for a period of three years.

Shareholdings

The numbers of shares (excluding those unvested under the General Employee Share Plan and the Performance Share Plan) in the Company held during the financial year by each key management personnel of the consolidated entity, including their personally related entities, are set out below. No amounts are unpaid on any of the shares issued. Where shares are held by the individual key management personnel and any entity under the joint or several control of the individual key management personnel they are shown as 'beneficially held'. Shares held by those who are defined by AASB 124 *Related Party Disclosures* as close members of the family of the individual key management personnel are shown as 'non beneficially held'.

	Balance as at 31 December 2005	Options exercised	Net other changes during the year	Balance as at 31 December 2006
Executive director				
PN Oneile				
- non-beneficially held	6,000	-	-	6,000
Non-executive directors				
DJ Simpson				
- beneficially held	106,000	-	-	106,000
WM Baker				
- beneficially held	4,700	-	-	4,700
RA Davis				
- beneficially held	1,200	-	2,249	3,449
P Morris				
- beneficially held	12,560	-	658	13,218
SAM Pitkin				
- beneficially held	6,000	-	1,572	7,572
AW Steelman				
- beneficially held	16,000	-	-	16,000
- non-beneficially held	4,505	-	-	4,505

Notes to the financial statements

for the year ended 31 December 2006

Note 33. Key management personnel disclosures (continued)

Shareholdings (continued)

	Balance as at 31 December 2005	Options exercised	Net other changes during the year	Balance as at 31 December 2006
Executive key management personnel				
SCM Kelly				
- beneficially held	200,000	125,000	-	325,000
SJ Parker				
- beneficially held	50,000	50,000	(19,401)	80,599
GS Phillips				
- beneficially held	169,687	50,000	(116,666)	103,021
IH Timmis				
- beneficially held	-	-	-	-
BJ Yahl				
- beneficially held	-	-	-	-
<hr/>				
	Balance as at 31 December 2004	Options exercised	Net other changes during the year	Balance as at 31 December 2005
Executive director				
PN Oneile				
- non-beneficially held	6,000	-	-	6,000
Non-executive directors				
DJ Simpson				
- beneficially held	106,000	-	-	106,000
- non-beneficially held	17,000	-	(17,000)	-
WM Baker				
- beneficially held	-	-	4,700	4,700
RA Davis				
- beneficially held	-	-	1,200	1,200
P Morris				
- beneficially held	8,680	-	3,880	12,560
SAM Pitkin				
- beneficially held	-	-	6,000	6,000
AW Steelman				
- beneficially held	10,000	-	6,000	16,000
- non-beneficially held	-	-	4,505	4,505
<hr/>				
Executive key management personnel				
SCM Kelly				
- beneficially held	75,000	125,000	-	200,000
SJ Parker				
- beneficially held	-	50,000	-	50,000
GS Phillips				
- beneficially held	119,687	50,000	-	169,687
IH Timmis				
- beneficially held	-	-	-	-
BJ Yahl				
- beneficially held	-	-	-	-

Notes to the financial statements

for the year ended 31 December 2006

Note 33. Key management personnel disclosures (continued)

Shareholdings (continued)

Options exercised during the year by key management personnel are shown below:

		Exercise date	Number of options exercised	Paid per share	Unpaid per share
Executive key management personnel					
SCM Kelly	2006	28-Feb-06	125,000	\$1.9503	-
	2005	02-Mar-05	125,000	\$1.6603	-
SJ Parker	2006	28-Feb-06	50,000	\$1.3497	-
	2005	07-Mar-05	50,000	\$1.5597	-
GS Phillips	2006	31-May-06	50,000	\$2.2177	-
	2005	14-Jun-05	50,000	\$2.4277	-

Shareholdings of directors and key management personnel reported as 'non-beneficially held' include those that have been disclosed under representation made to them by the parties within the AASB 124 definition of personally related entities. Directors and key management personnel have relied upon the representations made as they have no control or influence over the financial affairs of the personally related entities to substantiate the shareholdings declared. In the event that a personally related entity declines to provide shareholding details, the shareholding of that personally related entity is assumed to be nil.

