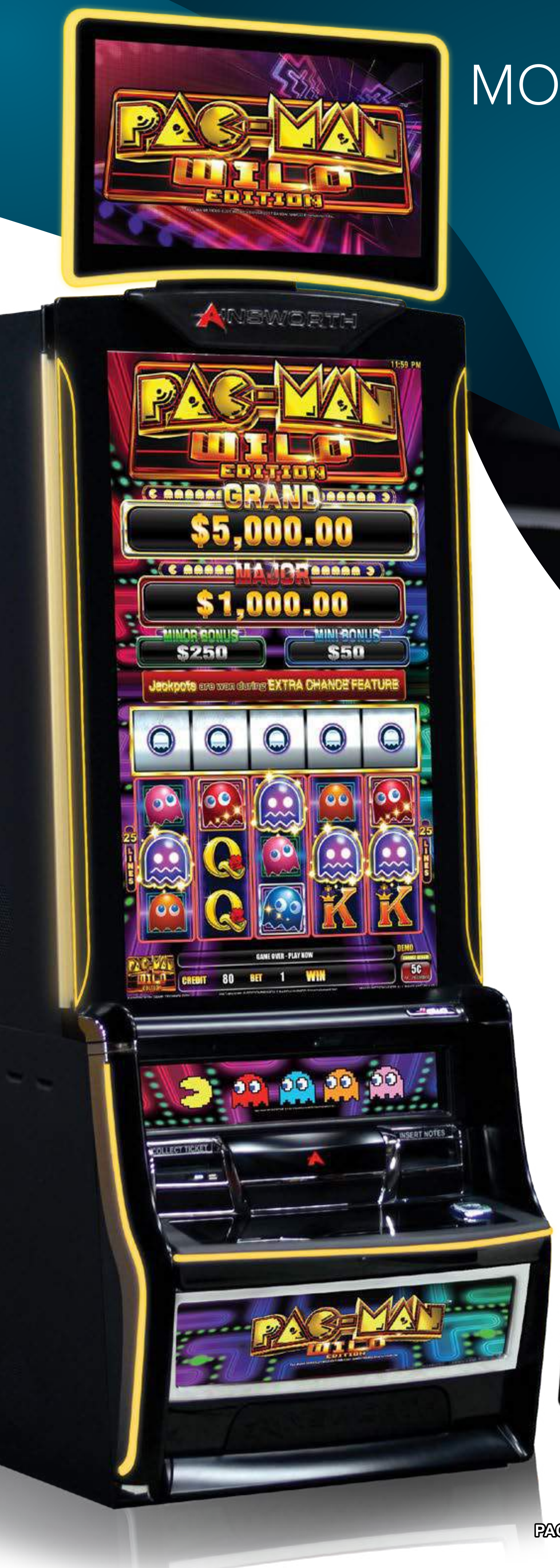
# AINSWORTH GAME TECHNOLOGY

# ANNUAL REPORT 2017


AINSWORTH
EXPERIENCE COUNTS™




# MOMENTUM. FOCUS. CONNECTIVITY.

Ainsworth Game Technology continues to gain momentum with a targeted approach to game development.

Ainsworth is continually investing and focused in its game development to deliver innovative products driven by appealing maths models and visually impressive artwork.

Ainsworth's online and mobile gaming is an integral part of Ainsworth's expansion in the global gaming industry. Ainsworth has made further progress with real money & social gaming in FY17.


## LICENSED PRODUCT & SOCIAL CASINO APPS


PAC-MAN WILD EDITION™ & ©BANDAI NAMCO Entertainment Inc.


# Welcome to our 2017 Annual Report

## NEW A640® PRODUCTS

## CONTENTS



## NOTICE OF ANNUAL GENERAL MEETING

Ainsworth Game Technology Limited
ABN 37 068 516 665

Notice is hereby given that the 2017 Annual General Meeting of the members of Ainsworth Game Technology Limited will be held at:

**Bankstown Sports Club**
"Georges River Room"
8 Greenfield Parade
(Cnr Greenfield Parade and Mona Street)
Bankstown NSW 2200
on Tuesday 28 November 2017 at 11:00am

**ANNUAL GENERAL MEETING:**

**TUESDAY 28TH NOV 2017**

Dates may be subject to change

**RESULTS ANNOUNCEMENT FOR SIX MONTHS ENDING 31ST DECEMBER 2017:**

**TUESDAY 27TH FEB 2018**

Dates may be subject to change

**RESULTS ANNOUNCEMENT FOR YEAR ENDING 30TH JUNE 2018:**

**TUESDAY 28TH AUG 2018**

Dates may be subject to change

In accordance with ASX Listing Rule 4.10.3, Ainsworth Game Technology's Corporate Governance Statement can be found on its website at: http://www.agtslots.com.au/corporategovernance

# GAINING MOMENTUM

Ainsworth continues to take tremendous steps forward with gaming content and hardware. With a broadened product offering and the recently launched EVO™ cabinet in Australia, we expect to increase market share both internationally and in domestic markets. "We enter FY18 with great momentum."

**Overall**

**5,317 units**
Machines under operation at FY17

| A640® | Grand Opening | EVO™ |
|---|---|---|
| **World Wide Debut** | **Americas headquarters** | **Australasian Launch** |
| The stunning A640® made its world wide debut at G2E Las Vegas. The cabinet features optimal viewing on 40-inch high-definition LCD game screen and an attractive design creating powerful game experiences with eye-catching game art. The cabinet comes standard with a touchscreen LCD button deck with a mechanical “bash button” to combine the ease of new technology with the excitement of traditional slot play. Plus, an optional 27-inch LCD topper will attract players across busy gaming floors. Since its release, there has been success globally and Ainsworth continues to create a wide range of compelling content for this cabinet. | Local, state and federal American officials joined Ainsworth executives for a ribbon-cutting ceremony of the grand opening of Ainsworth’s 290,000-square-foot North American headquarters in Las Vegas on September 30, 2016.<br><br>Ainsworth Latin America division increased its presence with the recent construction of new commercial offices and distribution center, thus enhancing its activities in Latin America.<br><br>Ainsworth’s Executive Director, Len Ainsworth mentioned: “We’ve been growing over the past few years in the Americas. We have a great future in this industry and the buildings are symbolic of that growth.” | Ainsworth recently introduced its new EVO™ cabinet to the Australasian market, incorporating the company’s deep and long-standing knowledge into an exciting new product for its industry partners.<br><br>The new EVO™ cabinet takes Ainsworth existing technology to the next level with larger game screens, dynamic lighting effects and a state-of-the-art LCD touchscreen button deck.<br><br>A new line of link progressives and Multi-game packages have been developed to complement the wide variety of products developed for the region. This further demonstrates the Company’s commitment to a long-term pipeline of successful content. |

# FOCUS. MOMENTUM CONNECTIVITY.

## NEW CABINET RANGE


PAC-MAN DYNAMIC EDITION™ & © BANDAI NAMCO Entertainment Inc.

# STRONG LEADERSHIP. NEW FOCUS.

Ainsworth's FY17 results were achieved during a challenging period and the strong performance of the business this year is a credit to the passion and the commitment to the entire team.

The team driving the new focus and implementing the change at Ainsworth is focused on unlocking the value that currently exists while creating new value for our shareholders.

Late November 2016, Ainsworth named Graeme Campbell as Chairman and announced the appointment of Kieran Power as the new Chief Technology Officer.

Kieran brings a combination of global industry knowledge, in-depth technical expertise and a proven track record of success.

Kieran continues to lead our product development team, assuming responsibility for delivering the NOVOMATIC technology synergies and the development and execution of a product strategy that will deliver a leading pipeline of competitive new games and hardware.

**Graeme Campbell**
Chairman and Independent Non-Executive Director

# FOCUS. MOMENTUM CONNECTIVITY.

**Leonard Hastings Ainsworth**
Executive Director

**Danny Gladstone**
Chief Executive Officer and Executive Director

**Harald Neumann**
Non-Executive Director

**Michael Yates B.Com (with merit), LLB**
Independent Non-Executive Director

**Colin Henson Dip Law- BAB, FCPA, FCIS, FAICD**
Independent Non-Executive Director

**Heather Scheibenstock GAICD**
Independent Non-Executive Director

# CONNECTIVITY.

Online and mobile gaming is an integral part of Ainsworth's expansion in the global gaming industry.

Ainsworth continues to pursue growth opportunities within the online social casino industry and regulated real money gambling sector throughout UK, Europe and Australasia.

We look to expand our product offerings in the Americas via licensing social casino content along with sales of land based machines as bundled packages.

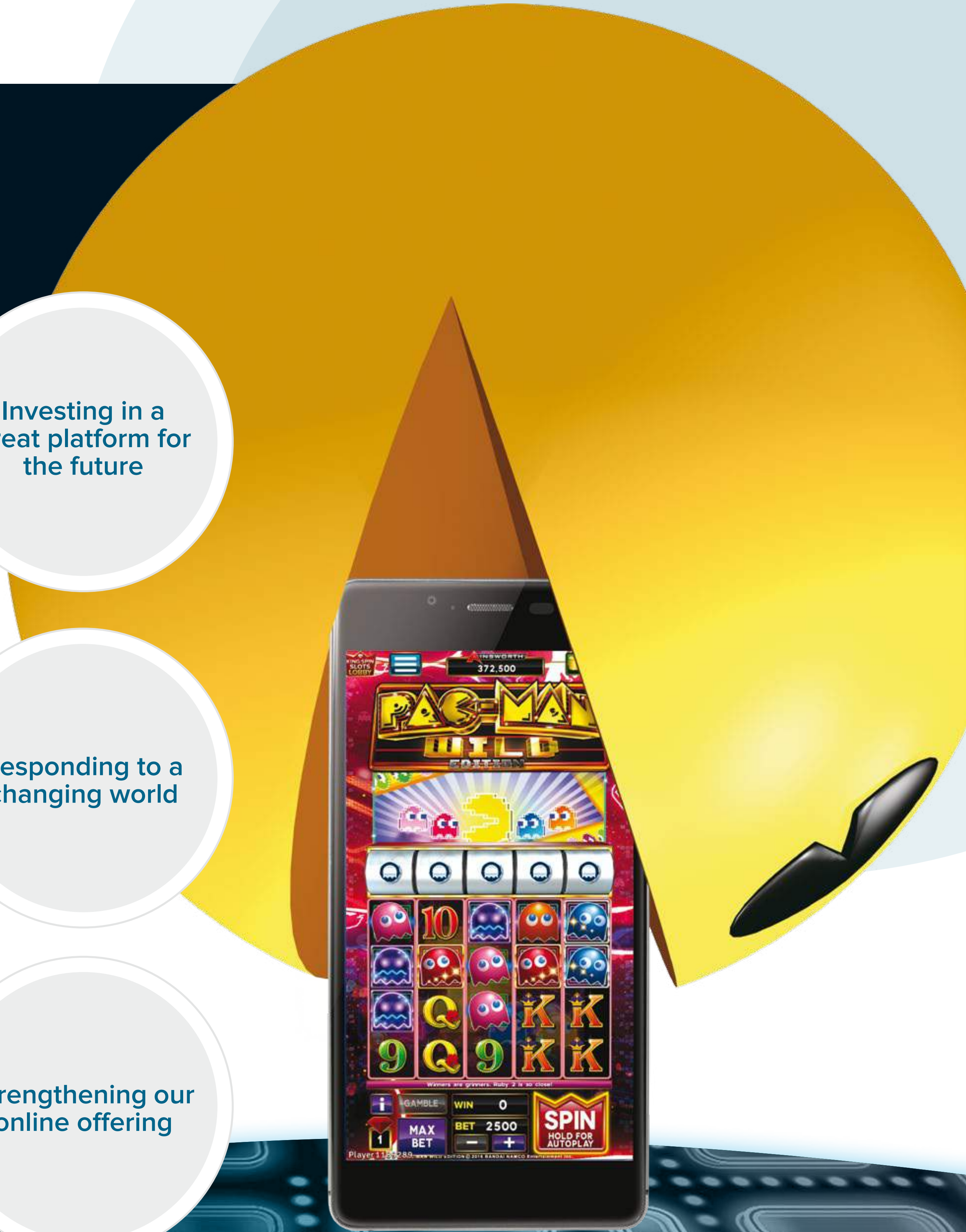
Our social casinos Players Paradise & King Spin Slots are available now on Facebook and mobile devices via the Google Play store and Apple's iTunes.

As we enter FY18, Ainsworth looks to launch all the latest gaming titles online.

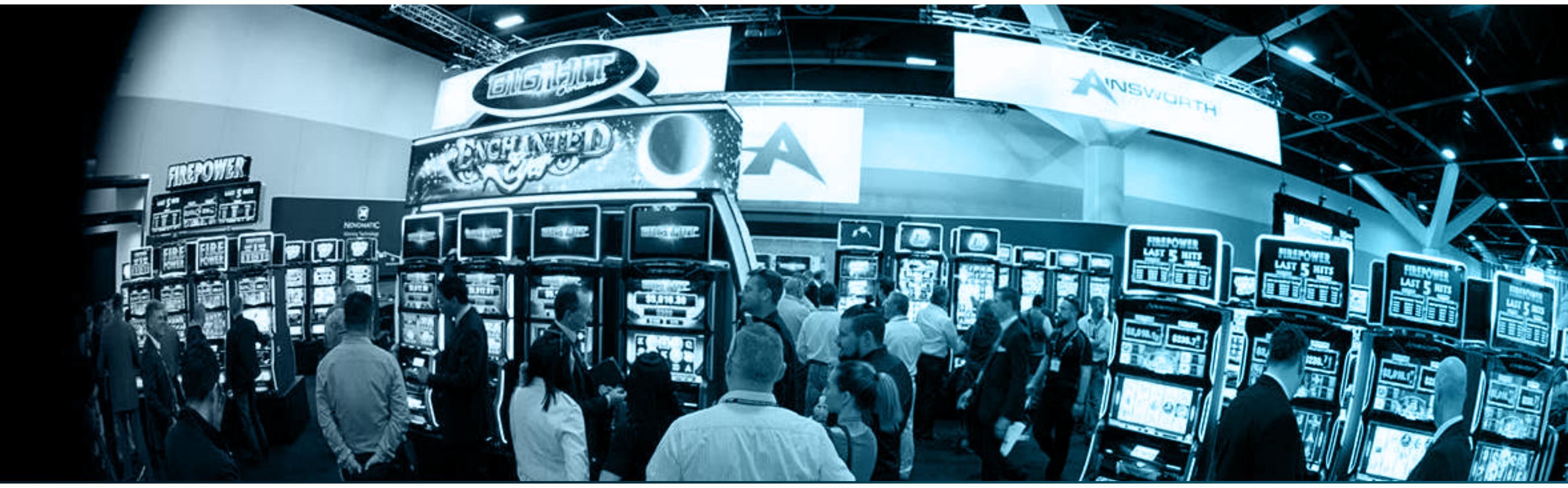
Investing in a great platform for the future

Responding to a changing world

Strengthening our online offering




Find us on



## Performance Overview

Continued execution of a clear strategy to grow international revenues and higher quality earnings. FY17 profit exceed guidance by 2.5% and strong 2H17 recovery (+178% on 1H17)

### North America

- North America returning to growth
- Release of PAC-MAN WILD EDITION™ in H2 drove strong demand for licensed software titles. Over 350 on contract and growing
- 21% of opening FY17 Class II route now Ainsworth machines
- Late year approval for Colorado and British Columbia to be accretive in FY18
- Established a corporate partnership with contracted sales of over 600 units in H2FY18

### Latin America

- Latin America revenues +5%, profit +11%
- Impressive growth pattern in revenue and units across all markets for five consecutive years
- ASP growth continues throughout the region, +13%
- Significant and sustained growth in gaming operations, units on participation +48%
- Strong product performance in new range of Multi-Game, Quad Shot™, Link Progressives and PAC-MAN WILD EDITION™ in new A600® series of cabinets
- Robust penetration in Mexico, representing 39% of total units

### Australia

- Challenging period for volume and revenue growth given highly competitive market conditions and minimal corporate and casino sales
- Early signs of recovery: FY17 improvement with increase in 2H revenue of 6% and 2H profit of 15% compared to pcp. NSW 2H revenues +20%
- Recovery in market share in FY18 is expected to be driven by the release of new cabinet, EVO™, and new game portfolio offering - well received at recent AGE

### Other Regions

- Rest of World revenues +54%, profit +50%: 74% increase in unit volumes driven by improved Europe performance and increased sales contribution from Asia and Europe (Novomatic AG)
- Novomatic AG contributed sales of $11.4m and segment profit of $5.5m

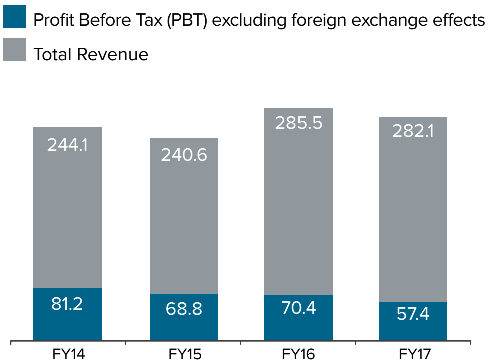
### Online

- Real Money Gaming - Release of 15 new approved games and expanding the number of operators with our current platform partners: Microgaming, NYX and iSoftbet
- Social Gaming- Launch of Bandai Namco's IP title PAC-MAN™ in King Spin Slots™ developed in conjunction with our social partner 616 Digital LLC on Android and IOS and extended our content licensing agreements with social casino partners Zynga and Playstudios/MGM Resorts

**Building a broadened portfolio for growth**

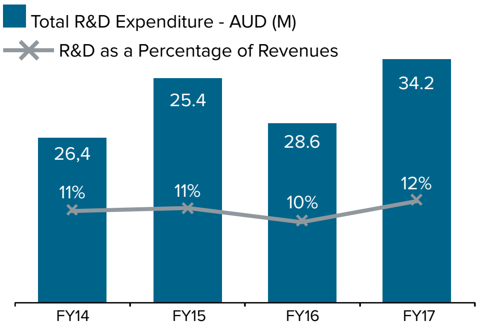
### REVENUE/PROFITABILITY - AUD (M)

(Fiscal years ended June 30)




### R&D EXPENDITURE PERCENTAGE (%)

(Fiscal years ended June 30)



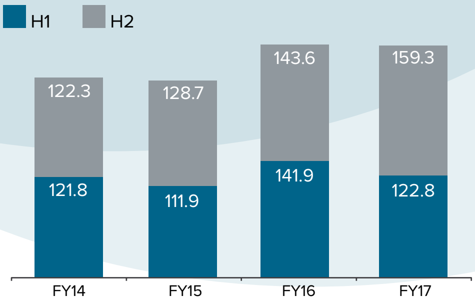
# PERFORMANCE OVERVIEW

## Financial Highlights

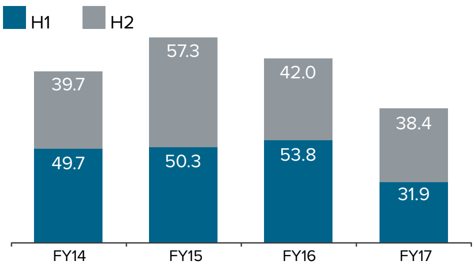
- REPORTED NPAT of $38 million (2016: $56 million)
- NPAT excluding currency impacts of $48 million (-9% on pcp)
- EPS of $0.12 per share (2016: $0.17 per share)
- Reported EBITDA $70.3 million, down 27% on pcp
- R&D as percentage at 12% (2016:10%)

**AGT's balance sheet is in a strong position to self-fund growth targets**

### REVENUES - AUD (M)
(Fiscal years ended June 30)



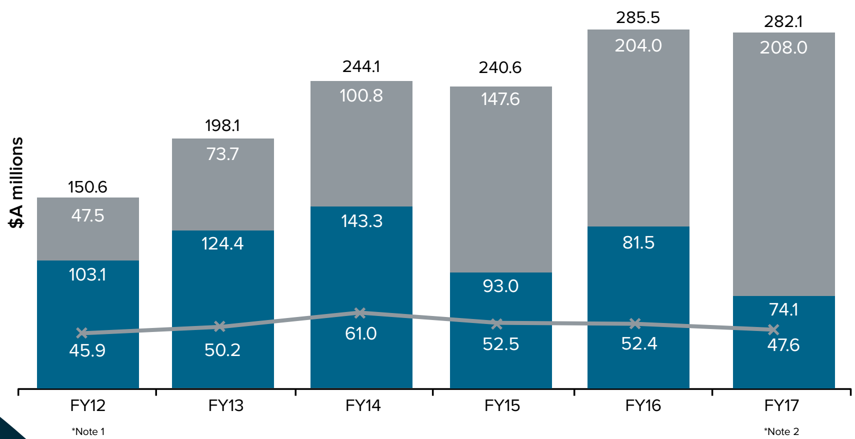

### EBITDA - AUD (M)
(Fiscal years ended June 30)



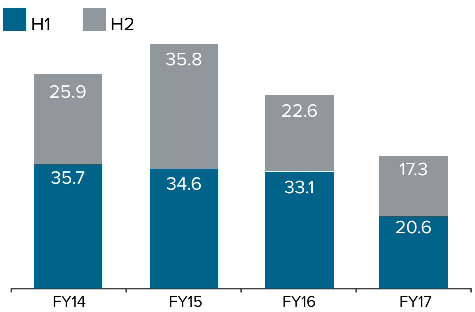

### HISTORICAL PERFORMANCE - AUD (M)
Normalised PAT (All FY's- excl foreign currency gain)

Domestic Revenue
International Revenue
Normalised Profit After Tax (PAT)

*Note 1: NPAT H1 FY12 excludes one off recognition of $21.8 million in deferred assets
*Note 2: NPAT H1 FY17 includes $8m reversal of prior year DTL recognition




### NPAT - AUD (M)
(Fiscal years ended June 30)



# Chairman's Report

**Dear Shareholders,**

I am pleased to report our FY17 results. They mark another year of progress in executing our long term strategies.