Loans to key management personnel

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

Other transactions with key management personnel

Refer to Note 35 of the financial statements for details of related party transactions with key management personnel.

Notes to the financial statements

for the year ended 31 December 2006

	2006	Consolidated 2005	2006	Parent entity 2005
	\$	\$	\$	\$
Note 34. Remuneration of auditors				
During the year, the following services were paid to the auditor of the parent entity and its related practices:				
Assurance services				
Audit services				
Fees paid to PricewaterhouseCoopers Australian firm:				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	444,461	441,044	-	-
Fees paid to related practices of PricewaterhouseCoopers Australian firm	491,000	477,282	-	-
Total remuneration for audit services	935,461	918,326	-	-
Other assurance services				
Fees paid to PricewaterhouseCoopers Australian firm	10,000	33,400	-	-
Fees paid to related practices of PricewaterhouseCoopers Australian firm	97,337	79,892	-	-
Total remuneration for other assurance services	107,337	113,292	-	-
Total remuneration for assurance services	1,042,798	1,031,618	-	-
Advisory services				
Fees paid to PricewaterhouseCoopers Australian firm:				
Legal and compliance	9,900	2,950	-	-
Fees paid to related practices of PricewaterhouseCoopers Australian firm	-	-	-	-
Total remuneration for advisory services	9,900	2,950	-	-

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

Notes to the financial statements

for the year ended 31 December 2006

Note 35. Related parties

(i) Other transactions with key management personnel

There were no transactions with directors and key management personnel, other than:

Sale of gaming machines in 2006 of \$898,531 provided on normal terms and conditions to venues owned by National Leisure & Gaming Limited of which SAM Pitkin holds the position of non-executive chairman.

Financial consulting services in 2005 of \$100,656 provided on normal terms and conditions by N M Rothchild & Sons (Australia) Limited of which RA Davis holds the position of Consulting Director - Investment Banking.

(ii) Wholly-owned group

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

All transactions between entities within the wholly-owned group during the years ended 31 December 2006 and 31 December 2005 have been eliminated on consolidation.

Transactions between Aristocrat Leisure Limited and other entities in the wholly-owned group during the years ended 31 December 2006 and 31 December 2005 consisted of:

- (a) loans advanced by Aristocrat Leisure Limited;
- (b) loans repaid to Aristocrat Leisure Limited;
- (c) the receipt of interest on the USD denominated loan to Aristocrat International Pty Ltd;
- (d) the payment of dividends to Aristocrat Leisure Limited;
- (e) management fees charging out costs in relation to the General Employee Share Plan; and
- (f) a tax sharing and funding agreement.

The above transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of principal on loans advanced by Aristocrat Leisure Limited. The average interest rate charged on the loan to Aristocrat International Pty Ltd during the year was 6.376% (2005: 4.46%).

	2006	Parent entity 2005
	\$	\$
Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly-owned group		
Other revenue - management fee	-	1,213,448
Interest revenue	7,609,370	9,621,059
Dividend revenue	100,000,000	90,000,000
Foreign exchange losses in relation to intercompany loan	3,074,868	(11,220,535)
Aggregate net amount receivable from entities in the wholly-owned group at balance date		
<i>Current</i>		
Tax related amounts receivable from wholly-owned entities	63,100,692	78,514,185
<i>Non-current</i>		
Receivable from wholly-owned entities	86,607,945	335,231,613

Notes to the financial statements

for the year ended 31 December 2006

Note 35. Related parties (continued)

(iii) Transactions with related parties

The following transactions occurred with related parties:

	2006	Consolidated	2006	Parent entity
	\$	2005	\$	2005
		\$		\$
Jointly controlled legal entity				
<i>Revenue</i>				
Service fee	55,087	-	-	-
Reimbursement of travel and accommodation	17,881	-	-	-
<i>Purchase of goods and services</i>				
Purchase of gaming equipment	13,831,341	-	-	-
Current receivables (<i>service fee</i>)	55,087	-	-	-
Current payables (<i>purchase of goods and services</i>)	7,923,338	-	-	-

Net amount receivable from minority shareholder as at balance date

<i>Current</i>				
Receivable from related entity - interest	1,009,548	-	-	-
Receivable from related entity - loan	480,735	-	-	-
<i>Non-current</i>				
Receivable from related entity - loan	6,148,092	-	-	-

On 31 May 2006, Aristocrat International Pty Limited a wholly owned entity advanced to Yabohle Investments (Proprietary) Limited the minority shareholder of the Group's South African operations, a 7 year loan of ZAR43,400,000.

The loan is secured over the shares of the South African legal entity and shareholders dividends are re-directed as repayments against the loan balance.

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

Notes to the financial statements

for the year ended 31 December 2006

Note 36. Earnings per share

	2006 Cents	Consolidated 2005 Cents
Basic earnings per share	51.2	51.4
Diluted earnings per share	50.9	51.1

	2006 Number	Consolidated 2005 Number
Weighted average number of ordinary shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	466,585,445	475,122,352
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	466,585,445	475,122,352
Effect of share options	1,104,951	2,047,228
Effect of Performance Share Rights	1,754,804	1,187,445
Effect of convertible subordinated bonds	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	469,445,200	478,357,025

	2006 \$'000	Consolidated 2005 \$'000
Reconciliation of earnings used in calculating diluted earnings per share		
Net profit attributable to members of Aristocrat Leisure Limited	238,998	244,321
After tax effect of interest on convertible subordinated bonds	-	-
Earnings used in calculating diluted earnings per share	238,998	244,321

Information concerning the classification of securities

(a) Options

Options granted to employees under the Aristocrat Employee Share Option Plan and the Employee Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details of options in relation to the financial year ended 31 December 2006 are set out in Notes 32 and 33. Options exercised since the reporting date are set out in Note 32.

Included within the weighted average number of potential ordinary shares related to share options are 63,738 (2005: 13,460) share options that had lapsed during the year and 381,482 (2005: 508,364) share options that had been exercised during the year.

(b) Convertible subordinated bonds

Convertible subordinated bonds are considered to be potential ordinary shares up until the date of redemption, 20 December 2004, and have been included in the determination of diluted earnings per share up until that date. The bonds have not been included in the determination of basic earnings per share. Details relating to the bonds are set out in Note 18.

(c) Performance Share Rights

Rights granted to employees under the Performance Share Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The rights have not been included in the determination of basic earnings per share. Details relating to the rights are set out in Notes 32 and 33.

Included within the weighted average number of potential ordinary shares related to performance share rights are 87,475 (2005: 48,526) share rights that had lapsed during the year.

Notes to the financial statements

for the year ended 31 December 2006

Note 36. Earnings per share (continued)

(d) Share-based payments trust

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

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

Note 37. Reconciliation of profit from ordinary activities after income tax to net cash flow from operating activities

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Profit from ordinary activities after income tax	240,055	244,321	99,452	90,878
Depreciation and amortisation	31,415	39,735	-	-
Dividends	-	-	(100,000)	(90,000)
Other income	-	-	-	(1,213)
Equity settled share-based payments	9,604	7,712	1,145	1,213
Non-cash interest expense	3,472	1,243	3,400	1,243
Net loss on sale of intangible assets	-	15	-	-
Net (gain) / loss on sale of property, plant and equipment	840	(70)	-	-
Share of net profits of jointly controlled entity	(7,150)	-	-	-
Realised exchange differences arising from the partial settlement of a long-term loan which formed part of the net investment in a foreign operation	5,975	-	-	-
Net foreign exchange differences	(660)	2,450	(4,015)	(1,078)
Partial sale of subsidiary	(6,219)	-	-	-
Change in operating assets and liabilities:				
- Decrease / (increase) in receivables and deferred revenue	96,319	(86,454)	15,214	(32,721)
- Decrease / (increase) in inventories	14,274	(12,740)	-	-
- Decrease / (increase) in other operating assets	-	(841)	-	-
- Increase / (decrease) in tax balances	(31,450)	38,622	(14,021)	32,858
- Increase / (decrease) in trade creditors and payables	(143,518)	134,552	2,744	(59)
- Increase / (decrease) in other provisions	(8,185)	4,608	-	-
Net cash inflow / (outflow) from operating activities	204,772	393,153	3,919	1,121