For FY17 Ainsworth delivered, on a pre currency basis, Profit before Tax (PBT) of $57.4m, exceeding company guidance by 2.5%. Your company delivered a strong second half performance, with $42.2m PBT, an increase of 178% on the $15.2m reported in the first half. This impressive second half performance begins to reflect the competitiveness of our broader product offering, the value of our investments in technology, sales and marketing, and the strength of our international footprint.

Our consistent strategy has been to expand and diversify our offerings to the global gaming market. Pleasingly, we reported ongoing growth in international markets in FY17 with revenues up 2% on the prior corresponding period. International revenues account for 74% of the total Group revenue.

Revenues in the Americas region for FY17 were slightly lower at -3.2% on the prior corresponding period. Segment profits within the Americas were broadly consistent for FY17 at $82.3m with growth in Latin America and a decline in the first half in North America.

North America reported revenues of $101.4m for the year, a decrease of 9% on the previous year. Profits were $44.6m, down 10% on the prior corresponding period. Despite this, margins were consistent at 44%. Positively, we saw a good recovery as the year progressed.

Ainsworth continues to strengthen its presence in the key North American market. The new Las Vegas facility, which opened in April 2016, is enhancing our profile and reputation with customers. Our new game studio there will continue to expand our US game content with the release this year of several new game titles. Class II games will also be strengthened, leveraging well known Class III titles. Several of these games have been developed using game assets licenced to Ainsworth from Novomatic AG.

The pipeline for new sales and units under gaming operation in North America in FY18 is strong. Ainsworth will deliver on its largest ever installation of games in our history this year at the new Four Winds South Bend property in Indiana, USA. It is encouraging to see that we are already beginning to generate returns on our investments in game design and additional sales in this market.

Nova Technologies, which provided a full year's contribution to the FY17 results continues to outperform. The A640® cabinet will also be introduced into the Class II market this year.

Our Latin American business has delivered five years of consistent profitable growth across all markets. We reported another year of improved performance with revenues increasing by 5%, and profits rising by a pleasing 11%. Sales were up in every market across the region. Mexico, Ainsworth's largest market in the region saw increased penetration and now accounts for 39% of total Latin America's sale units. We have 16% share of the Mexican market, up from 14% in the first half of the 2017 financial year.

"This impressive second half performance begins to reflect the competitiveness of our broader product offering, our investments in technology, sales and marketing, and the strength of our international footprint."

The Rest of the World segment performed well with a good contribution from business with Novomatic AG. Segment revenue was $28.1 million, an increase of 54% compared to 2016. Profit was 50% higher. It is pleasing to see the benefit realised from this relationship and synergies translating into increased profitability. We have progressed the release of several games developed using Novomatic's game assets. We will continue to deliver the benefits of this strategic relationship for shareholders.

Domestic revenue was $74.1 million and now accounts for 26% of total revenue. While the domestic market remains challenging, the second half of the year saw some improvement and there are early signs of optimism for a stronger FY18. With the new EVO™ cabinet and our broadened game library we expect to increase market share in FY18.

Recurring revenues from machines on participation provide high quality earnings and are another important part of Ainsworth's strategy. At 30 June 2017, the Group had a total of 5,317 machines on participation, rental and/or lease, an increase of 16% over the prior corresponding period. These participation machines contributed 15% of group revenue an increase from the 12% in 2016.

Ainsworth's strategic investments in real money gaming and social casino platform technology are also expected to provide further opportunities to leverage Ainsworth's recognised brands across online social and mobile gaming channels.

Given the importance of being able to self-fund our ambitious growth targets, and the temporary build-up of working capital ahead of future sales, the Board has prudently determined to suspend the FY17 final dividend. The Board maintains its commitment and policy to distribute profits to shareholders and will review re-commencement of dividend payments in FY18 subject to performance, investment and growth objectives.

The regulatory approval process for the sale of shares to Novomatic AG is progressing well. We expect completion to occur before the end of this calendar year. We look forward to welcoming Novomatic to Ainsworth as the new majority shareholder. We will continue to seek to explore and deliver synergy benefits from this strategic relationship for all our shareholders.

**Acknowledgements**

I am encouraged by Ainsworth's achievements and the progress we are making in executing on our key strategic priorities. I would sincerely like to thank Mr Len Ainsworth for his commitment and guidance during his tenure as Executive Chairman and the contributions and support of the non-executive directors on the Board. I also acknowledge our CEO Mr Danny Gladstone and our CFO Mr Mark Ludski who both did exceptional jobs through the year, the rest of the highly capable and effective executive team, along with the invaluable contributions of our dedicated and loyal employees, my fellow shareholders and valued customers.

**Graeme Campbell**
*Chairman*

"International revenues grew by 2% and now account for almost three quarters of the group's total sales and we closed the year with 5,317 units on participation, a solid +16% increase."

# Chief Executive Officer's Report

**Dear Shareholders,**

FY17 was a busy and productive year at Ainsworth. Importantly, we made further progress in executing on our strategic priorities: to grow international revenues and drive higher quality earnings. International revenues grew by 2% and now account for almost three quarters of the group's total sales and we closed the year with 5,317 units on participation, a solid +16% increase. With our strong second half results, momentum is clearly building at Ainsworth and we have a positive outlook for FY18.

Starting with the results for the year ended 30 June 2017, we have delivered on earnings guidance with a strong second half performance. In the first half, we suffered from timing delays in gaining approvals for cabinets and game software in North America. We were also impacted by the introduction of a gaming tax in Argentina, which affected our Latin American performance. The second half was much stronger across the group.

Sales revenue for the FY17 year was $282.1 million, a slight decrease of 1% on the pcp. Growth in international markets was offset by a weaker domestic performance. Group sales were up by 30% in 2H compared to the first half of the year and up by 11% on pcp demonstrating the momentum as the year progressed. International sales were also strong in 2H, increasing by 55% on 1H and 12% on pcp.

Our gross profit margin remained consistent with pcp. We have aimed to keep this ratio broadly constant to ensure revenue growth converts to profitability.

We made deliberate investments in growth in the period. This is a sign of confidence in our outlook. We spent $112.5m in the year, an increase of 12% versus the pcp. These figures also includes Nova Technologies' overheads. Together with Nova, we now employ around 580 people, an increase of 40 from last year.

Over the last few years, we have expanded sales, marketing and service in the Americas. Around 42% of Ainsworth employees now reside there. This client facing team now accounts for 46% of our total opex. Our business is a relationship business. We sell face to face, on the floors, in the venues. We have 71 people in global sales with the Americas based team at 33. It's almost the same size as our Australian team. This is appropriate.

We have a further 128 people in service, that's over 20% of our total headcount. Our machines are well built, reliable and easy to maintain. That's important to our customers.

Administration expenses increased by 32% to $26.2m. This reflects the increased headcount and final building costs at the Last Vegas facility. As we said before, this new facility, which opened in late 2016, raises our presence and profile in this key market.

We invested $34.2m in R&D, an increase of 20%. This cost includes testing and evaluation expenses and the establishment of a new game design centre in our Las Vegas facility. These investments were significant. Game development is noticeably a key to our future and we have intensified our efforts here.

We also had $3.4m of significant items outside of ordinary business in the underlying EBITDA results. If we had excluded these one off costs the results would have been higher.

Depreciation and amortisation increased from $23m to $25.8m. This reflects the increase in the size of the

fleet of machines we own and effectively rent to our customers to generate recurring income. It also has a share from Nova Technologies. Our participation business is growing nicely so we expect this charge to continue to rise over time.

Our Profit before Tax was $46.9m. There is some FX noise in this. Excluding the $10.5m pre tax loss on foreign exchange our PBT was $57.4m. This compares to guidance of at least $56m. Excluding FX changes, PBT in 2H was up 178% on 1H and 19.2% on pcp. We recorded a currency loss of $15.3m in 2H after showing a $4.8m profit in 1H.

Reported net profit after tax was $37.9m. More reflective of our trading performance, the currency adjusted net profit was $47.6m. This excludes the gain on currencies of $9.7m.

We have a strong and conservative balance sheet with capital to fund growth and innovation. Our cash balance in the year, after all our investments spend, was $21.1m. Our gearing ratio was 16% and our leverage ratio of EBITDA to Net debt was 0.93 times.

Our receivables totalled $128.6m. This was an increase of 8%. This is due to the increased number of units sold in the month of June 17 compared to pcp. We expect these receivables to be collected and convert to cash in 1HFY18.

The increase in other current assets is mainly compromised of the high number of inventories on hand in the Americas. Again we expect sales in 1HFY18 to reduce these.

**Business Review**

Let's start with our largest business. North America is a story of initial temporary delays early in the year followed by strong recovery with momentum building through the second half. We did encounter some early delays in approvals for our A600® series of cabinets as we noted at the release of the half year results in February. This stalled our progress for a while. The recovery has been strong with 2H sales 73% higher than in 1H, and profits 112% higher than in the first half.

Unit volumes were 3105 for the year. That was made up of 988 units in 1H and 2117 in 2H. This was a good recovery too. The ASP at $15,700 was impacted by third party license fee ceasing from 1 April 2017.

The highlight of the year was the successful release of **PAC-MAN WILD EDITION**™ on the A640® cabinet in H2. We are seeing strong demand for licensed software titles. At year end, we had over 350 units on contract and this number continues to grow.

We had late year approvals for Colorado and British Columbia. We expect good sales in these jurisdictions in FY18.

We also established an important corporate partnership in the US. This partner has already contracted sales of over 600 new units in H2FY18. We see scope for this relationship to develop into FY18 and beyond.

In FY17, we completed the full integration of Nova Technologies. We purchased Nova in January 2016. While Nova wasn't a large deal at the time, it is proving to be strategically very important. Our progress in Washington State shows that.


# Chief Executive Officer's Report (continued)

In July, Tulalip Resorts Casino in Washington agreed to serve as our sponsor for the required Class III central determination testing. This potentially opens up for us the fourth largest gaming market in the U.S. (behind Nevada, California and Oklahoma). We are excited to begin the process of offering our products to casinos across that state. We confidently expect significant sales opportunities in FY18. We will use a common hardware platform across Class II and Class III in FY18 to help leverage this growth.

In FY18, we have already placed 270 games at the new Four Winds South Bend property. This accounts for 15% of the casino floor. It is the largest single installation of games in Ainsworth's history. In July, Ainsworth installed an additional 100 units at an existing customer location bringing our install base to over 27% at this location.

We are accelerating our range of Class II game titles. We have invested in game design and leadership in our Las Vegas facility. In Q1, this year, we are launching 54 new titles on the A600® platform and a further 22 on the successful A560® SL. Given our top performing brands historically have performed at an average index of between 1.4x and 2.9x house average, we are looking forward to strong growth. Ainsworth outperforms relative to its size. In a competitive industry where large multinational companies with significant scale and resources operate, it is pleasing to see our company perform so strongly.

In Latin America, we increased our market share across the region to 5%, from 4% at the half year stage and reported another year of improved performance. Revenues increased by 5%, and profits rose by a pleasing 11%.

Unit volumes overall increased 9% in the Latin American region to 3,188 with average selling prices rising to US$17,500, +13%. Importantly, the installed base of machines on participation, which generates high quality recurring revenues, increased to 2,648, a rise of 48%. We saw strong product performance in our established game range of Multi Game, Quad Shot™ and Link Progressives in the new A600® series of cabinets. All of the brands are currently performing at an average of 1.75 – 2.5 times house average. Superior game performance is a lead indicator of future profitability.

FY17 was clearly a challenging period for volumes and revenues in our Australian operations. We operate in a highly competitive market with an effective market leader. We also expected overall market demand to contract slightly in 2017 compared to 2016.

Domestic revenue was $74.1 million, 9% lower compared to $81.5 million in the pcp. Sales to corporates and casinos were minimal in the period. Profit fell by 17% for the year overall and margins were 32%.

While the domestic market remains challenging, the second half of the year saw some recovery. Sales in 2H increased by 6% on pcp and encouragingly 2H profits increased by 15% on pcp. Sales in NSW were up by 20% in 2H on pcp.

We recently released the new EVO™ cabinet at August's AGE and we received a positive market response. That's another lead indicator in our business. Combined with our broadened game library we expect to capture a greater market share in FY18. We are the most positive we have been on the domestic market for quite a long time.

"In FY17, we completed the full integration of Nova Technologies. We purchased Nova in January 2016. While Nova wasn't a large deal at the time, it is proving to be strategically very important. Our progress in Washington State shows that"

The Rest of the World segment delivered a strong result with a profitable margin contribution from sales, games and content from Novomatic AG. Segment revenue was $28.1 million, an increase of 54% compared to 2016. Profit was 50% higher.This strong result was primarily attributable to sales contributions from Asia and Europe and product distribution opportunities with Novomatic, which added $11.4m in sales and $5.5m in profit.

Our strategic investments in the online spectrum - real money gaming and social casino platform technology continue to generate returns. Ainsworth is implementing a multichannel distribution strategy, which will offer our recognised land-based slot content to social casinos and regulated real money gambling partners throughout UK, Europe, Australasia and the Americas.

In support of this, in FY17 we released 15 new approved games for play in licenced gambling markets online and expanded the number of operators deploying Ainsworth content through our current platform partners: Microgaming, NYX and iSoftbet.

In FY18, we will strengthen our position together by expanding into new online markets through Novomatic's Greentube online platform as well as exploring new licensed opportunities in Latin America.

**Outlook**

We enter FY18 with positive momentum. Our profile in the Americas continues to grow. Our sales pipeline is strong with large, confirmed orders and new market opportunities. Our new licensed **PAC-MAN WILD EDITION™** product is increasing the strategically important number of units under operation generating high quality recurring revenues. Optimistically, we are starting to see positive outcomes from our investments in R&D and strengthened technology leadership. With a broadened product offering and the new, recently launched EVO™ cabinet in Australia, we expect to increase market share both internationally and in the domestic markets."

I wish to express my appreciation to Mr Len Ainsworth for his invaluable expertise and Mr Graeme Campbell in his role as the new Chairman, for his commitment to the Company. I would also like to thank the Board of Directors for their wise counsel, the executive team for their impressive work through the year, our talented employees for their major contribution to our continued success, our supportive shareholders and importantly our customers for whom we strive to deliver the best in gaming experiences.

D. Gladstone

**Danny Gladstone**
*Chief Executive Officer / Executive Director*

# Shareholder Information

## INFORMATION ABOUT SHAREHOLDERS

Shareholder information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below:

## SHARE HOLDINGS (AS AT 18 SEPTEMBER 2017)

### Number of shareholders and shares on issue

The issued shares in the Company were 331,085,560 ordinary shares held by 5,614 shareholders.

### Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

| Shareholder | Number of Ordinary Shares |
|---|---|
| Mr LH Ainsworth | 178,291,817* |
| Votraint No. 1019 Pty Ltd (MCA Private Investment A/C) | 30,133,804 |

* Included in shareholding above of Mr LH Ainsworth are 172,100,823 ordinary shares which are subject to a proposed sale to Novomatic AG as approved at a General Meeting of Shareholders held on 27 June 2016. The completion of this share sale transaction requires necessary gaming regulatory approvals as detailed in the Notice of Meeting dated 4 May 2016.

### Voting rights

*Ordinary shares*

The voting rights attaching to ordinary shares are that on a show of hands every member present in person or by proxy has one vote and upon a poll, each share shall have one vote.

*Options and Performance Rights*

Option and performance right holders have no voting rights.

### Distribution of shareholders

| | NUMBER OF EQUITY SHAREHOLDERS | |
|---|---|---|
| Category | Ordinary Shares | Performance Rights |
| 1 – 1,000 | 1,312 | 2 |
| 1,001 – 5,000 | 2,637 | 132 |
| 5,001 – 10,000 | 799 | 198 |
| 10,001 – 100,000 | 805 | 123 |
| 100,001 and over | 61 | 8 |
| **Total** | **5,614** | **463** |

The number of shareholders holding less than a marketable parcel of ordinary shares is 292 (16,423 ordinary shares).

### On market buy-back

There is no current on market buy-back of ordinary shares.

### Unquoted equity securities

At 18 September 2017, 6,177,808 performance rights have been issued to 463 employees, respectively. These performance rights remain unexercised.

### Regulatory considerations affecting shareholders

The Company is subject to a strict regulatory regime in regard to the gaming licences and operations within the gaming industry. It is necessary for the Company to regulate the holding of shares to protect the businesses of the Company in respect of which a gaming licence is held. By accepting shares, each potential investor acknowledges that having regard to the gaming laws, in order for the Company to maintain a gaming licence, the Company must ensure that certain persons do not become or remain a member of the Company. The Constitution of the Company contains provisions that may require shareholders to provide certain information to the Company and the Company has powers to require divesture of shares, suspend voting rights and suspend payments of certain amounts to shareholders.

# Shareholder Information (continued)

### Twenty largest shareholders

| Name | Number of ordinary shares held | Percentage of total |
|---|---|---|
| MR LEN AINSWORTH | 163,511,546 | 49.39 |
| VOTRAINT NO 1019 PTY LTD <MCA PRIVATE INVESTMENT A/C> | 30,133,804 | 9.10 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 19,695,446 | 5.95 |
| J P MORGAN NOMINEES AUSTRALIA LIMITED | 15,265,353 | 4.61 |
| NATIONAL NOMINEES LIMITED | 11,371,131 | 3.43 |
| CITICORP NOMINEES PTY LIMITED | 10,241,215 | 3.09 |
| ASSOCIATED WORLD INVESTMENTS PTY LTD | 9,884,656 | 2.99 |
| BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C> | 7,012,189 | 2.12 |
| BACLUPAS PTY LTD <VALHALLA A/C> | 4,759,697 | 1.44 |
| RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD <VFA A/C> | 3,039,366 | 0.92 |
| WRITEMAN PTY LIMITED <P L H A INVESTMENT A/C> | 2,911,622 | 0.88 |
| BNP PARIBAS NOMS PTY LTD <DRP> | 2,828,553 | 0.85 |
| WARBONT NOMINEES PTY LTD <UNPAID ENTREPOT A/C> | 1,320,726 | 0.40 |
| MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 1,079,828 | 0.33 |
| CASOLA HOLDINGS PTY LTD <NORDIV HOLDINGS S/FUND A/C> | 1,070,000 | 0.32 |
| AMP LIFE LIMITED | 882,536 | 0.27 |
| MR CHRISTIAN JOHN HASTINGS AINSWORTH | 770,650 | 0.23 |
| MR SASHA ALEXANDER CAJKOVAC | 690,000 | 0.21 |
| MISS PATTARAWADEE SMARNKEO | 684,999 | 0.21 |
| MR DAVID WARREN LARMENT + MRS CHIZURU LARMENT <D&C LARMENT SUPER FUND A/C> | 650,000 | 0.20 |
| **Total** | **287,803,317** | **86.94** |

# Directors' Report

for the year ended 30 June 2017

The directors present their report together with the consolidated financial statements of the Group comprising of Ainsworth Game Technology Limited (the Company) and its subsidiaries for the financial year ended 30 June 2017 and the auditor's report thereon.

## 1. DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

| Name, qualifications and independence status | Age | Experience, special responsibilities and other directorships |
|---|---|---|
| **CURRENT** | | |
| Mr Leonard Hastings Ainsworth, DUniv, FAICD, FAIM<br>Executive Director | 94 yrs | – Sixty four years gaming industry experience<br>– Founder and former Managing Director of Aristocrat<br>– Fellow of the Institute of Company Directors in Australia and the Australian Institute of Management<br>– Life member – Clubs NSW<br>– Founder of Australian Gaming Machines Manufacturers Association – now Gaming Technology Association<br>– Founder of Australasian Gaming Exhibition<br>– Inducted into the Australian Gaming Hall of Fame and U.S Gaming Hall of Fame in 1994 and 1995, respectively<br>– Recognition as export hero in 2002 by Australian Institute of Export<br>– G2E Asia Gaming Visionary Award Recipient in 2010<br>– Recipient of Clubs NSW award for outstanding contribution to the club industry in 2011<br>– Recipient of Keno and Club Queensland Award for excellence in March 2014 for services to industry<br>– Awarded Higher Doctorate degree by the University of New South Wales<br>– Recipient of Jens Halle Memorial Award honouring excellence in commercial gaming professionalism in 2016<br>– Director and Chairman since 1995 – Executive Chairman since 2003 until 15 November 2016 |
| Mr Graeme John Campbell<br>Chairman and Independent Non-Executive Director | 60 yrs | – Graeme has specialised in the area of liquor and hospitality for over 30 years in corporate consultancy services with particular emphasis on hotels and registered clubs<br>– Former Chairman of Harness Racing NSW, recipient of J.P. Stratton award and Ern Manea Gold Medal. Inducted into the Inter Dominion Hall of Fame in February 2014<br>– Former Director of Central Coast Stadium and Blue Pyrenees Wines<br>– Director of Liquor Marketing Group Limited (Bottle Mart) since 2013<br>– Director of Lantern Hotels Group and Chairman since July 2016<br>– Director of NSW Harness Racing Club since October 2016<br>– Chairman of Audit Committee of Illawarra Catholic Club Group<br>– Chairman of Audit Committee until 1 April 2017 and member since 1 April 2017, member of Regulatory and Compliance Committee until 1 July 2017, member of Remuneration and Nomination Committee since 2015<br>– Lead Independent Non-Executive Director since 2013 and appointed Chairman on 15 November 2016 |

| Name, qualifications and independence status | Age | Experience, special responsibilities and other directorships |
|---|---|---|
| **CURRENT** | | |
| Mr Michael Bruce Yates B.Com (with merit), LLB<br>Independent Non-Executive Director | 63 yrs | — Michael has extensive commercial and corporate law experience in a career spanning over 35 years<br>— He is a former senior corporate partner of Sydney Law practices Holding Redlich and Dunhill Madden Butler and has acted for a number of clients involved in the gaming industry<br>— Director since 2009<br>— Chairman of Regulatory and Compliance Committee and member of Audit Committee |
| Mr Colin John Henson, Dip Law- BAB, FCPA, FGIA, FAICD<br>Independent Non-Executive Director | 69 yrs | — Colin has had a lengthy career in senior corporate positions and as a director of private and publicly listed companies across a broad range of industries<br>— Lead associate with Madison Cross Corporate Advisory Pty Ltd since 2014<br>— Former directorships (in recent years) include; Executive Chairman of Redcape Property Fund Limited, an ASX Listed Property Trust; Chairman and non-executive director of Videlli Limited<br>— Fellow of the Australian Institute of Company Directors, Fellow of CPA (Certified Practising Accountants) Australia and Fellow of the Governance Institute of Australia. Colin is also a non-practising member of the Law Society of NSW<br>— Director since 2013<br>— Member of Audit Committee until 1 April 2017 and Chairman since 1 April 2017<br>— Chairman of Remuneration and Nomination Committee |
| Ms Heather Alice Scheibenstock GAICD<br>Independent Non-Executive Director | 49 yrs | — Heather has extensive leadership experience within the gaming and hospitality industries specialising in strategic planning and offshore growth spanning over 30 years<br>— She has previously held senior executive roles at Echo Entertainment and Solaire Group<br>— Director of Southern Metropolitan Cemeteries Trust since 2014<br>— Director of Ability Options since February 2017<br>— Member of Australian Institute of Company Directors and Women on Boards<br>— Appointed Director (subject to regulatory approval in Ohio and the Canadian province of Saskatchewan) since 2016<br>— Member of Remuneration and Nomination Committee since 2016<br>— Member of Regulatory and Compliance Committee since 1 July 2017 |
| Mr Daniel Eric Gladstone<br>Executive Director and Chief Executive Officer | 62 yrs | — Danny has held senior positions within the gaming industry over a successful career spanning 40 years<br>— Former Chairman of Gaming Technologies Association<br>— Inducted into the Club Managers Association Australia Hall of Fame in 2000<br>— Chief Executive Officer since 2007 - Executive Director since 2010<br>— Member of Regulatory and Compliance Committee |

# Directors' Report (continued)

for the year ended 30 June 2017

## 1. DIRECTORS (continued)

| Name, qualifications and independence status | Age | Experience, special responsibilities and other directorships |
|---|---|---|
| **CURRENT** | | |
| Mr Harald Michael Karl Neumann<br>Non-Executive Director | 55 yrs | – Harald has extensive leadership experience in senior executive positions in a career spanning over 20 years mainly within technology companies<br>– Former Regional Chief Executive Officer at Alcatel AG (now Alcatel–Lucent) a global tele-communications equipment Company<br>– Former Managing Director at Bundesrechenzentrum GmbH, the Austrian government's information technology service provider, until 2006<br>– Former CEO of G4S Security Services Austria AG, the Austrian subsidiary of one of the world's leading integrated security companies before joining Novomatic in 2011<br>– Currently Chief Executive Officer and Chairman of the Executive Board of Novomatic since 2014<br>– Graduate of the Vienna University of Economics and Business, Board Member of the American Chamber of Commerce. Member of the Rotary Club Klosterneuburg and Member of the Supervisory Board of Casinos Austria AG since March 2017<br>– Non-Executive Director of Ainsworth Game Technology (subject to regulatory approval in Ohio) since 21 February 2017 |

## 2. COMPANY SECRETARY

Mr Mark L Ludski has held the position of Company Secretary since 2000. Mr ML Ludski previously held the role of Finance Manager with another listed public company for ten years and prior to that held successive positions in two leading accounting firms where he had experience in providing audit, taxation and business advisory services.

Mr ML Ludski is a Chartered Accountant holding a Bachelor of Business degree, majoring in accounting and sub-majoring in economics.

## 3. DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

| | Board Meetings | | Audit Committee Meetings | | Remuneration & Nomination Committee Meetings | | Regulatory & Compliance Committee Meetings | |
|---|---|---|---|---|---|---|---|---|
| Director | A | B | A | B | A | B | A | B |
| LH Ainsworth | 10 | 10 | – | – | – | – | – | – |
| GJ Campbell | 10 | 10 | 2 | 2 | 4 | 4 | 4 | 4 |
| MB Yates | 10 | 10 | 2 | 2 | – | – | 4 | 4 |
| DE Gladstone | 10 | 10 | – | – | – | – | 4 | 4 |
| CJ Henson | 10 | 10 | 2 | 2 | 4 | 4 | – | – |
| HA Scheibenstock | 10 | 10 | – | – | 4 | 4 | – | – |
| HK Neumann | 4 | 4 | – | – | – | – | – | – |

A Number of meetings attended
B Number of meetings held during the time the director held office during the year

# Directors' Report (continued)

for the year ended 30 June 2017

## 4. PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial year were the design, development, production, lease, sale and servicing of gaming machines and other related equipment and services. The Group continues to execute strategies to expand and diversify its product offerings within both land based and on-line gaming markets, including social gaming and licensed "Real Money" gambling markets.

There were no significant changes in the nature of the activities of the Group during the year.

### Objectives

Ainsworth is a leading gaming machine developer, designer and manufacturer operating in local and global markets. Our strategy is to profitably and sustainably expand this footprint by leveraging off our deep expertise and substantial experiences for the benefit of all shareholders.

The Group's objectives are to:

- focus on increasing revenue and profitability within geographical markets that are expected to achieve the greatest contributions to the Group's financial results, and creation of sustained growth;
- diversity and expansion of contributions from recurring revenue through units under gaming operation;
- continue investing in product research and development in order to provide quality market leading products that are innovative and entertaining, and result in increased player satisfaction and therefore greater venue profitability;
- expand presence within on-line gaming markets, including social gaming and licensed "Real Money" gambling markets;
- prudently manage levels of investment in working capital and further improve cash flow from operations to facilitate investment in growth opportunities; and
- provide a growing return on shareholder equity through increasing profitability, payment of dividends and share price growth.

In order to meet these objectives the following priority actions will continue to apply in future financial years:

- grow the Group's footprint and operating activities in domestic and international markets;
- continual investment in research and development to produce innovative products with leading edge technology;
- review and evaluate growth opportunities both organically and through acquisitions;
- manage product and overhead costs through improved efficiencies in supply chain and inventory management;
- actively pursue initiatives to improve and reduce investment in working capital;
- maintain best practice compliance policies and procedures and increase stakeholder awareness of the Group's regulatory environment; and
- ensure retention and development of the Group's talent base.

## 5. OPERATING AND FINANCIAL REVIEW

### Overview of the Group

The Group's profit for the year ended 30 June 2017 was a profit after tax of $37.9 million, a decrease of 32% on the $55.7 million in 2016. The profit after tax excluding effect of net foreign currency loss was $47.6 million which is a decrease of 9% compared to $52.4 million in 2016.

The current year profit before tax result, excluding the effect of currency losses was $57.4 million with half 2 representing $42.2 million a significant improvement on half 1 of $15.2 million and 2.5% ahead of guidance provided in February 2017.

This result was achieved on revenue of $282.1 million with an increase in half 2 of 30% compared to half 1 of the current year. This increase was assisted through revenue of $10.9 million achieved in FY17 within Europe through the relationship established with Novomatic AG, revenue gains within the domestic market of New South Wales and in Latin America in the second half of FY17.

# Directors' Report (continued)

for the year ended 30 June 2017

## 5. OPERATING AND FINANCIAL REVIEW (continued)

The following table summarises the results for the year:

| *In millions of AUD* | 12 months to 30 June 2017 | 12 months to 30 June 2016 | Variance % |
|---|---|---|---|
| **Total revenue** | **282.1** | **285.5** | (1.2) |
| Underlying EBITDA | 84.1 | 95.2 | (11.7) |
| Reported EBITDA | 70.3 | 95.8 | (26.6) |
| **EBIT** | **44.5** | **72.8** | (38.9) |
| Profit before tax | 46.9 | 75.1 | (37.5) |
| **Profit for the year** | **37.9** | **55.7** | (32.0) |
| Total assets | 464.7 | 436.0 | 6.6 |
| Net assets | 344.6 | 315.9 | 9.1 |
| Earnings per share (fully diluted) | 12.0 cents | 17.0 cents | (29.4) |
| Total dividends per share | – | 10.0 cents | (100.0) |

A reconciliation of the reported EBITDA to the underlying EBITDA is shown in the following table:

| *In millions of AUD* | 12 months to 30 June 2017 | 12 months to 30 June 2016 | Variance % |
|---|---|---|---|
| **Reconciliation:** | | | |
| **Profit before tax** | **46.9** | **75.1** | (37.5) |
| Net interest | (2.4) | (2.3) | 4.3 |
| Depreciation and amortisation | 25.8 | 23.0 | 12.2 |
| **Reported EBITDA** | **70.3** | **95.8** | (26.6) |
| Foreign currency loss / (gain) | 10.5 | (4.7) | 323.4 |
| Due diligence costs on strategic opportunites/acquisitions | – | 1.2 | (100.0) |
| Impairment losses | 3.3 | 2.2 | 50.0 |
| Accelerated expenses for vacated premises in North America | – | 0.7 | (100.0) |
| **Underlying EBITDA** | 84.1 | 95.2 | (11.7) |

*The information presented in this review of operations has not been audited in accordance with the Australian Auditing Standards.*

### Shareholder returns

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Profit attributed to owners of the company | $37,930,000 | $55,703,000 | $70,353,000 | $61,570,000 | $52,202,000 |
| Basic EPS | $0.12 | $0.17 | $0.22 | $0.19 | $0.16 |
| Dividends paid/declared | $16,386,000 | $32,245,000 | $32,227,000 | $32,211,000 | $9,661,000 |
| Change in share price | No Change | ($0.41) | ($1.17) | ($0.29) | $1.93 |

Net profit amounts for 2013 to 2017 have been calculated in accordance with Australian Accounting Standards (AASBs).

# Directors' Report (continued)

for the year ended 30 June 2017

### Investments for future performance

The Group continues to review and evaluate opportunities within the gaming sector. Further investments in research and development are expected to assist the ongoing expansion and breadth of innovative, technically advanced and consistently high performing products. The Group launched a new EVO™ hardware configuration at the Australasian Gaming Exhibition (AGE) in August 2017 with a range of newly developed game concepts including Pac-Man Wild Edition™, King Kong™, Fire Power™ and Big Hits Bonanza™. These products were the result of previous investment in research and development undertaken and are expected to be the cornerstone of the Group's product transition strategies in all global markets.

*Digital*

Ainsworth continues to pursue growth opportunities within market attractive digital/interactive channels for its premium game content. These markets include the regulated online "real money" gambling sectors within Europe, Latin America and the USA as well as the fast growing worldwide social casino gaming sectors for "free to play" digital games and supporting applications.

New developments include Ainsworth further enhancing its game content supply technologies such as its state of the art remote gaming server technology. Ainsworth's remote game server technology enables online real money and social casino operators worldwide the ability to instantly, safely and securely access Ainsworth's latest game library on desktop and mobile devices. Ainsworth provides a simple plug-and-play approach to third party systems and partners.

New jurisdictions potentially opening up within the USA and Latin America in the online "real money" gambling sector, including Mexico, Peru and Colombia, where Ainsworth already enjoys a strong land based casino market presence, will further enhance Ainsworth's growth opportunities within its digital/interactive businesses.

### Significant changes in the state of affairs

The previous approval by shareholders of the sale of ordinary shares held by Mr LH Ainsworth and entities controlled by him to Novomatic AG is expected to provide revenue opportunities and synergies in coming periods and provide access to new research and development capabilities for the Group's global markets. Management continues to explore opportunities to leverage Novomatic's product library and extensive infrastructure. The completion of this transaction is now solely dependant on Novomatic receiving the necessary regulatory approvals.

Other than the matter noted above, there were no significant changes in the state of affairs of the Group during the financial year.

# Directors' Report (continued)

for the year ended 30 June 2017

## 5. OPERATING AND FINANCIAL REVIEW (continued)

### Review of principal businesses

Results in the current period and prior corresponding period are summarised as follows:

| *In millions of AUD* | 12 months to 30 June 2017 | 12 months to 30 June 2016 | Variance | Variance % |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Australia | 74.1 | 81.5 | (7.4) | (9.1) |
| Americas | 179.9 | 185.8 | (5.9) | (3.2) |
| Rest of World | 28.1 | 18.2 | 9.9 | 54.4 |
| **Total segment revenue** | **282.1** | **285.5** | **(3.4)** | **(1.2)** |
| **Segment result** | | | | |
| Australia | 24.0 | 29.0 | (5.0) | (17.2) |
| Americas | 82.3 | 83.3 | (1.0) | (1.2) |
| Rest of World | 15.0 | 10.0 | 5.0 | 50.0 |
| **Total segment result** | **121.3** | **122.3** | **(1.0)** | **(0.8)** |
| **Unallocated expenses** | | | | |
| Net foreign currency (loss) / gain | (10.5) | 4.7 | (15.2) | 323.4 |
| R&D expenses | (34.2) | (28.6) | (5.6) | 19.6 |
| Corporate expenses | (26.2) | (19.8) | (6.4) | 32.3 |
| Other expenses | (2.5) | (3.4) | 0.9 | (26.5) |
| Share of profit of equity-accounted investee | 0.2 | 0.4 | (0.2) | (50.0) |
| **Total unallocated expenses** | **(73.2)** | **(46.7)** | **(26.5)** | **56.7** |
| Less : interest included in segment result | (3.6) | (2.8) | (0.8) | 28.6 |
| **EBIT** | **44.5** | **72.8** | **(28.3)** | **(38.9)** |
| Net interest | 2.4 | 2.3 | 0.1 | 4.3 |
| **Profit before income tax** | **46.9** | **75.1** | **(28.2)** | **(37.5)** |
| Income tax | (9.0) | (19.4) | 10.4 | (53.6) |
| **Profit after income tax** | **37.9** | **55.7** | **(17.8)** | **(32.0)** |

# Directors' Report (continued)

for the year ended 30 June 2017

| Key performance metrics | % of revenue 12 months to 30 June 2017 | % of revenue 12 months to 30 June 2016 | Variance Points |
|---|---|---|---|
| **Segment result margin** | | | |
| Australia | 32.4 | 35.6 | (3.2) |
| Americas | 45.7 | 44.8 | 0.9 |
| Rest of World | 53.4 | 54.9 | (1.5) |
| **Segment result margin** | **43.0** | **42.8** | **0.2** |
| R&D expense | 12.1 | 10.0 | 2.1 |
| Adjusted EBIT(1) | 19.5 | 23.9 | (4.4) |
| Adjusted profit before income tax(1) | 20.3 | 24.7 | (4.4) |
| Adjusted profit after income tax(1) | 17.2 | 19.5 | (2.3) |
| Effective tax rate | 19.2 | 25.8 | (6.6) |

(1) Excludes net foreign currency loss of $10.5 million (2016: Net foreign currency gain of $4.7 million)

*Revenue*

Strong revenue of $159.4 million was achieved in the second half of FY17 which assisted to offset the lower revenue in the first half of the current period. The major contributors to the improved revenue in the second half was revenue of $8.0 million within Europe through the relationship established with Novomatic AG and continued strong revenue gains within the Latin American region.