Notes to the financial statements

for the year ended 31 December 2006

Note 38. Deed of cross guarantee

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

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Aristocrat Leisure Limited, they also represent the 'Extended Closed Group'.

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

	2006	2005
	\$'000	\$'000
Condensed income statement		
Profit before income tax	325,095	284,516
Income tax expense	(91,079)	(83,898)
Profit for the year	234,016	200,618

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

Retained earnings at the beginning of the financial year	245,360	112,752
Transfers in from reserves and other	-	(533)
Adjustment on adoption of AASB 132 and AASB 139 (net of tax)	-	(731)
Profit for the year	234,015	200,618
Dividends paid	(149,947)	(66,746)
Retained earnings at the end of the financial year	329,428	245,360

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

Current assets		
Cash and cash equivalents	68,954	184,973
Receivables	60,979	77,801
Inventories	21,839	15,941
Tax assets	-	510
Total current assets	151,772	279,225
Non-current assets		
Receivables	77,262	276,038
Financial assets	246,305	85,580
Property, plant and equipment	55,195	56,792
Deferred tax assets	20,724	30,016
Intangible assets	2,254	2,267
Total non-current assets	401,740	450,693
Total assets	553,512	729,918

Notes to the financial statements

for the year ended 31 December 2006

Note 38. Deed of cross guarantee (continued)

	2006 \$'000	2005 \$'000
Current liabilities		
Payables	97,771	90,942
Borrowings	-	175,808
Current tax liabilities	48,111	64,424
Provisions	11,249	11,436
Other liabilities	7,615	7,283
Total current liabilities	164,746	349,893
Non-current liabilities		
Provisions	4,534	3,904
Other liabilities	39,067	41,364
Total non-current liabilities	43,601	45,268
Total liabilities	208,347	395,161
Net assets	345,165	334,757
Equity		
Contributed equity	53,573	88,240
Reserves	(37,836)	1,157
Retained earnings	329,428	245,360
Total equity	345,165	334,757

Directors' declaration

for the year ended 31 December 2006

In the directors' opinion:

- (a) the financial statements and notes set out on pages 1 to 71 are in accordance with the *Corporations Act 2001* including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 9 to 31 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and
- (d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 38 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 38.

The directors have been given declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



DJ Simpson
Chairman

Sydney
20 February 2007

Independent audit report to the members of Aristocrat Leisure Limited

Audit opinion

In our opinion:

1. the financial report of Aristocrat Leisure Limited:
 - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Aristocrat Leisure Limited and the Aristocrat Leisure Limited Group (defined below) as at 31 December 2006, and of their performance for year ended on that date, and
 - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001* and
2. the remuneration disclosures that are contained on pages 10 to 31 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report, remunerations disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Aristocrat Leisure Limited (the company) and the Aristocrat Leisure Limited Group (the consolidated entity), for the year ended 31 December 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" on pages 10 to 31 of the directors' report, as permitted by the *Corporations Regulations 2001*.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

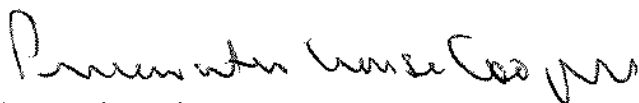
Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.



PricewaterhouseCoopers



R L Gavin
Partner

Sydney
20 February 2007