The domestic markets of Australia generated revenues of $74.1 million during the reporting period, representing a reduction of 9% as compared to 2016. This reduction was primarily experienced in the first half with the second half improving by 6% on the prior corresponding period. Overall domestic revenue showed signs of improvement with New South Wales revenue increasing 20% in the second half over the corresponding period in 2016. Overall domestic revenue continued to be impacted by reduced business activity with large corporate customers and competitor activity as relates to product placements. Notwithstanding these factors, consistent performance from an established range of Ainsworth products on both the A640 and A600 cabinets ensured that the installed base still experienced moderate growth across most domestic markets.

FY17 saw the release of several successful proprietary games including Roarin' *Fortune, Blazin' Fortune, Quackpot* and *Sky High Link*. During FY17 Ainsworth also released several successful licensed games including *Pac Man* and *King Kong*. The release of the EVO cabinet at the Australasian Gaming Exhibition in August 2017 together with a more diverse and innovative range of game content has been positively received. The additional focus on market-attuned concepts such as *Big Hit Bonanza*™, *Fire Power*™ and *Jackpot Strike* will be key offerings in the multi-game multi-denomination product segments and are expected to provide a meaningful improvement in future periods.

In line with the strategy to expand Ainsworth's offshore operations, international revenue was $208.0 million compared to $204.0 million in 2016, a slight increase of 2%.

The Americas now constitutes 64% ($179.9 million) of total revenues, consistent with the prior corresponding period. The Group expects to capitalise on international revenue opportunities in FY18 from the ongoing release of newly developed games, combined with the continued growth in Class II gaming on an expanded range of hardware configurations.

The Americas contributed 87% of total international revenue, with North America and Latin America representing 49% and 38% respectively. The North American market realised revenue of $101.4 million in the current period, a decrease of 9% on the $111.0 million in 2016. The previous granting of licenses and the progression of product approvals in additional US States is expected to provide revenue growth in coming periods. The markets of Oklahoma, Michigan, New York and Texas contributed to 32% of total unit sales from North America compared to 18% in the previous corresponding period in 2016. These new markets assisted to offset declines within markets of Wisconsin and California in the current year.

In conjunction with the revenue achieved from outright sales the Group maintained a base of 2,669 gaming units under participation arrangements as at the reporting period in North America. Participation revenue contributed revenue of $26 million (26%) in the current period compared to $21.7 million (20%) in the previous period. The release of the A640™ hardware and the Pac-man™ combined with further hardware and game content offerings in Class II product offerings is expected to further increase the installed base of products under participation in this market.

# Directors’ Report (continued)

for the year ended 30 June 2017

## 5. OPERATING AND FINANCIAL REVIEW (continued)

Revenue from Latin America was $78.5 million, an increase of 5% on the corresponding period in 2016. In addition to the above, the Group has increased its footprint and at the reporting date has 2,648 units under gaming operations in this market. This represents an increase of 48% compared to the 1,794 units under gaming operations as at 30 June 2016. Continued high performance of products such as the Multi Win™ multi game range and Quad Shots™, along with strategies previously undertaken have driven the Group’s growth within this geographical region. The Company is positioned to build on its reputation as a provider of high performing gaming products and expects to continue to expand its established footprint of products under gaming operation.

Revenue from other international markets (“Rest of World” segment) of New Zealand, Europe, Asia and on-line contributed $28.1 million representing an increase of 54% compared to the prior corresponding period in 2016. These results were primarily achieved through revenue of $10.9 million from Novomatic AG in the current period within Europe. Continued revenue through commitments with Novomatic AG as previously outlined is expected to be achieved within the second half of FY18.

Further progress within the digital gaming sector was achieved in the period with a revenue contribution of $3.5 million compared to $0.6 million in 2016. This revenue increase was primarily achieved in the social casino gaming sector, which represented 76% of total revenue. Ainsworth continues to work closely with its joint venture partner, 616 Digital LLC, as an operator focussed on the provision of Ainsworth game content directly to end user players. Ainsworth’s collaboration with 616 Digital LLC includes the launch and continued growth and popularity of Ainsworth’s “Players’ Paradise” app, which is accessible to players on a range of the most popular platforms on mobile and desktop including Facebook, Android and iOS.

Ainsworth continues to enjoy a competitive advantage in these markets and remains a sought after strategic partner and competitive operator in all of these sectors through its continued ability to leverage its premium slot game content (as developed for its core land based casino markets) in the real money gambling and social casino sectors. This land based content connection results in Ainsworth’s digital/interactive games being more readily identifiable and attractive to a broader audience of players and operators alike in the competitive digital market place.

*Operating costs*

Gross margin of 60% was achieved for the full year FY17, which was a slight decrease of 1% from the first half of FY17 and consistent with the 60% in 2016. As noted at the half year, margins within domestic markets were impacted by higher componentry costs through product transition to the A600™, adverse currency movements, aggressive promotional initiatives and reduced corporate and casino activity.

The maintenance of gross margin was achieved through an increased contribution of international sales and favourable currency movements in the period. Planned cost reduction initiatives have been introduced with higher sales volumes, production efficiencies, and a greater concentration of premium progressive recurring revenue games expected to assist in maintaining margins at current levels. International revenues are expected to continue to increase their contribution to total revenue of the Group.

Operating costs, excluding cost of sales, other expenses and financing costs were $112.5 million, an increase of 12% over 2016. These costs include additional overheads following the integration of Nova into the Group’s operations for the period since completion. This increase was primarily due to selling and marketing costs; additional sales representation in America in line with expected revenue increases and new market opportunities in the period; increased expenditure on new product initiatives and the full year depreciation impact of the gaming machines under gaming operations. Operating costs relating to global expansion are continually assessed to ensure these costs are aligned to the achievement of revenue growth before being incurred.

Research and development (R&D) expense was $34.2 million, an increase of $5.6 million over 2016, which represented 12% of revenue (2016: 10%). Continued progress to create a more diverse range of product offerings was initiated in the current period and is expected to provide revenue opportunities in global markets the Group operates in.

Administration costs were $26.2 million, an increase of $6.4 million compared to 2016. These overhead costs as a percentage of total revenue were 9% (2016: 7%) and are consistent with the planned infrastructure established, primarily within the Americas, in the first half of FY17 which is expected to be maintained at similar levels in FY18.

*Financing income and costs*

Net financing loss was $8.1 million in the current period, compared to a net financing income of $7.0 million in 2016. This adverse movement of $15.1 million was a result of foreign exchange loss of $10.5 million in the current period compared to a foreign currency gain of $4.7 million in 2016, an unfavourable change of $15.2 million.

### Review of financial condition

*Capital structure and treasury policy*

The Company currently has on issue 331,085,560 ordinary shares. The Board continues to ensure a strong capital base is maintained to enable investment in the development of the business. Group performance is monitored to oversee an acceptable return on capital is achieved and dividends are able to be provided to ordinary shareholders in future periods. There were no changes in the Group’s approach to capital management.

The Group is exposed to foreign currency risks on sales and purchases that are denominated in currencies other than AUD. The Group continually monitors and reviews the financial impact of currency variations to determine strategies to minimise the volatility of changes and adverse financial effects in foreign currency exchange rates.

*Cash flows from operations*

The Group continues to generate positive cashflows from operating activities. Net cash inflows from operations for the year ended 30 June 2017 was $5.2 million, a decrease from $52.9 million in the corresponding period in 2016. This reduction in operating cashflows was temporarily impacted through investment in working capital including increased receivables due to timing of sales, the build up of inventory and an increased footprint of recurring revenue units undergoing operation in Latin America. It is expected that improved cashflows will be achieved within FY18 as the cash conversion of receivables and inventory reductions progressively occur through sales and the receipt of monies for products on participation/lease.

*Liquidity and funding*

In addition to cash and cash equivalents held of $21.1 million (2016: $26.4 million), the Group has in place a A$90 million facility with a leading Australian bank. This facility will allow the Group to pursue traditional financing alternatives, including the ability to minimise working capital investment through cash reserves and ability to utilise US dollar borrowings.

The Group has utilised borrowings under its established facility to fund the acquisition of Nova Technologies. The net debt ((debt less cash) / EBITDA) at the reporting date was 0.63 times which was considered within an acceptable range of gearing for the Group.

The Group actively monitors its working capital requirements and has increased its investment particularly through the entry into Class II gaming products enabling it to increase machines under gaming operation and provide a greater proportion of recurring revenue in the Americas under participation arrangements.

*Impact of legislation and other external requirements*

The Group continues to work with regulatory authorities to ensure that the necessary product approvals to support its operations within global markets are granted on a timely and cost effective basis. The granting of such licenses will allow the Group to expand its operations. The Group aims to conduct its business worldwide in jurisdictions where gaming is legal and commercially viable. Accordingly, the Group is subject to licensing and other regulatory requirements of those jurisdictions.

The Group's ability to operate in existing and new jurisdictions could be adversely impacted by new or changing laws or regulations and delays or difficulties in obtaining or maintaining approvals and licenses.

## 6. DIVIDENDS

The following dividends were declared by the Company for year ended 30 June 2017:

| | Cents per share | Total amount $'000 | Date of payment |
|---|---|---|---|
| *Declared and paid during the year 2017* | | | |
| Final 2016 ordinary (franked) | 5.0 | 16,386 | 7 November 2016 |
| Total amount | | 16,386 | |

*Declared after end of year*

No dividend has been declared after year end.

**Dividends have been dealt with in the financial report as:**

| | Note | $'000 |
|---|---|---|
| Dividends | | 16,386 |

## 7. EVENTS SUBSEQUENT TO 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 Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## 8. LIKELY DEVELOPMENTS

The Group continues to pursue development initiatives and the necessary product approvals to help ensure sustainable revenue growth and financial improvement in future periods.

Further execution of strategies through the investment in a social on-line gaming company is expected to provide complementary revenue gains within on-line social and "Real Money" gaming segments in future periods. This strategy is aimed at achieving increased market share in selected geographical business sectors so as to positively contribute to Group results in future financial years.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

# Directors' Report (continued)

for the year ended 30 June 2017

## 9. DIRECTORS' INTERESTS

The relevant interest of each director in the shares and rights over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

| | Ainsworth Game Technology Limited | |
|---|---|---|
| | Ordinary shares | Performance rights over ordinary shares |
| Mr LH Ainsworth[(1)] | 178,291,817 | – |
| Mr GJ Campbell | 307,785 | – |
| Mr MB Yates | 30,600 | – |
| Mr CJ Henson | 131,156 | – |
| Ms HA Scheibenstock | – | – |
| Mr DE Gladstone[(2)] | 52,464 | 661,318 |

(1) Included in shareholding above of Mr LH Ainsworth are 172,100,823 ordinary shares that are subject to a proposed sale to Novomatic AG as approved at a General Meeting of Shareholders held on 27 June 2016. The completion of this share sale transaction requires necessary gaming regulatory approvals as detailed in the Notice of Meeting dated 4 May 2016.

(2) Included in performance rights above for DE Gladstone are 328,791 rights conditional on shareholder approval at the 2017 Annual General Meeting (AGM) on 28 November 2017.

## 10. SHARE OPTIONS / PERFORMANCE RIGHTS

### Unissued shares under performance right

At the date of this report unissued ordinary shares of the Group under performance right are:

| Expiry date | Instrument | Exercise price | Number of shares |
|---|---|---|---|
| 22 July 2018 | Rights | $Nil | 563,334 |
| 17 March 2020 | Rights | $Nil | 2,052,129 |
| 01 March 2021 | Rights | $Nil | 4,363,798 |
| | | | 6,979,261 |

There are no other shares of the Group under performance right.

All performance rights expire on the earlier of their expiry date or termination of the employee's employment. In addition, the ability to exercise the performance rights granted in previous periods is conditional on the Group achieving annual growth in Earnings Per Share of at least eight per cent each year over four years and ranking according to Total Shareholder Return in the fiftieth percentile compared to companies in the ASX300 index with the same Consumer Services GICS industry sector as the Group. The performance rights granted during the current period are subject to achievement of share price compounded growth of at least 15% per annum measured at each vesting period. Further details about share based payments to directors and KMP's are included in the Remuneration report in section 15. These rights do not entitle the holder to participate in any share issue of the Company or any other body corporate.

### Shares issued on exercise of options

During or since the end of the financial year, the Group issued no ordinary shares of the Company as a result of the exercise of options or performance rights.

## 11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

### Indemnification

The Group has agreed to indemnify current and former directors of the Group against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Neither the Group nor Company have indemnified the auditor in relation to the conduct of the audit.

### Insurance premiums

Since the end of the previous financial year, the Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses' insurance contracts, for current and former directors and officers, including senior executive officers of the Company and directors, senior executive and secretaries of its controlled entities.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses contracts, as such disclosure is prohibited under the terms of the contract.

## 12. NON-AUDIT SERVICES

During the year KPMG, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the audit; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG, and its network firms for audit and non-audit services provided during the year are set out below:

| | 2017<br>$ |
|---|---|
| **Services other than audit and review of financial statements:** | |
| **Other regulatory audit services** | |
| Controlled entity audit | 22,500 |
| **Other services** | |
| Transaction support services | 35,451 |
| | 57,951 |
| Audit and review of financial statements | 260,000 |
| **Total paid/payable to KPMG** | **317,951** |

## 13. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 93 and forms part of the directors' report for the financial year ended 30 June 2017.

## 14. ROUNDING OFF

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Report) Instrument 2016/191 and in accordance with that Instrument, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

# Directors' Report (continued)

for the year ended 30 June 2017

## 15. REMUNERATION REPORT – AUDITED

### 15.1 Principles of compensation – audited

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and senior executives for the Group that are named in this report.

Compensation levels for key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration and nomination committee ("RNC") regularly reviews market surveys on the appropriateness of compensation packages of the Group given trends in comparative companies both locally and internationally, and the objectives of the Group's compensation strategy. In addition independent remuneration consultants are used to advise the RNC on compensation levels given market trends.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's performance against Key Performance Indicators (KPIs) and individual contributions to the Group's performance;
- the Group's performance including:
  - revenue and earnings;
  - growth in share price and delivering returns on shareholder wealth; and
  - the amount of incentives within each key management person's compensation.

Compensation packages include a mix of fixed and variable compensation and short-term and long-term performance-based incentives.

In addition to their salaries, the Group also provides non-cash benefits to its key management personnel, and contributes to post-employment defined contribution superannuation plans on their behalf.

#### Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any Fringe Benefits Tax (FBT) charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the RNC through a process that considers individual, segment and overall performance of the Group. In addition market surveys are obtained to provide further analysis so as to ensure the directors' and senior executives' compensation is competitive in the market place. A senior executive's compensation is also reviewed on promotion and performance. This review resulted in increases between 3.0% to 7.0% being awarded in the current period.

The RNC undertook a review of fixed compensation levels in 2017 to assist with determining an appropriate mix between fixed and performance linked compensation for senior executives of the Group during the year.

#### Performance linked compensation

Performance linked compensation includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash, while the long-term incentive (LTI) is provided as performance rights over ordinary shares of the Company under the rules of the Employee Rights Share Plans (see Note 23 to financial statements).

In addition to their salaries, selected key sales management personnel receive commission on sales within their specific business segments as part of their service contracts at each vesting date.

As outlined a review was undertaken by the RNC to determine and assess current performance linked compensation arrangements - STI and LTI plans. This review was evaluated by the Board to determine appropriate remuneration levels taking into consideration the Group's growth objectives, industry specific and market considerations and related retention of key employees.

#### Short-term incentive bonus

Each year the RNC determines the objectives and KPIs of the key management personnel. The KPIs generally include measures relating to the Group, the relevant segment, and the individual, and include financial, people, customer, compliance, strategy and risk measures. The measures are chosen as they directly align the individual's reward to the KPIs of the Group and to its strategy and performance.

The financial performance objectives for FY17 comprise 50% for Group 'profit before tax' excluding foreign currency gains / (losses) and 30% for 'minimum international revenue'. These financial performance targets were assessed by the RNC for all key management personnel (excluding Mr LH Ainsworth and non-executive directors) and it was determined that the Group did not achieve the 'profit before tax' minimum target and no STI was payable in the current year relating to this criteria. The RNC determined that the 'minimum international revenue' was achieved and 30% of the maximum STI under this criteria was awarded.

The non-financial objectives comprising 20% vary with position and responsibility and include measures such as achieving strategic outcomes, safety measures, and compliance with established regulatory processes, customer satisfaction and staff development. The non-financial objectives for key management personnel, excluding directors (other than Mr Danny Gladstone, the Chief Executive Officer (CEO)) were assessed and it was determined that a portion of STI under these criteria would be awarded in the current period.

The RNC assesses the actual performance of the Group, the relevant segment and individual against the KPI's set at the beginning of the financial year. A pre-determined maximum amount is capable of being awarded for stretch performance. No stretch bonus was awarded as overall performance fell below the minimum performance established. The performance evaluation in respect of the year ended 30 June 2017 has taken place in accordance with this process.

The RNC recommends the cash incentive to be paid to the individuals for approval by the board. The method of assessment was chosen as it provides the Committee with an objective assessment of the individual's performance. Based on remuneration practices the STI was determined for key management personnel and senior executives. Following a recommendation by the independent remuneration consultant it was established that should a STI amount be awarded 50% of the STI would be payable in cash and 50% be deferred for a 12 month period. The deferred component established for the 2017 financial year has not been accrued at 30 June 2017 and is subject to service conditions.

Currently, the performance linked component of compensation comprises approximately 11% (2016: 3%) of total payments to key management personnel.

### Long-term incentive

*Performance Rights Plan*

During a previous year an employee incentive plan was established whereby performance rights were granted under the Rights Share Trust (RST). Under the RST, eligible employees and executives were allocated performance rights over ordinary shares in the Company. The performance rights were granted at nil consideration or exercise price however are dependent on service conditions, vesting conditions and performance hurdles. The performance rights convert to ordinary shares of the Company on a one-for-one basis.

Details of the vesting conditions for each plans are outlined as below :

#### 22 July 2013 and 17 March 2015 Granted Plan

Of each tranche that vest, 70% vest subject to Earnings Per Share (EPS) targets and 30% vest subject to Total Shareholder Return (TSR) targets. The relevant weighting of performance conditions of 70% EPS and 30% TSR were determined at that time as appropriate due to the following:

- EPS is more reflective of the Group's underlying performance in terms of long term sustainable growth;
- To ensure relevance of the LTI for international employees;
- International expansion requires looking beyond ASX listed companies for a more meaningful performance comparison;
- Inherent volatility of the gaming industry makes TSR less relevant and reflective of underlying performance; and
- There are limited numbers of gaming industry companies in the ASX.

EPS growth is an absolute performance measure that refers to consolidated results of operating activities. Relative TSR measures the Group's notional return in the form of share price increases and dividends over the term against a comparison group of companies in the ASX300 that have the same Consumer Service GICS industry sector as the Company.

The Board believed when these incentive plans were introduced that these two performance hurdles, in combination, serve to align the interests of the individual executives and employees with the interests of the Company's shareholders, as EPS growth is a key driver of company long-term share price performance, and relative TSR compared to the ASX300 comparator companies provides a comparison of the entities performance against potential alternative shareholder investment.

## 15. REMUNERATION REPORT – AUDITED (continued)

### 15.1 Principles of compensation – audited (continued)

Vesting on each tranche is as follows:

| Tranche 1 | | Tranche 2 | |
|---|---|---|---|
| EPS growth | Vesting outcome | Company TSR percentile ranking | Vesting outcome |
| Less than 8.0% per annum | Nil vesting | Below 50th percentile | Nil vesting |
| 8.0% per annum | 25% vesting plus 1.25% for each 0.1% increase in EPS | 50th percentile | 50% vesting |
| 10.0% per annum | 50% vesting plus 2.0% for each 0.1% increase in EPS | Between 50th and 75th percentile | Pro-rata (sliding scale) percentage vesting |
| 12.5% per annum or more | 100% vesting | At or above 75th percentile | 100% vesting |

Rights that do not vest at the end of the vesting periods will lapse, unless the Board in its discretion determine otherwise. Upon cessation of employment prior to the vesting date, rights will be forfeited and lapse. Performance rights do not entitle holder to dividends that are declared during the vesting period. No adjustments to reported results from operating activities are made when the remuneration committee determines whether the EPS hurdle is achieved.

#### 1 March 2017 Granted Plan

The performance hurdles for this plan are based on a 15% compound increase on the share price of $1.86, being the Volume Weighted Average Price (VWAP) for 90 days ending 28/02/2017. The hurdles set for this plan was determined as appropriate due to the following:

- Share Price growth is considered more reflective of the Group's underlying performance and is aligned to shareholder wealth;
- To ensure relevance of the LTI for international employees;
- International expansion reflects ASX share price and is a more meaningful performance measure;
- Inherent volatility of the gaming industry makes TSR and EPS less relevant; and
- There are limited numbers of gaming industry companies in the ASX.

Vesting on each tranche is as follows:

| | |
|---|---|
| Tranche 1 | 20% will vest if the VWAP for 20 days preceding 01/03/2018 is equal or greater than $2.14 |
| Tranche 2 | 20% will vest if the VWAP for 20 days preceding 01/03/2019 is equal or greater than $2.46 |
| Tranche 3 | 20% will vest if the VWAP for 20 days preceding 01/03/2020 is equal or greater than $2.83 |
| Tranche 4 | 40% will vest if the VWAP for 20 days preceding 01/03/2021 is equal or greater than $3.25 |

Rights that do not vest at the end of the final vesting period will lapse, unless the Board in its discretion determine otherwise. Upon cessation of employment prior to the vesting date, rights will be forfeited and lapse. Performance rights do not entitle holder to dividends that are declared during the vesting period.

#### Short-term and long-term incentive structure

The RNC considers that the above performance-linked remuneration structure will generate the desired outcomes. The evidence of this is:

- the strong growth in international revenue;
- the performance-linked element of the structure appears to be appropriate because senior executives achieved a level of performance which qualifies them for performance linked incentives; and
- the high levels of retention among senior executives and key personnel.

### Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the RNC have regard to the following indices in respect of the current financial year and the previous four financial years.

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Profit attributable to owners of the company | $37,930,000 | $55,703,000 | $70,353,000 | $61,570,000 | $52,202,000 |
| Dividends paid/declared | $16,386,000 | $32,245,000 | $32,227,000 | $32,211,000 | $9,661,000 |
| Change in share price | **No change** | **($0.41)** | **($1.17)** | **($0.29)** | **$1.93** |

Profit is considered as one of the financial performance targets in setting the short-term incentive bonus. Profit amounts for 2013 to 2017 have been calculated in accordance with Australian Accounting Standards (AASBs).

### Other benefits

Key management personnel receive additional benefits such as non-monetary benefits, as part of the terms and conditions of their appointment. Non-cash benefits typically include payment of club memberships and motor vehicles, and the Group pays fringe benefits tax on these benefits.

### Service contracts

It is the Group's policy that service contracts for Australian key management personnel and key employees be unlimited in term but capable of termination by either party on periods 3 to 12 months' notice and that the Group retains the right to terminate the contracts immediately, by making payment equal to the notice period.

The Group has entered into service contracts with each Australian key management person that provide for the payment of benefits where the contract is terminated by the Group. The key management persons are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any accrued superannuation.

The service contract outlines the components of remuneration paid to the key management personnel but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year to take into account market conditions, cost-of-living changes, any change in the scope of the role performed by the senior executive, retention of key personnel and any changes required to meet the principles of the remuneration policy.

Mr Danny Gladstone, Executive Director and Chief Executive Officer (CEO), has a contract of employment dated 5 February 2007 and amended on 7 December 2010 with the Company. The contract specifies the duties and obligations to be fulfilled by the CEO and provides that the board and CEO will early in each financial year, consult and agree objectives for achievement during that year.

The CEO has no entitlement to a termination payment in the event of removal for misconduct as specified in his service contract.

Refer to Note 28 of the financial statements for details on the financial impact in future periods resulting from the Group's commitments arising from non-cancellable contracts for services with key management personnel.

### Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders at the 2012 Annual General Meeting, is not to exceed $850,000 per annum, with effect from 1 July 2012. Directors' base fees are presently $120,000 per annum (excluding superannuation) and is set based on a review of fees paid to other non-executive directors of comparable companies. The fees paid to non-executive directors reflect the demands and responsibilities associated with their roles and the global nature of the operations within the highly regulated environment within which the Group operates. Fees incorporate an allowance for the onerous probity requirements placed on non-executive directors by regulators of the jurisdictions in which the Group operates or proposes to operate in. In addition to these fees the cost of reasonable expenses are reimbursed as incurred.

Non-executive directors do not participate in performance related compensation and are not provided with retirement benefits apart from statutory superannuation.

## 15. REMUNERATION REPORT – AUDITED (continued)

### 15.1 Principles of compensation – audited (continued)

The CEO and Company Secretary do not receive any additional fees for undertaking Board or Committee responsibilities. Following a review previously undertaken by an independent remuneration consultant, non-executive director's fees were assessed based on current market levels for comparable companies, demands and responsibilities associated with their roles and the global nature of the Group's operations within a highly regulated environment to ensure the Board is appropriately compensated. Other independent non-executive directors who also chair or are a member of a committee receive a supplementary fee in addition to their annual remuneration. Current fees for directors, excluding superannuation and are set out below.

| POSITION | $ (per annum) |
|---|---|
| Independent Chair of Board[(1)] | 250,000 |
| Australian resident non-executive director | 120,000 |
| Lead Independent non-executive director[(2)] | 10,000 |
| Chair of Audit Committee | 20,000 |
| Chair of Regulatory and Compliance Committee | 24,000 |
| Chair of Remuneration and Nomination Committee | 12,000 |
| Member of Audit Committee | 12,000 |
| Member of Regulatory and Compliance Committee | 15,000 |
| Member of Remuneration and Nomination Committee | 8,000 |

(1) Mr GJ Campbell was appointed Chairman of the Board on 15 November 2016 and received remuneration on a pro-rata basis from this date.

(2) This amount was not required since the appointment on 15 November 2016 of Mr GJ Campbell as independent Chairman of the Board.

### 15.2 Directors' and executive officers' remuneration – audited

Details of the nature and amount of each major element of remuneration of each director of the Company, and other key management personnel of the consolidated entity are:

| | | Short-term | | | | Post-employment | Other long term benefits | | Share-based payments | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| In AUD | | Salary & fees $ | STI cash bonus (A) $ | Non-monetary benefits $ | Total $ | Super-annuation benefits $ | (C) $ | Termination benefits $ | Rights (B) $ | Total $ | Proportion of remuneration performance related % | Value of options as proportion of remuneration % |
| **Non-executive directors** | | | | | | | | | | | | |
| ***Current*** | | | | | | | | | | | | |
| Mr GJ Campbell | 2017 | 246,390 | – | – | 246,390 | 23,407 | – | – | – | 269,797 | – | – |
| | 2016 | 187,000 | – | – | 187,000 | 17,765 | – | – | – | 204,765 | – | – |
| Mr MB Yates | 2017 | 156,000 | – | – | 156,000 | 14,820 | – | – | – | 170,820 | – | – |
| | 2016 | 167,186 | – | – | 167,186 | 15,883 | – | – | – | 183,069 | – | – |
| Mr CJ Henson | 2017 | 146,000 | – | – | 146,000 | 13,870 | – | – | – | 159,870 | – | – |
| | 2016 | 156,000 | – | – | 156,000 | 14,820 | – | – | – | 170,820 | – | – |
| Ms HA Scheibenstock (appointed 18 January 2016) | 2017 | 128,000 | – | – | 128,000 | 12,160 | – | – | – | 140,160 | – | – |
| | 2016 | 72,209 | – | – | 72,209 | 6,860 | – | – | – | 79,069 | – | – |
| Mr HK Neumann (appointed 21 February 2017) | 2017 | – | – | – | – | – | – | – | – | – | – | – |
| | 2016 | – | – | – | – | – | – | – | – | – | – | – |
| Sub-total non-executive directors' remuneration | 2017 | 676,390 | – | – | 676,390 | 64,257 | – | – | – | 740,647 | – | – |
| | 2016 | 582,395 | – | – | 582,395 | 55,328 | – | – | – | 637,723 | – | – |

# Directors' Report (continued)

for the year ended 30 June 2017

## 15. REMUNERATION REPORT – AUDITED (continued)

### 15.2 Directors' and executive officers' remuneration – audited (continued)

| *In AUD* | | Short-term Salary & fees $ | Short-term STI cash bonus (A) $ | Short-term Non-monetary benefits $ | Short-term Total $ | Post-employment Super-annuation benefits $ | Other long term benefits (C) $ | Termination benefits $ | Share-based payments Rights (B) $ | Total $ | Proportion of remuneration performance related % | Value of options as proportion of remuneration % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | | | | | | |
| Mr LH Ainsworth (Executive Director) | 2017 | 305,000 | – | 30,000 | 335,000 | 28,975 | – | – | – | 363,975 | – | – |
| | 2016 | 305,000 | – | 30,000 | 335,000 | 28,975 | – | – | – | 363,975 | – | – |
| Mr DE Gladstone (Chief Executive Officer) | 2017 | 750,000 | 229,502 | 93,172 | 1,072,674 | 93,053 | 70,192 | – | 208,502 | 1,444,421 | 16% | 14% |
| | 2016 | 750,000 | 47,511 | 93,282 | 890,793 | 75,765 | 70,192 | – | 46,265 | 1,083,015 | 4% | 4% |
| Total directors' remuneration | 2017 | 1,731,390 | 229,502 | 123,172 | 2,084,064 | 186,285 | 70,192 | – | 208,502 | 2,549,043 | 9% | 8% |
| | 2016 | 1,637,395 | 47,511 | 123,282 | 1,808,188 | 160,068 | 70,192 | – | 46,265 | 2,084,713 | 2% | 2% |
| **Executives** | | | | | | | | | | | | |
| Mr ML Ludski – Chief Financial Officer/Company Secretary | 2017 | 362,094 | 144,923 | 97,960 | 604,977 | 48,167 | 33,888 | – | 77,301 | 764,333 | 19% | 10% |
| | 2016 | 338,406 | 24,298 | 101,643 | 464,347 | 34,457 | 31,671 | – | 7,223 | 537,698 | 5% | 1% |
| Mr V Bruzzese – General Manager Technical Services | 2017 | 283,445 | 62,157 | 24,000 | 369,602 | 32,832 | 26,528 | – | 43,631 | 472,593 | 13% | 9% |
| | 2016 | 275,189 | 9,489 | 24,000 | 308,678 | 27,044 | 25,755 | | (6,030) | 355,447 | 3% | – |
| Mr I Cooper – General Manager Manufacturing | 2017 | 250,437 | 55,325 | 32,526 | 338,288 | 29,047 | 23,438 | – | 38,890 | 429,663 | 13% | 9% |
| | 2016 | 241,968 | 8,442 | 24,503 | 274,913 | 23,789 | 22,646 | – | (4,796) | 316,552 | 3% | – |
| Mr K Power – Chief Technology Officer (appointed 16 January 2017) | 2017 | 177,723 | 15,360 | – | 193,083 | 18,343 | 16,633 | – | 8,226 | 236,285 | 7% | 3% |
| | 2016 | – | – | – | – | – | – | – | – | – | – | – |

| In AUD | | Short-term Salary & fees $ | Short-term STI cash bonus (A) $ | Short-term Non-monetary benefits $ | Short-term Total $ | Post-employment Super-annuation benefits $ | Other long term benefits (C) $ | Termination benefits $ | Share-based payments Rights (B) $ | Total $ | Proportion of remuneration performance related % | Value of options as proportion of remuneration % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Former Executives** | | | | | | | | | | | | |
| Mr PS Clarebrough – Group General Manager Strategy and Development (resigned 22 December 2015) | 2017 | – | – | – | – | – | – | – | – | – | – | – |
| | 2016 | 226,731 | 9,498 | 19,178 | 255,407 | 22,441 | 17,441 | – | (83,833) | 211,456 | 4% | – |
| Total executives remuneration | 2017 | 1,073,699 | 277,765 | 154,486 | 1,505,950 | 128,389 | 100,487 | – | 168,048 | 1,902,874 | 15% | 9% |
| | 2016 | 1,082,294 | 51,727 | 169,324 | 1,303,345 | 107,731 | 97,513 | – | (87,436) | 1,421,153 | 4% | – |
| Total directors' and executive officers' remuneration | 2017 | 2,805,089 | 507,267 | 277,658 | 3,590,014 | 314,674 | 170,679 | – | 376,550 | 4,451,917 | 11% | 8% |
| | 2016 | 2,719,689 | 99,238 | 292,606 | 3,111,533 | 267,799 | 167,705 | – | (41,171) | 3,505,866 | 3% | – |

### Notes in relation to the table of directors' and executive officers' remuneration – audited

A. The short-term incentive bonus for performance during the 30 June 2017 financial year uses the criteria set out on pages 30-31. The amount was considered on 20 June 2017 by the RNC who recommended that short term incentives be paid for the current period. In accordance with the FY17 short term incentive program, 50% of the FY17 bonus is expected to be paid to senior executives in September 2017 provided the senior executive is in employment with the Company at that date. The current expense included as short term incentive represents 50% of the FY17 bonus with the remaining 50% deferred, unless otherwise stated.

B. The fair value of performance rights is calculated at the date of grant using the Black Scholes Merton simulation model after taking into account the impact of the TSR, EPS and share price growth conditions during the vesting period. The value disclosed is the portion of the fair value of the rights recognised as an expense in each reporting period. Certain tranches of previous awards have been assessed by the RNC as being unlikely to vest based on performance conditions applicable. In accordance with Australian Accounting Standards previous expenses recognised for these applicable tranches were reversed in the previous year.

C. In accordance with AASB119 *Employee Benefits*, annual leave is classified as other long term employee benefit.

### Details of performance related remuneration – audited

Details of the Group's policy in relation to the proportion of remuneration that is performance related is discussed on pages 30-31. Short term incentive bonuses have been provided to the extent that these are payable as at 30 June 2017.

# Directors' Report (continued)

for the year ended 30 June 2017

## 15. REMUNERATION REPORT – AUDITED (continued)

### 15.3 Analysis of bonuses included in remuneration – audited

Details of the vesting profile of the short-term incentive cash bonuses included as remuneration to each director of the Company, and other key management personnel for 2016 and 2017 are detailed below:

| | Short term incentive bonus | | |
|---|---|---|---|
| | Included in remuneration $ (A) | % Vested in year (B) | % Forfeited in year (C) |
| **Director** | | | |
| Mr DE Gladstone | 229,502 | 76% | 60% |
| **Executives** | | | |
| Mr ML Ludski | 144,923 | 82% | 60% |
| Mr V Bruzzese | 62,157 | 76% | 60% |
| Mr I Cooper | 55,325 | 76% | 60% |
| Mr K Power | 15,360 | 100% | 60% |

A. Amounts included in remuneration for the 2017 financial year represent the amount accrued in the current year for the short term incentive bonus achieved in FY17, a deferred component subject to service conditions and the previously deferred component paid during the period.

B. The amount vested in the 2017 year represented any STI amounts awarded and either paid in the current period or to be paid in September 2017.

C. The amounts forfeited are due to the performance criteria not being met in relation to the current financial year.

### 15.4 Equity instruments – audited

All rights refer to rights over ordinary shares of Ainsworth Game Technology Limited, unless otherwise stated, which are exercisable on a one-for-one basis under the RST plans.

15.4.1 Rights over equity instruments granted as compensation – audited

Details on options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period are as follows:

| | Number of rights granted during 2017 | Grant date | Fair value per option at grant date ($) | Exercise price per right ($) | Expiry date |
|---|---|---|---|---|---|
| **Director** | | | | | |
| Mr DE Gladstone | 61,179 | 1 March 2017 | $0.56 | – | 1 March 2022 |
| | 64,958 | 1 March 2017 | $0.49 | – | 1 March 2022 |
| | 66,969 | 1 March 2017 | $0.42 | – | 1 March 2022 |
| | 135,685 | 1 March 2017 | $0.37 | – | 1 March 2022 |
| **Executives** | | | | | |
| Mr ML Ludski | 22,152 | 1 March 2017 | $0.56 | – | 1 March 2022 |
| | 23,521 | 1 March 2017 | $0.49 | – | 1 March 2022 |
| | 24,249 | 1 March 2017 | $0.42 | – | 1 March 2022 |
| | 49,131 | 1 March 2017 | $0.37 | – | 1 March 2022 |
| Mr V Bruzzese | 11,561 | 1 March 2017 | $0.56 | – | 1 March 2022 |
| | 12,275 | 1 March 2017 | $0.49 | – | 1 March 2022 |
| | 12,655 | 1 March 2017 | $0.42 | – | 1 March 2022 |
| | 25,640 | 1 March 2017 | $0.37 | – | 1 March 2022 |
| Mr I Cooper | 10,214 | 1 March 2017 | $0.56 | – | 1 March 2022 |
| | 10,845 | 1 March 2017 | $0.49 | – | 1 March 2022 |
| | 11,181 | 1 March 2017 | $0.42 | – | 1 March 2022 |
| | 22,654 | 1 March 2017 | $0.37 | – | 1 March 2022 |
| Mr K Power | 20,882 | 1 March 2017 | $0.56 | – | 1 March 2022 |
| | 22,173 | 1 March 2017 | $0.49 | – | 1 March 2022 |
| | 22,859 | 1 March 2017 | $0.42 | – | 1 March 2022 |
| | 46,314 | 1 March 2017 | $0.37 | – | 1 March 2022 |

All rights expire on the earlier of their expiry date or termination of the individual's employment. The rights are exercisable over the four years from grant date. In addition to a continuing employment service condition, the ability to exercise rights is conditional on the Group achieving certain performance hurdles. Details of the performance criteria are included in the long-term incentives discussion on pages 31-32. For rights granted in the current year, the earliest exercise date is 1 March 2018.

15.4.2 Modification of terms of equity-settled share-based payment transactions – audited

No terms of equity-settled share-based payment transactions (including performance rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

15.4.3 Exercise of options granted as compensation – audited

During the reporting period NIL shares (2016: 227,345 shares) were issued under the ESOT plan on the exercise of options previously granted as compensation. Options under the ASOT plan exercised during 2017 were NIL (2016: 300,764) which were transferred to the ASOT on behalf of employees from the then Company's Executive Chairman, Mr LH Ainsworth.

## 15. REMUNERATION REPORT – AUDITED (continued)

### 15.4 Equity instruments – audited (continued)

#### 15.4.4 Details of equity incentives affecting current and future remuneration – audited

Details of vesting profiles of rights held by each key management person of the Group are detailed below:

| | Instrument | Number | Grant date | % vested in year | % forfeited in year (A) | Financial years in which grant vests |
|---|---|---|---|---|---|---|
| Mr DE Gladstone | Rights | 69,471 | 22 July 2013 | –% | 50% | 2017-2018 |
| | Rights | 263,056 | 17 March 2015 | –% | –% | 2018-2019 |
| | Rights | 328,791 | 01 March 2017 | –% | –% | 2018-2021 |
| Mr ML Ludski | Rights | 30,854 | 22 July 2013 | –% | 50% | 2017-2018 |
| | Rights | 95,773 | 17 March 2015 | –% | –% | 2018-2019 |
| | Rights | 119,053 | 01 March 2017 | –% | –% | 2018-2021 |
| Mr V Bruzzese | Rights | 22,685 | 22 July 2013 | –% | 50% | 2017-2018 |
| | Rights | 52,490 | 17 March 2015 | –% | –% | 2018-2019 |
| | Rights | 62,131 | 01 March 2017 | –% | –% | 2018-2021 |
| Mr I Cooper | Rights | 19,947 | 22 July 2013 | –% | 50% | 2017-2018 |
| | Rights | 46,953 | 17 March 2015 | –% | –% | 2018-2019 |
| | Rights | 54,894 | 01 March 2017 | –% | –% | 2018-2021 |
| Mr K Power | Rights | 112,228 | 01 March 2017 | –% | –% | 2018-2021 |

A. The % forfeited in the year represents the reduction from the maximum number of rights available to vest.

#### 15.4.5 Analysis of movements in equity instruments – audited

The movement during the reporting period, by value, of rights over ordinary shares in the Company held by each key management person of the Group is detailed below:

| | Granted in year $ | Amount paid on exercise $ | Value of rights exercised in year $(A) | Forfeited in year $ |
|---|---|---|---|---|
| Mr DE Gladstone | 144,420 | – | – | 200,531 |
| Mr ML Ludski | 52,293 | – | – | 89,063 |
| Mr V Bruzzese | 27,291 | – | – | 65,481 |
| Mr I Cooper | 24,112 | – | – | 57,577 |
| Mr K Power | 49,296 | – | – | – |

A. No rights were exercised during the year.

# Directors' Report (continued)

for the year ended 30 June 2017

### 15.4.6 Rights over equity instruments – audited

The movement during the reporting period, by number of rights over ordinary shares in Ainsworth Game Technology Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| | Held at 1 July 2016 | Granted as compensation | Exercised | Other Changes* | Held at 30 June 2017 | Vested during the year | Vested and exercisable at 30 June 2017 |
|---|---|---|---|---|---|---|---|
| **Rights** | | | | | | | |
| Mr DE Gladstone[(1)] | 400,592 | 328,791 | – | (68,065) | 661,318 | – | – |
| Mr ML Ludski | 156,857 | 119,053 | – | (30,230) | 245,680 | – | – |
| Mr V Bruzzese | 97,401 | 62,131 | – | (22,226) | 137,306 | – | – |
| Mr I Cooper | 86,443 | 54,894 | – | (19,543) | 121,794 | – | – |
| Mr K Power | – | 112,228 | – | – | 112,228 | – | – |

* Other changes represent rights that were forfeited during the year.

(1) Included in performance rights above for DE Gladstone are 328,791 rights conditional on shareholder approval at the 2017 Annual General Meeting (AGM) on 28 November 2017.

Rights held by key management personnel that are vested and exercisable at 30 June 2017 were NIL (2016: Nil). No rights or options were held by related parties of key management personnel.

### Movements in shares

The movement during the reporting period in the number of ordinary shares in Ainsworth Game Technology Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| | Held at 1 July 2016 | Purchases | Sales | Dividend Re-Investment Plan (DRP) allotment | Held at 30 June 2017 |
|---|---|---|---|---|---|
| Mr LH Ainsworth[(1)] | 209,124,124 | 305,108 | – | 3,045,872 | 212,475,104 |
| Mr GJ Campbell | 300,000 | – | – | 7,785 | 307,785 |
| Mr MB Yates | 26,600 | 4,000 | – | – | 30,600 |
| Mr CJ Henson | 127,838 | – | – | 3,318 | 131,156 |
| Mr DE Gladstone | 51,136 | 4,400 | – | 1,437 | 56,973 |
| Mr M Ludski | 10,000 | – | – | – | 10,000 |
| Mr V Bruzzese | 10,739 | – | (10,000) | 20 | 759 |
| Mr I Cooper | 6,137 | – | – | 160 | 6,297 |

(1) Included in shareholding above of Mr LH Ainsworth are 172,100,823 ordinary shares that are subject to a proposed sale to Novomatic AG as approved at a General Meeting of Shareholders held on 27 June 2016. The completion of this share sale transaction requires necessary gaming regulatory approvals as detailed in the Notice of Meeting dated 4 May 2016.

No Shares were granted to key management personnel during the reporting period as compensation in 2017 or 2016.

There were no changes in key management in the period after the reporting date and prior to the date when the Financial Report was authorised for issue.

This Directors' report is made out in accordance with a resolution of the directors:

**GJ Campbell**
Chairman

Dated at Sydney this 29th day of August 2017

# Consolidated Statement of Financial Position

as at 30 June 2017

| *In thousands of AUD* | *Note* | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | *18* | 21,094 | 26,433 |
| Receivables and other assets | *17* | 128,646 | 118,800 |
| Current tax assets | | 3,168 | – |
| Inventories | *16* | 74,732 | 55,717 |
| Prepayments | | 9,360 | 7,112 |
| **Total current assets** | | **237,000** | **208,062** |
| Receivables and other assets | *17* | 39,877 | 37,903 |
| Deferred tax assets | *15* | 4,727 | 1,569 |
| Property, plant and equipment | *12* | 109,560 | 109,493 |
| Intangible assets | *13* | 68,902 | 74,124 |
| Equity-accounted investee | *14* | 4,683 | 4,831 |
| **Total non-current assets** | | **227,749** | **227,920** |
| **Total assets** | | **464,749** | **435,982** |
| **Liabilities** | | | |
| Trade and other payables | *24* | 32,993 | 30,298 |
| Loans and borrowings | *21* | 178 | 118 |
| Employee benefits | *22* | 8,367 | 6,950 |
| Current tax liability | | 7,335 | 9,527 |
| Provisions | *25* | 938 | 813 |
| **Total current liabilities** | | **49,811** | **47,706** |
| Loans and borrowings | *21* | 65,512 | 67,777 |
| Employee benefits | *22* | 676 | 679 |
| Deferred tax liabilities | *15* | 4,114 | 3,933 |
| **Total non-current liabilities** | | **70,302** | **72,389** |
| **Total liabilities** | | **120,113** | **120,095** |
| **Net assets** | | **344,636** | **315,887** |
| **Equity** | | | |
| Share capital | | 200,245 | 193,754 |
| Reserves | | 152,867 | 133,610 |
| Accumulated losses | | (8,476) | (11,477) |
| **Total equity** | | **344,636** | **315,887** |

The notes on pages 46 to 85 are an integral part of these consolidated financial statements.

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2017

| *In thousands of AUD* | *Note* | 2017 | 2016 |
|---|---|---|---|
| Revenue | *7* | 282,080 | 285,477 |
| Cost of sales | | (112,065) | (113,779) |
| **Gross profit** | | **170,015** | **171,698** |
| Other income | *8* | 719 | 887 |
| Sales, service and marketing expenses | | (52,158) | (52,028) |
| Research and development expenses | | (34,161) | (28,580) |
| Administrative expenses | | (26,187) | (19,781) |
| Other expenses | | (3,347) | (4,413) |
| **Results from operating activities** | | **54,881** | **67,783** |
| Finance income | *11* | 3,657 | 7,679 |
| Finance costs | *11* | (11,738) | (689) |
| **Net finance (loss)/income** | | **(8,081)** | **6,990** |
| Share of profit of equity accounted investee | | 153 | 365 |
| **Profit before tax** | | **46,953** | **75,138** |
| Income tax expense | *15* | (9,023) | (19,435) |
| **Profit for the year** | | **37,930** | **55,703** |
| **Other comprehensive income** | | | |
| **Items that may be reclassified to profit and loss:** | | | |
| Foreign operations – foreign currency translation differences | | (1,417) | 951 |
| **Total other comprehensive income** | | **(1,417)** | **951** |
| **Total comprehensive income for the year** | | **36,513** | **56,654** |
| **Profit attributable to owners of the Company** | | **37,930** | **55,703** |
| **Total comprehensive income attributable to the owners of the Company** | | **36,513** | **56,654** |
| **Earnings per share:** | | | |
| Basic earnings per share (AUD) | *20* | $0.12 | $0.17 |
| Diluted earnings per share (AUD) | *20* | $0.12 | $0.17 |

The notes on pages 46 to 85 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 30 June 2017

| *In thousands of AUD* | Issued capital | Equity compensation reserve | Fair value reserve | Translation reserve | Profits reserve | Accumulated losses | Total equity |
|---|---|---|---|---|---|---|---|
| | Attributable to owners of the Company | | | | | | |
| Balance at 1 July 2015 | **182,360** | **3,960** | **9,684** | **5,829** | **96,912** | **(18,258)** | **280,487** |
| **Total comprehensive income for the period** | | | | | | | |
| Profit | – | – | – | – | – | 55,703 | 55,703 |
| Transfer between reserves | – | – | – | – | 49,063 | (49,063) | – |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation reserve | – | – | – | 951 | – | – | 951 |
| Total other comprehensive income | – | – | – | 951 | – | – | 951 |
| Total comprehensive income for the period | – | – | – | 951 | 49,063 | 6,640 | 56,654 |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Issue of ordinary shares on exercise of share options | 52 | – | – | – | – | – | 52 |
| Dividends to owners of the Company | – | – | – | – | (32,245) | – | (32,245) |
| Issue of ordinary shares under the Dividend Reinvestment Plan | 11,342 | – | – | – | – | – | 11,342 |
| Share-based payment transactions | – | (403) | – | – | – | – | (403) |
| Share based payment adjustment on non-vesting options | – | (141) | – | – | – | 141 | – |
| Total transactions with owners | 11,394 | (544) | – | – | (32,245) | 141 | (21,254) |
| Balance at 30 June 2016 | **193,754** | **3,416** | **9,684** | **6,780** | **113,730** | **(11,477)** | **315,887** |
| Balance at 1 July 2016 | **193,754** | **3,416** | **9,684** | **6,780** | **113,730** | **(11,477)** | **315,887** |
| **Total comprehensive income for the period** | | | | | | | |
| Profit | – | – | – | – | – | 37,930 | 37,930 |
| Transfer between reserves | – | – | – | – | 34,929 | (34,929) | – |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation reserve | – | – | – | (1,417) | – | – | (1,417) |
| Total other comprehensive income | – | – | – | (1,417) | – | – | (1,417) |
| Total comprehensive income for the period | – | – | – | (1,417) | 34,929 | 3,001 | 36,513 |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Issue of ordinary shares under the Dividend Reinvestment Plan | 6,491 | – | – | – | – | – | 6,491 |
| Dividends to owners of the Company | – | – | – | – | (16,386) | – | (16,386) |
| Share-based payment transactions | – | 2,131 | – | – | – | – | 2,131 |
| Share based payment adjustment on non-vesting options | – | – | – | – | – | – | – |
| Total transactions with owners | 6,491 | 2,131 | – | – | (16,386) | – | (7,764) |
| Balance at 30 June 2017 | **200,245** | **5,547** | **9,684** | **5,363** | **132,273** | **(8,476)** | **344,636** |

The notes on pages 46 to 85 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

for the year ended 30 June 2017

| *In thousands of AUD* | *Note* | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 269,433 | 300,713 |
| Cash paid to suppliers and employees | | (247,434) | (223,888) |
| Cash generated from operations | | **21,999** | **76,825** |
| Income taxes paid | | (16,053) | (23,283) |
| Borrowing costs paid | | (708) | (689) |
| **Net cash from operating activities** | *18(a)* | **5,238** | **52,853** |
| **Cash flows from/(used in) from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | 6,297 | 56 |
| Interest received | | 3,657 | 2,974 |
| Acquisitions of property, plant and equipment | *12* | (5,351) | (49,123) |
| Payment for business acquisition | | – | (54,224) |
| Acquisitions of equity-accounted investee | | – | (2,045) |
| Development expenditure | *13* | (4,534) | (6,204) |
| **Net cash from/(used in) investing activities** | | **69** | **(108,566)** |
| **Cash flows (used in) / from financing activities** | | | |
| Proceeds from issue of ordinary shares | | – | 52 |
| Proceeds from borrowings | | – | 68,824 |
| Repayment of borrowings | | – | (7,617) |
| Proceeds from finance lease | | 136 | – |
| Payment of finance lease liabilities | | (118) | (115) |
| Dividend paid | | (9,895) | (20,903) |
| **Net cash (used in)/from financing activities** | | **(9,877)** | **40,241** |
| Net decrease in cash and cash equivalents | | (4,570) | (15,472) |
| Cash and cash equivalents at 1 July | | 26,433 | 41,300 |
| Effect of exchange rate fluctuations on cash held | | (769) | 605 |
| **Cash and cash equivalents at 30 June** | | **21,094** | **26,433** |

The notes on pages 46 to 85 are an integral part of these consolidated financial statements.

# Index to Notes to the Financial Statements and Significant Accounting Policies

for the year ended 30 June 2017

# Notes to the Financial Statements

for the year ended 30 June 2017

## 1. REPORTING ENTITY

Ainsworth Game Technology Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 10 Holker Street, Newington, NSW, 2127. The consolidated financial statements of the Company as at and for the year ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities'). The Group is a for-profit entity and primarily is involved in the design, development, manufacture, sale and servicing of gaming machines and other related equipment and services.

## 2. BASIS OF PREPARATION

### (a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 29 August 2017.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for loans and borrowings with a Director related entity, which were measured initially at fair value and then subsequently carried at amortised cost.

### (c) Functional and presentation currency

The financial information of each of the Group's entities and foreign branches is measured using the currency of the primary economic environment in which it operates (the functional currency). As of 1 January 2014, The Company's US branch activities became a foreign operation.

These consolidated financial statements are presented in Australian dollars, which is the Company's primary functional currency.

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191* and in accordance with that Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

### (d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ to these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included in Note 13 – Intangible assets and Note 26 – Financial instruments (trade and other receivables).

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

### (a) Basis of consolidation

#### (i) Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see (a)(ii)). The consideration transferred in the acquisition is generally measured at fair value as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (refer Note 3(h)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt of equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

# Notes to the Financial Statements (continued)

for the year ended 30 June 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Interest in equity-accounted investee

A joint venture is an arrangement in which the Group has joint control, and whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Interest in a joint venture accounted for using the equity method. It is recognised initially at cost, which includes transactions costs. Subsequently to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and Other Comprehensive Income ("OCI") of the equity-investee, until the date on which significant influence of joint control ceases.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements in accordance with AASBs.

(v) Acquisitions prior to 1 July 2004

As part of its transition to AASBs, the Group elected to restate only those business combinations that occurred on or after 1 July 2004. In respect of acquisitions prior to 1 July 2004, goodwill represents the amount recognised under the Group's previous accounting framework, Australian GAAP.

(vi) Acquisitions on or after 1 July 2004

For acquisitions on or after 1 July 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

### (b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at the average exchange rates for the period.

Foreign currency differences are recognised in other comprehensive income and presented in the Translation Reserve in equity. When a foreign operation is disposed of such that control is lost, the cumulative amount in the Translation Reserve related to that foreign operation is transferred to the profit or loss, as part of gain or loss on disposal.

When the Group disposes of only a part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant portion of cumulative amounts is re-attributed to non-controlling interest.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation, are recognised in other comprehensive income and are presented in the translation reserve in equity.

### (c) Financial instruments

(i) Non-derivative financial assets

*Non-derivative financial assets comprise trade and other receivables and cash and cash equivalents.*

Trade and other receivables are recognised on the date that they are originated. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value. Subsequent to initial recognition trade and other receivables are measured at amortised cost using the effective interest method, less any impairment losses.

The assessment amount of current and non-current receivable involves reviewing contractual term and how it compares to the current payment trend. When the current payment trend is less favourable from the contractual term, the Group will base the current and non-current on payment trend.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(ii) Non-derivative financial liabilities

*Non-derivative financial liabilities comprise loans and borrowings and trade and other payables.*

Debt securities issued and subordinated liabilities are initially recognised on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Loans and borrowings and trade and other payables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Where the terms and conditions of borrowings are modified, the carrying amount is remeasured to fair value. Any difference between the carrying amount and fair value is recognised in equity.

(iii) Share capital

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

### (d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Machines previously held as inventory are transferred to property, plant and equipment when a rental or participation agreement is entered into. When the rental or participation agreements cease and the machines become held for sale, they are transferred to inventory at their carrying amount. Proceeds are reflected in revenue while value disposed are recognised as cost of sale. These are treated as an operating cash flow.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognised net within "other income" in profit and loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of an item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| – buildings | 39 – 40 years |
| – leasehold improvements | 10 years |
| – plant and equipment | 2.5 – 20 years |

The useful lives of capitalised machines leased under rental or participation agreements are included in the plant and equipment useful lives.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Intangible assets

#### (i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see Note 3(a)(v) and (vi). Goodwill is subsequently carried at cost less accumulated impairment losses (refer Note 3(h)).

#### (ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure and discontinued projects that are expected to have no further economic benefit are recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

#### (iii) Other intangible assets

Other intangible assets, which include intellectual property, technology and software assets, customer relationships, tradenames and trademarks, and service contracts, that are acquired by the Group through business combinations, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Refer Note 3(a)(i) for details on the determination of cost of these acquired assets.

#### (iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

#### (v) Amortisation

Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefit embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| – capitalised development costs | 4-5 years |
| – intellectual property | 3-10 years |
| – technology and software | 5-10 years |
| – customer relationships and contracts acquired | 3-10 years |
| – tradenames and trademarks | 3 years |
| – service contracts | 3 years |

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### (f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

### (g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### (h) Impairment

#### (i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not otherwise consider and indications that a debtor will enter bankruptcy.

*Financial assets measured at amortised cost*

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific and collective level. All individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic, industry and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in profit or loss and reflected in an allowance account against receivables. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date. An impairment loss is recognised if the carrying amount of an asset or its related cash generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other asset (the "CGU"). The goodwill acquired in a business combination for the purpose of impairment testing, is allocated to CGU that is expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (i) Employee benefits

(i) Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution superannuation funds are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Other long term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield rate at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Short term benefits

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers remuneration insurance and payroll tax. Non-accumulating non-monetary benefits, such as cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(v) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. Where such adjustments result in a reversal of previous expenses these are recognised as a credit to profit or loss in the period that it is assessed that certain vesting conditions will not be met.

### (j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The unwinding of the discount is recognised as a finance cost.

### (k) Warranties

A provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

### (l) Revenue

(a) Sale of goods and related licences

*(i) Machine and part sales*

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, allowances and trade discounts. Revenue is recognised when persuasive evidence exists usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Transfer of risks and rewards vary depending on the individual terms of the contract of sale.

*(ii) Multi element arrangements*

When gaming machines, games, conversions and other incidental items are licensed to customers for extended periods, revenue is recognised on delivery for gaming machines and games and for other items including conversions on a straight line basis over the licence term. The revenue recognised for each item is based on the relative fair values of the items included in the arrangement.

*(iii) Licence income*

Licence income, including those received from online business, is recognised when all obligations in accordance with the agreement have been met which may be at the time of sale or over the life of the agreement.

(b) Services

Revenue from services rendered is recognised in profit or loss when the services are performed.

(c) Participation and rental

Participation revenue is revenue earned when the Group's owned machines are placed in venues either directly by the Group or indirectly through a licensed operator for a fee. The fee is calculated as either a daily fee or an agreed fee based upon a percentage of turnover of participating machines, depending on the agreement.

Revenue from rental of gaming machines is recognised in profit or loss on a straight line basis over the term of the rental agreement.

### (m) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### (n) Finance income and finance costs

Finance income comprises interest income and foreign currency gains. Interest income is recognised in profit or loss as it accrues using the effective interest method.

Finance costs comprise interest expense on borrowings, foreign currency losses and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

### (o) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising from: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised, see Note 15.

### (p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

### (q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

### (r) Change in new standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been publishes that are not mandatory for 30 June 2017 reporting periods. Those which may have a significant impact to the Group are set out below. The Group does not plan to adopt these standards early.

AASB 9 Financial Instruments (2014)

AASB 9 (2014), published in December 2014, replaces the existing guidance AASB 9 (2009), AASB 9 (2010) and AASB 139 *Financial Instruments: Recognition and Measurement* and is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The new standard results in changes to accounting policies for financial assets and liabilities covering classification and measurement, hedge accounting and impairment. The Group has assessed these changes and determined that based on the current financial assets and liabilities held at reporting date, the Group will need to reconsider its accounting policies surrounding impairment recognition. The new impairment requirements for financial assets are based on a forward looking 'expected loss model' (rather than the current 'incurred loss model').

The Group does not expect a significant effect on the financial statements resulting from the change of this standard however the Group is in the process of evaluating the impact of the new financial instrument standard. The changes in the Group's accounting policies from the adoption of AASB 9 will be applied from 1 July 2018 onwards.

### AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, including in respect of multiple element arrangements. It replaces existing revenue recognition guidance, AASB 111 *Construction Contracts*, AASB 118 *Revenue* and AASB 1004 *Contributions*. AASB 15 is effective from annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The core principle of AASB 15 is that it requires identification of discrete performance obligations within a transaction and associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks and rewards. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur when the uncertainties around its measurement are removed.

The Group has commenced the process of evaluating the impact of the new standard on existing revenue streams and will first apply AASB 15 in the financial year beginning 1 July 2018.

### AASB 16 Leases

AASB 16 replaces the current AASB 17 Leases standard. AASB 16 removes the classification of leases as either operating leases or finance leases – for the lessee - effectively treating all leases as finance leases. Most leases will be capitalised on the balance sheet by recognising a 'right-of-use' asset and a lease liability for the present value obligation. This will result in an increase in the recognised assets and liabilities in the statement of financial position as well as a change in expense recognition, with interest and deprecation replacing operating lease expense.

Lessor accounting remains similar to current practice, i.e. lessors continue to classify leases as finance and operating leases.

AASB 16 is effective from annual reporting periods beginning on or after 1 January 2019, with early adoption permitted for entities that also adopt AASB 15.

This standard will primarily affect the accounting for the Group's operating lease. As at 30 June 2017, the Group has $11,447 thousand of non-cancellable operating lease commitments, predominantly relating to property lease. The Group is considering the available options to account for this transition but the Group expects an increase in reported earnings before interest, tax, depreciation and amortisation (EBITDA) and increase in lease assets and liabilities recognition. This will however be dependent on the lease arrangements in place when the new standard is effective. The Group has commenced the process of evaluating the impact of the new lease standard.

No other new standards, amendments to standards and interpretations are expected to affect the Group's consolidated financial statements.

## 4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### (i) Intangible assets

The fair value of customer contracts acquired in a business combination is based on the discounted cash flows expected to be derived from the use or eventual sale of these contracts. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

### (ii) Trade and other receivables/payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. The fair value of all other receivables/payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

### (iii) Non-derivative financial instruments

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

### (iv) Loans and borrowings
Fair value is calculated based on discounted expected future principal and interest cash flows.

### (v) Finance lease liabilities
The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect changes in interest rates.

### (vi) Share-based payment transactions
The fair value of employee stock options is measured using the Black Scholes Merton model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

## 5. FINANCIAL RISK MANAGEMENT

### Overview
The Group has exposure to the following risks from their use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

### Risk management framework
The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established processes through the Group Audit Committee, which is responsible for developing and monitoring risk management policies. The Committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

#### Trade and other receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer, including the default risk of the industry and country in which customers operate. The Group's concentration of credit risk is disclosed in Note 26.

Credit policy guidelines have been introduced under which each new customer is assessed by the compliance division as to suitability and analysed for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes investigations, external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Board. Customers that fail to meet the Group's creditworthiness criteria may only transact with the Group within established limits unless Board approval is received or otherwise only on a prepayment basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a distributor, operator or customer, geographic location, aging profile, maturity and existence of previous financial difficulties. The Group's trade and other receivables relate mainly to the Group's direct customers, operators and established distributors. Customers that are graded as "high risk" require future sales to be made on a prepayment basis within sales limits approved by the Chief Executive Officer and Chief Financial Officer, and thereafter only with Board approval.

The assessment amount of current and non-current receivables involves reviewing contractual term and how it compares to current payment trend. When the current payment trend is less favourable from the contractual term, the Group will base the current and non-current on payment trend.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

## 5. FINANCIAL RISK MANAGEMENT (continued)

The Group has established an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

### Guarantees

The Group's policy is to provide financial guarantees only for wholly-owned subsidiaries. At 30 June 2017 no guarantees were outstanding (2016: none).

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has access to sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar (AUD) and the US dollar (USD). The currency in which these transactions primarily denominated is in USD for the Australian business operations. The Group regularly monitors and reviews, dependent on available facilities, the hedging of net assets denominated in a foreign currency. The Group has previously utilised currency call options to hedge its currency risk, most with a maturity of less than six months. No hedging arrangements were utilised during the reporting period.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group monitors its net exposure to address short-term imbalances in its exposure.

#### Interest rate risk

The Group's main interest rate risk arises from floating rate borrowings drawn under bank debt facilities.

### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board continues to monitor group performance so as to ensure an acceptable return on capital is achieved and that dividends are able to be provided to ordinary shareholders in the short term.

The Board continues to review alternatives to ensure present employees will hold equity in the Company's ordinary shares. This is expected to be an ongoing process establishing long term incentive plans to further align shareholders and employees interests.

There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

## 6. OPERATING SEGMENTS

Information reported to the Group's Chief Executive Officer (CEO) for the purposes of resource allocation and assessment of performance is focused on the geographical location of customers of gaming machines. The primary geographical location of customers and therefore the Group's reportable segments under AASB 8 are outlined in the table on the following page.

The NSW and North and South America segments include the aggregation of the Group's other operating segments that are not separately reportable. Included in the NSW and North and South America segments are the results of the operating segments related to the servicing of gaming machines in those geographical regions. These operating segments are considered to have similar economic characteristics as the nature of the products and services is complementary and the nature of the regulatory environment and type of customer are consistent. Performance of each reportable segment is based on segment revenue and segment result as included in internal management reports that are reviewed by the Group's CEO. Segment result only takes into account directly attributable costs, which management believes is the most relevant approach in evaluating segment performance.

The Group has a large and dispersed customer base. The Group's largest customer accounts for only 3.85% of the total reportable revenue.

# Notes to the Financial Statements (continued)

for the year ended 30 June 2017

A reconciliation of segment result to net profit after tax is also included below.

**Information about reportable segments**

In presenting information on the basis of reportable segments, segment revenue is based on the geographical location of customers and relates to sales and servicing of gaming machines.

| **For the year ended 30 June 2017** | Australia | | | | Americas | | Others | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *In thousands of AUD* | NSW | QLD/NT | VIC/TAS | South Australia. | North America | Latin America | Asia | New Zealand | Europe/ Other | Total |
| Reportable segment revenue | 41,700 | 16,527 | 13,419 | 2,495 | 101,409 | 78,504 | 7,057 | 5,928 | 15,041 | 282,080 |
| **Result** | | | | | | | | | | |
| Segment result | 11,324 | 5,544 | 6,197 | 941 | 44,596 | 37,669 | 3,281 | 2,976 | 8,752 | 121,280 |
| Interest revenue not allocated to segments | | | | | | | | | | 79 |
| Interest expense | | | | | | | | | | (1,207) |
| Foreign currency gain | | | | | | | | | | (10,531) |
| Share of profit of equity-accounted investee | | | | | | | | | | 153 |
| R&D expenses | | | | | | | | | | (34,161) |
| Corporate and administrative expenses | | | | | | | | | | (26,187) |
| Other expenses not allocated to segments | | | | | | | | | | (2,473) |
| Profit before tax | | | | | | | | | | 46,953 |
| Income tax expense | | | | | | | | | | (9,023) |
| Net profit after tax | | | | | | | | | | 37,930 |

Non-current assets, other than financial instruments and deferred tax assets, located in the entity's county of domicile (Australia) as at 30 June 2017 are $50,500 thousand (2016:$49,016 thousand). Non-current assets, other than financial instruments and deferred tax assets, located in foreign countries as at 30 June 2017 total $127,962 thousand (2016:$134,757 thousand), of which $113,252 thousand (2016:$125,691 thousand), are located in North America.

# Notes to the Financial Statements (continued)

for the year ended 30 June 2017

## 6. OPERATING SEGMENTS (continued)

**Information about reportable segments**

In presenting information on the basis of reportable segments, segment revenue is based on the geographical location of customers and relates to sales and servicing of gaming machines.

**For the year ended 30 June 2016**

| | Australia | | | | Americas | | Others | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *In thousands of AUD* | NSW | QLD/NT | VIC/TAS | South Australia | North America | Latin America | Asia | New Zealand | Europe/ Other | Total |
| Reportable segment revenue | 42,405 | 20,353 | 17,550 | 1,160 | 111,037 | 74,797 | 4,790 | 10,253 | 3,132 | 285,477 |
| **Result** | | | | | | | | | | |
| Segment result | 11,060 | 7,479 | 9,991 | 447 | 49,314 | 34,010 | 2,276 | 6,146 | 1,551 | 122,274 |
| Interest revenue not allocated to segments | | | | | | | | | | 189 |
| Interest expense | | | | | | | | | | (689) |
| Foreign currency gain | | | | | | | | | | 4,705 |
| Share of profit of equity-accounted investee | | | | | | | | | | 365 |
| R&D expenses | | | | | | | | | | (28,580) |
| Corporate and administrative expenses | | | | | | | | | | (19,781) |
| Other expenses not allocated to segments | | | | | | | | | | (3,345) |
| Profit before tax | | | | | | | | | | 75,138 |
| Income tax expense | | | | | | | | | | (19,435) |
| Net profit after tax | | | | | | | | | | 55,703 |

Non-current assets, other than financial instruments and deferred tax assets, located in the entity's county of domicile (Australia) as at 30 June 2016 are $49,016 thousand (2015:$42,382 thousand). Non-current assets, other than financial instruments and deferred tax assets, located in foreign countries as at 30 June 2016 total $134,757 thousand (2015:$45,987 thousand), of which $125,691 thousand (2015:$38,345 thousand), are located in North America.

## 7. REVENUE

| *In thousands of AUD* | *Note* | 2017 | 2016 |
|---|---|---|---|
| Sale of goods | | 232,936 | 243,464 |
| Rendering of services | | 7,890 | 7,670 |
| Rental and participation revenue | | 41,254 | 34,343 |
| | | 282,080 | 285,477 |

## 8. OTHER INCOME

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| Royalties income | 584 | 798 |
| Rental income from lease of machinery | 63 | 76 |
| Other income | 72 | 13 |
| | 719 | 887 |

## 9. EXPENSES BY NATURE

| *In thousands of AUD* | | 2017 | 2016 |
|---|---|---|---|
| Changes in raw material and consumables, finished goods and work in progress | *16* | 103,571 | 101,342 |
| Employee benefits expense | *10* | 64,255 | 54,540 |
| Depreciation and amortisation expense | *12,13* | 25,831 | 23,000 |
| Legal expenses | | 290 | 1,584 |
| Evaluation and testing expenses | | 9,905 | 6,919 |
| Marketing expenses | | 4,633 | 3,735 |
| Operating lease expenses | *27* | 2,276 | 3,217 |
| Impairment loss | | 3,347 | 2,170 |
| Other expenses | | 13,810 | 22,074 |
| | | 227,918 | 218,581 |

## 10. EMPLOYEE BENEFIT EXPENSES

| *In thousands of AUD* | *Note* | 2017 | 2016 |
|---|---|---|---|
| Wages and salaries | | 55,441 | 50,455 |
| Short term incentives | | 2,822 | – |
| Contributions to defined contribution superannuation funds | | 3,547 | 3,350 |
| Increase in liability for annual leave | *22* | 8 | 752 |
| Increase in liability for long service leave | *22* | 168 | 351 |
| Termination benefits | | 138 | 35 |
| Equity settled share-based payment transactions | | 2,131 | (403) |
| | | 64,255 | 54,540 |

## 11. FINANCE INCOME AND FINANCE COSTS

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| Interest income on trade receivables | 3,578 | 2,785 |
| Interest income on bank deposits | 79 | 189 |
| Net foreign exchange gain | – | 4,705 |
| Finance income | 3,657 | 7,679 |
| Interest expense on financial liabilities | (1,207) | (689) |
| Net foreign exchange loss | (10,531) | – |
| Finance costs | (11,738) | (689) |
| Net finance (costs)/income recognised in profit or loss | (8,081) | 6,990 |

# Notes to the Financial Statements (continued)

for the year ended 30 June 2017

## 12. PROPERTY, PLANT AND EQUIPMENT

| *In thousands of AUD* | *Note* | Land and buildings | Plant and equipment | Leasehold improvements | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 July 2015 | | 17,888 | 63,820 | 7,195 | 88,903 |
| Re-classification of inventory to plant and equipment | | – | 18,381 | – | 18,381 |
| Additions | | 41,385 | 7,669 | 69 | 49,123 |
| Additions through business combinations | | – | 8,485 | – | 8,485 |
| Disposals | | – | (14,277) | (2,195) | (16,472) |
| Effect of movements in foreign exchange | | 612 | 634 | 93 | 1,339 |
| Balance at 30 June 2016 | | 59,885 | 84,712 | 5,162 | 149,759 |
| Balance at 1 July 2016 | | 59,885 | 84,712 | 5,162 | 149,759 |
| Re-classification of inventory to plant and equipment | | – | 29,799 | – | 29,799 |
| Re-classification of PPE category | | (2,858) | (873) | 3,731 | – |
| Additions | | 303 | 4,806 | 242 | 5,351 |
| Additions through business combinations | | – | – | – | – |
| Disposals | | (193) | (15,674) | (6,036) | (21,903) |
| Effect of movements in foreign exchange | | (2,071) | (1,756) | (8) | (3,835) |
| Balance at 30 June 2017 | | 55,066 | 101,014 | 3,091 | 159,171 |
| **Depreciation and impairment losses** | | | | | |
| Balance at 1 July 2015 | | 14 | 31,679 | 1,931 | 33,624 |
| Depreciation charge for the year | | 663 | 13,904 | 811 | 15,378 |
| Disposals | | – | (6,693) | (1,849) | (8,542) |
| Effect of movements in foreign exchange | | 1 | (327) | 132 | (194) |
| Balance at 30 June 2016 | | 678 | 38,563 | 1,025 | 40,266 |
| Balance at 1 July 2016 | | 678 | 38,563 | 1,025 | 40,266 |
| Depreciation charge for the year | | 1,765 | 15,394 | 309 | 17,468 |
| Disposals | | – | (6,591) | (35) | (6,626) |
| Effect of movements in foreign exchange | | (57) | (1,434) | (6) | (1,497) |
| Balance at 30 June 2017 | | 2,386 | 45,932 | 1,293 | 49,611 |
| **Carrying amounts** | | | | | |
| At 1 July 2015 | | 17,874 | 32,141 | 5,264 | 55,279 |
| At 30 June 2016 | | 59,207 | 46,149 | 4,137 | 109,493 |
| At 30 June 2017 | | 52,680 | 55,082 | 1,798 | 109,560 |

Disposals in the table above includes sale of gaming machines previously under participation or rental agreements of $8,901 thousand (2016: $7,078 thousand) at net book value.

**Leased plant and equipment**

The Group leases plant and equipment and motor vehicles under hire purchase agreements. At the end of each of these agreements the Group has the option to purchase the equipment at a beneficial price. The leased equipment and guarantees by the Group secure lease obligations. At 30 June 2017, the net carrying amount of leased plant and equipment was $96 thousand (2016: $314 thousand).

# Notes to the Financial Statements (continued)

for the year ended 30 June 2017

## 13. INTANGIBLE ASSETS

| *In thousands of AUD* | *Note* | Goodwill | Development costs | Intellectual property | Nevada licence costs | Technology and software | Customer relationships | Tradenames and trademarks | Service contracts | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | |
| Balance at 1 July 2015 | | 2,436 | 37,069 | 7,346 | 1,583 | – | – | – | 433 | 48,867 |
| Additions | | – | 6,204 | – | – | – | – | – | – | 6,204 |
| Additions through business combinations | | 21,922 | – | – | – | 10,628 | 11,838 | 743 | – | 45,131 |
| Developed costs fully amortised and written off | | – | (740) | – | – | – | – | – | – | (740) |
| Effects of movements in foreign currency | | (1,411) | – | 223 | – | (684) | (762) | (48) | – | (2,682) |
| Balance at 30 June 2016 | | 22,947 | 42,533 | 7,569 | 1,583 | 9,944 | 11,076 | 695 | 433 | 96,780 |
| Balance at 1 July 2016 | | 22,947 | 42,533 | 7,569 | 1,583 | 9,944 | 11,076 | 695 | 433 | 96,780 |
| Additions | | – | 4,534 | – | – | – | – | – | – | 4,534 |
| Additions through business combinations | | – | – | – | – | – | – | – | – | – |
| Developed costs fully amortised and written off | | – | (12,178) | – | – | – | – | – | – | (12,178) |
| Effects of movements in foreign currency | | (709) | – | (233) | – | (345) | (384) | (24) | – | (1,695) |
| Balance at 30 June 2017 | | 22,238 | 34,889 | 7,336 | 1,583 | 9,599 | 10,692 | 671 | 433 | 87,441 |
| **Amortisation and impairment losses** | | | | | | | | | | |
| Balance at 1 July 2015 | | – | 12,852 | 2,780 | – | – | – | – | 145 | 15,777 |
| Amortisation for the year | | – | 3,332 | 2,793 | – | 609 | 635 | 109 | 144 | 7,622 |
| Developed costs fully amortised and written off | | – | (740) | – | – | – | – | – | – | (740) |
| Effects of movements in foreign currency | | – | – | 21 | – | (11) | (11) | (2) | – | (3) |
| Balance at 30 June 2016 | | – | 15,444 | 5,594 | – | 598 | 624 | 107 | 289 | 22,656 |
| Balance at 1 July 2016 | | – | 15,444 | 5,594 | – | 598 | 624 | 107 | 289 | 22,656 |
| Amortisation for the year | | – | 3,560 | 1,944 | – | 1,174 | 1,332 | 209 | 144 | 8,363 |
| Developed costs fully amortised and written off | | – | (12,178) | – | – | – | – | – | – | (12,178) |
| Effects of movements in foreign currency | | – | – | (202) | – | (44) | (48) | (8) | – | (302) |
| Balance at 30 June 2017 | | – | 6,826 | 7,336 | – | 1,728 | 1,908 | 308 | 433 | 18,539 |
| **Carrying amounts** | | | | | | | | | | |
| At 1 July 2015 | | 2,436 | 24,217 | 4,566 | 1,583 | – | – | – | 288 | 33,090 |
| At 30 June 2016 | | 22,947 | 27,089 | 1,975 | 1,583 | 9,346 | 10,452 | 588 | 144 | 74,124 |
| At 30 June 2017 | | 22,238 | 28,063 | – | 1,583 | 7,871 | 8,784 | 363 | – | 68,902 |

### Impairment testing for development costs

The carrying amount of the Group's development costs amounts to $28,063 thousand (2016:$27,089 thousand), comprising of $24,377 thousand in development costs relating to product development and $3,686 thousand in development costs relating to online development activities. The impairment testing for these different development costs are performed separately as they generate or are expected to generate independent cash flows and are therefore allocated to separate cash-generating units ('CGUs').

The determination of CGUs for the purposes of testing development costs for impairment is consistent with last financial year. The Group has maintained that the most reasonable and consistent basis upon which to allocate development costs is to have the Group's research and development function ('Development CGU') recharge product development costs to the Group's other CGUs, which are in line with the Group's geographic operating segments.

Development costs include development costs relating to products and online that are not yet available for sale and as such their recoverable amount is assessed at the end of each reporting period.

Product development costs are recharged from the Development CGU to individual CGUs, based on the forecasted unit sales of each individual CGU. Other assets, consisting of intangible assets and property, plant and equipment, are allocated to the individual CGUs to which they relate.

The four main CGUs or Group of CGUs are: Development, Australia and other (comprised of Asia, New Zealand, South Africa and Europe individual CGUs), North America and South America.

The recoverable amount of each CGU was estimated based on its value in use. Value in use for each individual CGU was determined by discounting the future cash flows generated from continuing use of the product development costs over a five year period. Future cash flows are expected to be generated from the sales of machines and products and are based on the following key assumptions:

| CGUs | Discount rate[1] | Average annual revenue growth rate[2] |
|---|---|---|
| Development | 14.4% | 4.8% |
| Australia and other | 14.5% | 2.4% |
| North America | 17.2% | 7.8% |
| South America | 23.5% | 4.6% |

(1) Discount rates are pre-tax discount rates.

(2) The average annual revenue growth rate for 5 years (2018 to 2022) presented above is calculated based on historical experience, actual operating results and estimated financial results based on planned strategic initiatives.

The allocation of goodwill, indefinite useful life intangible assets and other assets to the Groups of CGUs are as follows:

| CGUs | Goodwill/ indefinite useful life intangible assets '$000 | Capitalised development costs '$000 | Other assets '$000 | Recoverable amount '$000 |
|---|---|---|---|---|
| Development | – | 28,063 | 361 | 105,244 |
| Australia and other | 2,436 | – | 9,824 | 28,497 |
| North America | 21,385 | – | 100,175 | 177,600 |
| South America | – | – | 16,219 | 36,073 |

## 13. INTANGIBLE ASSETS (continued)

### Impairment testing for goodwill and indefinite life intangibles

Goodwill arising from the Class II gaming business and Nevada license indefinite intangibles were allocated to the North America CGU. The recoverable amount of this CGU was estimated based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the CGU.

The key assumptions used in estimation of value in use were as follows:

- The discount rate of 17.2% used is a pre-tax rate;
- Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity of 1.8% has been determined based on growth prospects of this CGU industry and the overall economy; and
- The projected average revenue growth rate over the five years is 7.8% is based on past experience, adjusted for anticipated revenue growth in the Class II markets in which this CGU operates.

As the recoverable amount of the CGU was estimated to be higher than the carrying amount of the CGU's assets, no impairment was considered necessary.

Goodwill arising from service business in Australia was allocated to the Australia and other CGU. The recoverable amount of this CGU was estimated based on its value in use, determined by discounting future cash flows to be generated from the continuing use of the CGU.

The key assumptions used in estimation of value in use were as follows:

- The discount rate of 14.5% used is a pre-tax rate;
- Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity of 1.8% has been determined based on growth prospects of this CGU industry and the overall economy; and
- The projected average revenue growth rate over the five years is 2.4% based on past experience, adjusted for anticipated revenue growth.

As the recoverable amount of the CGU was estimated to be higher than the carrying amount of the CGU's assets, no impairment was considered necessary.

### Impact of possible changes in key assumptions

Based on the net recoverable amount for each CGU illustrated above, Management does not believe a reasonable change in key assumptions will result in a material impairment charge.

## 14. EQUITY-ACCOUNTED INVESTEE

616 Digital LLC ("616") is a joint venture in which the Group has 40% ownership interest.

616 is an online social platform provider established in Delaware, USA and operates from Romania and Australia. This arrangement allows both parties to jointly progress development and marketing of social gaming offering on both desktop and mobile, leveraging the extensive game content library established for land based markets. An agreement has also been established where the Group has the ability to purchase the remaining 60% interest in 616 at a future date. The investment in equity accounted investee for the Group comprise the following:

| *In thousands of AUD* | Ownership 30-Jun-17 | Ownership 30-Jun-16 | Carrying amount 30-Jun-17 | Carrying amount 30-Jun-16 |
|---|---|---|---|---|
| 616 Digital LLC | 40% | 40% | 4,683 | 4,831 |

The Group's share of profit of equity accounted investee is $153 thousand (2016: $365 thousand). During the current year, the Group did not receive dividends from its investments in equity accounted investee.

Summary financial information for the equity accounted investee, not adjusted for the percentage ownership held by the Group, is as follows:

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| Non-current assets | 2 | 1 |
| Current assets (including cash and cash equivalents) | 1,717 | 1,865 |
| Current financial liabilities (excluding trade and other payables and provisions) | – | 13 |
| Income | 2,271 | 2,575 |
| Expenses | (2,222) | (2,280) |
| Elimination of upstream purchases | 334 | 601 |
| Profit | 383 | 896 |

## 15. TAXES

### Current tax expense

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| **Tax recognised in profit or loss** | | |
| **Current tax expense** | | |
| Current year | (24,312) | (29,019) |
| Prior year adjustments | 8,325 | (594) |
| Recognition of R&D tax credits | 8,669 | 9,091 |
| | (7,318) | (20,522) |
| **Deferred tax benefit** | | |
| Timing differences movement | (1,705) | 1,087 |
| | (1,705) | 1,087 |
| Total income tax expense | (9,023) | (19,435) |

### Reconciliation of effective tax rate

| *In thousands of AUD* | 2017 | 2017 | 2016 | 2016 |
|---|---|---|---|---|
| Profit before income tax | | 46,953 | | 75,138 |
| Income tax expense using the Company's domestic tax rate | (30.00%) | (14,086) | (30.00%) | (22,541) |
| Effective tax rates in foreign jurisdictions | (5.03%) | (2,360) | (0.87%) | (656) |
| Non-deductible expenses | (20.28%) | (9,519) | (7.75%) | (5,824) |
| Non-assessable income and concessions | 18.46% | 8,669 | 12.10% | 9,091 |
| Other tax concessions | 0.00% | – | 0.00% | – |
| Prior year adjustments | 17.73% | 8,325 | (0.80%) | (592) |
| Recognition of previously unrecognised tax losses and timing differences | (0.11%) | (52) | 1.45% | 1,088 |
| | (19.22%) | (9,023) | (25.87%) | (19,435) |

# Notes to the Financial Statements (continued)

for the year ended 30 June 2017

## 15. TAXES (continued)

**Recognised deferred tax assets/liabilities**

| *In thousands of AUD* | 2017 | 2016 | 2017 | 2016 |
|---|---|---|---|---|
| | Deferred tax assets | | Deferred tax liabilities | |
| Employee benefits | 2,204 | 374 | 307 | 2,205 |
| Provisions | 1,887 | 1,789 | – | 459 |
| Unrealised foreign exchange loss/(gain) | 619 | – | – | (6,139) |
| Other items | (127) | (738) | (4,535) | (458) |
| Tax loss carry-forwards | 144 | 144 | 114 | – |
| Net tax assets/liabilities | 4,727 | 1,569 | (4,114) | (3,933) |

The deductible temporary differences and tax losses do not expire under current tax legislation. R&D non-refundable tax offset credits are available to be applied against income tax payable in future years and do not expire under current tax legislation.

Management has assessed that the carrying amount of the deferred tax assets of $4,727 thousand should be recognised as management considers it probable that future taxable profits would be available against which they can be utilised.

## 16. INVENTORIES

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| Raw materials and consumables | 37,859 | 13,958 |
| Finished goods | 31,699 | 34,966 |
| Stock in transit | 5,174 | 6,793 |
| Inventories stated at the lower of cost and net realisable value | 74,732 | 55,717 |

During the year ended 30 June 2017 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to $103,571 thousand (2016: $101,342 thousand).

A re-classification from inventory to property, plant and equipment of $29,799 thousand (2016: $18,381 thousand) was recorded to reflect gaming products for which rental and participation agreements were entered into during the year.

During the year ended 30 June 2017, the write down of inventories to net realisable value amounted to $1,174 thousand (2016: $30 thousand). The write down is included in cost of sales.

## 17. RECEIVABLES AND OTHER ASSETS

| *In thousands of AUD* | *Note* | 2017 | 2016 |
|---|---|---|---|
| *Current* | | | |
| Trade receivables | | 125,095 | 122,054 |
| Less impairment losses | *26* | (3,017) | (3,349) |
| | | 122,078 | 118,705 |
| Other assets | | 3 | 1 |
| Amount receivable from director/shareholder controlled entities | | 6,565 | 94 |
| | | 128,646 | 118,800 |
| *Non-current* | | | |
| Trade receivables | | 39,877 | 37,903 |
| | | 39,877 | 37,903 |

Information about the Group's exposure to credit and market risks and impairment losses for trade and other receivables is included in Note 26.

**Leasing arrangements**
Included in trade receivables are receivables from gaming machines that have been sold under finance lease arrangement. The lease payments receivable under these contracts is as follows:

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| *Minimum lease payments under finance leases are receivable as follows:* | | |
| Within one year | 4,730 | 3,555 |
| Later than one year but not later than 5 years | 5,659 | 4,105 |
| | 10,389 | 7,660 |
| *Unearned finance income* | | |
| Within one year | 400 | 313 |
| Later than one year but not later than 5 years | 238 | 350 |
| | 638 | 663 |
| *The present value of minimum lease payments is as follows:* | | |
| Within one year | 4,330 | 3,242 |
| Later than one year but not later than 5 years | 5,421 | 3,755 |
| | 9,751 | 6,997 |
| *Lease receivables are classified as follows:* | | |
| Within one year | 4,330 | 3,242 |
| Later than one year but not later than 5 years | 5,421 | 3,755 |
| | 9,751 | 6,997 |

## 18. CASH AND CASH EQUIVALENTS

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| Bank balances | 21,094 | 26,433 |
| Cash and cash equivalents in the statement of cash flows | 21,094 | 26,433 |

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 26.

## 18A. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

| *In thousands of AUD* | *Note* | 2017 | 2016 |
|---|---|---|---|
| ***Cash flows from operating activities*** | | | |
| Profit for the period | | 37,930 | 55,703 |
| *Adjustments for:* | | | |
| Depreciation | *12* | 17,468 | 15,378 |
| Impairment losses on trade receivables and provision for obsolescence | | 4,521 | 2,094 |
| Amortisation of intangible assets | *13* | 8,363 | 7,622 |
| Net finance cost/(income) | *11* | 8,081 | (6,990) |
| (Gain)/loss on sale of property, plant and equipment | | (26) | 891 |
| Unrealised (gain)/loss on currency translation movements | | (241) | 997 |
| Equity-settled share-based payment transactions | *10* | 2,131 | (403) |
| Income tax expense | *15* | 9,023 | 19,435 |
| ***Operating profit before changes in working capital and provisions*** | | **87,250** | **94,727** |
| Change in trade and other receivables | | (21,101) | (16,249) |
| Change in inventories | | (22,315) | 429 |
| Net transfers between inventory and leased assets[(i)] | | (20,793) | (10,895) |
| Change in other assets | | (6,521) | 191 |
| Change in trade and other payables | | 4,489 | 5,015 |
| Change in provisions and employee benefits | | 990 | 3,607 |
| | | 21,999 | 76,825 |
| Interest paid | | (708) | (689) |
| Income taxes paid | | (16,053) | (23,283) |
| **Net cash from operating activities** | | **5,238** | **52,853** |

(i) The Group has re-presented as a separate line item cash flows arising from transfers of gaming machines between inventory and leased assets which are considered to be a part of the Group's cash flows from operating activities.

## 19. CAPITAL AND RESERVES

### (a) Share capital

| *In thousands of shares* | Ordinary shares 2017 | 2016 |
|---|---|---|
| In issue at 1 July | 327,716 | 322,339 |
| Exercise of share options | – | 227 |
| Shares issued under dividend reinvestment plan | 3,370 | 5,150 |
| In issue at 30 June – fully paid | 331,086 | 327,716 |

#### (i) Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. All shares rank equally with regard to the Company's residual assets.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

*Issue of ordinary shares*

During the year, 3,370 thousand ordinary shares were issued as a result of shareholders participation in the dividend reinvestment plan.

### (b) Nature and purpose of reserve

#### (i) Equity compensation reserve

The equity compensation reserve represents the expensed cost of share options issued to employees.

#### (ii) Fair value reserve

The fair value reserve comprises the cumulative net change in fair value of related party loans and borrowings where interest is charged at below market rates.

#### (iii) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

#### (iv) Profits reserve

This reserve is comprised wholly of the profits generated by the Australian entity which would be eligible for distribution as a frankable dividend.

### (c) Dividends

The following dividends were declared and paid by the Company for the year:

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| 5.0 cents per qualifying ordinary share (2016: 10.0 cents) | 16,386 | 32,245 |

After the reporting date, no dividends were proposed by the board of directors (2016: $16,386 thousand). The dividends have not been recognised as liabilities and there are no tax consequences.

## 20. EARNINGS PER SHARE

### Basic earnings per share

The calculation of basic earnings per share at 30 June 2017 was based on the profit attributable to ordinary shareholders of $37,930 thousand (2016: $55,703 thousand) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2017 of 329,673 thousand (2016: 323,299 thousand), calculated as follows:

Profit attributable to ordinary shareholders

| *In thousands of AUD* | *Note* | 2017 | 2016 |
|---|---|---|---|
| Profit for the period | | 37,930 | 55,703 |
| Profit attributable to ordinary shareholders | | 37,930 | 55,703 |
| Weighted average number of ordinary shares | | | |
| *In thousands of shares* | | | |
| Issued ordinary shares at 1 July | *19* | 327,716 | 322,339 |
| Effect of shares issued | | 1,957 | 960 |
| Weighted average number of ordinary shares at 30 June | | 329,673 | 323,299 |
| Total basic earnings per share attributable to the ordinary equity holders of the Company | | $0.12 | $0.17 |

### Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2017 was based on the profit attributable to ordinary shareholders of $40,061 thousand (2016: $55,300 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 333,735 thousand (2016: 326,745 thousand), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| Profit attributable to ordinary shareholders | 37,930 | 55,703 |
| Amortisation of performance rights (RST) | 2,131 | (403) |
| Profit attributable to ordinary shareholders (diluted) | 40,061 | 55,300 |
| Weighted average number of ordinary shares (diluted) | | |
| *In thousands of shares* | | |
| Weighted average number of ordinary shares at 30 June | 329,673 | 323,299 |
| Effect of rights and options on issue | 4,062 | 3,446 |
| Weighted average number of ordinary shares (diluted) at 30 June | 333,735 | 326,745 |
| Total diluted earnings per share attributable to the ordinary equity holders of the Company | $0.12 | $0.17 |

# Notes to the Financial Statements (continued)

for the year ended 30 June 2017

## 21. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 26.

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| *Current* | | |
| Finance lease liabilities | 178 | 118 |
| *Non-current* | | |
| Finance lease liabilities | 11 | 53 |
| Secured bank loan | 65,501 | 67,724 |
| | 65,512 | 67,777 |

### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

| | | | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|---|
| *In thousands of AUD* | Currency | Nominal interest rate | Year of maturity | Face value | Carrying amount | Face value | Carrying amount |
| Finance lease liabilities | AUD | 0.90-8.39% | 2019 | 194 | 189 | 180 | 171 |
| Secured bank loan | USD | LIBOR+0.65% | 2018 | 65,501 | 65,501 | 67,724 | 67,724 |
| Total interest-bearing liabilities | | | | 65,695 | 65,690 | 67,904 | 67,895 |

The bank loan is secured by fixed and floating charges over identified assets of the Company and certain of its Australia and US wholly owned subsidiaries, and imposes certain customary financial covenants measured on a six-monthly basis.

### Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

| *In thousands of AUD* | Future minimum lease payments 2017 | Interest 2017 | Present value of minimum lease payments 2017 | Future minimum lease payments 2016 | Interest 2016 | Present value of minimum lease payments 2016 |
|---|---|---|---|---|---|---|
| Less than one year | 183 | 5 | 178 | 125 | 7 | 118 |
| Between one and five years | 11 | – | 11 | 55 | 2 | 53 |
| | 194 | 5 | 189 | 180 | 9 | 171 |

The Group leases plant and equipment under finance leases with terms expiring from one to two years. At the end of the lease term, there is the option to purchase the equipment at a discount to market value, a price deemed to be a bargain purchase option.

## 22. EMPLOYEE BENEFITS

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| *Current* | | |
| Accrual for salaries and wages | 464 | 380 |
| Accrual for short term incentive plan | 1,285 | 131 |
| Liability for annual leave | 3,769 | 3,761 |
| Liability for long service leave | 2,849 | 2,678 |
| | 8,367 | 6,950 |
| *Non-current* | | |
| Liability for long service leave | 676 | 679 |
| | 676 | 679 |

## 23. SHARE-BASED PAYMENTS

### (a) Description of share-based payment arrangements

#### (i) Performance rights programmes (equity-settled)

On 22 July 2013 and 17 March 2015, employee incentive plans were established whereby performance rights were granted to all eligible Group employees under the Rights Share Trust (RST). On 1 March 2017, a further grant was offered to all eligible Group employees under the RST. Under the RST eligible employees were allocated performance rights over ordinary shares in the Company at nil consideration or exercise price however are dependent on service conditions, vesting conditions and performance hurdles.

The key terms and conditions related to the grants under these programmes are as follows; all rights are to be settled by the physical delivery of shares.

| Grant date/employee entitled | Number of instruments outstanding | Vesting conditions | Contractual life of options |
|---|---|---|---|
| Rights grant to key management at 22 July 2013 | 142,957 | Four years service and performance hurdles from grant date as per RST below | 5 years |
| Rights grant to senior and other employees at 22 July 2013 | 420,377 | Four years service and performance hurdles from grant date as per RST below | 5 years |
| Rights grant to key management at 17 March 2015 | 458,272 | Four years service and performance hurdles from grant date as per RST below | 5 years |
| Rights grant to senior and other employees at 17 March 2015 | 1,593,857 | Four years service and performance hurdles from grant date as per RST below | 5 years |
| Rights grant to key management at 1 March 2017 | 677,097 | Four years service and performance hurdles from grant date as per RST below | 5 years |
| Rights grant to senior and other employees at 1 March 2017 | 3,686,701 | Four years service and performance hurdles from grant date as per RST below | 5 years |
| **Total rights RST** | **6,979,261** | | |

# Notes to the Financial Statements (continued)

for the year ended 30 June 2017

To be eligible to participate in the RST the employee was selected by the directors and reviewed by the remuneration and nomination committee. The RST provide for employees to receive shares for no consideration. Each right is convertible to one ordinary share. Right holders have no voting or dividend rights. On conversion from right to ordinary shares, the issued shares will have full voting and dividend rights. The ability to exercise the right is conditional on the continuing employment of the participating employee.

All vesting conditions of the share performance rights issued under the RST are detailed below.

The vesting conditions of the performance rights issued on 22 July 2013 under the RST are as follows:

| Date | Vesting condition (% of Rights vesting) |
|---|---|
| 1 September 2016 | 50% |
| 1 September 2017 | 50% |

In addition to the vesting conditions on rights granted under the RST, specific performance hurdles relative to Total Shareholder Return (TSR) relative targets and Earnings per Share (EPS) targets are required to be met as follows:

Vesting date of 1 September 2016:

- 30% vest subject to the TSR target below with a fair value at grant date of $2.4349;
- 70% vest subject to the EPS target below with a fair value at grant date of $3.2375; and

The remaining 50% of the rights vest on 1 September 2017, of which:

- 30% vest subject to the TSR target below with a fair value at grant date of $2.3892; and
- 70% vest subject to the EPS target below with a fair value at grant date of $3.1693.

The vesting conditions of the performance rights issued on 17 March 2015 under the RST are as follows:

| Date | Vesting condition (% of Rights vesting) |
|---|---|
| 17 March 2018 | 50% |
| 17 March 2019 | 50% |

In addition to the vesting conditions on rights granted under the RST, specific performance hurdles relative to Total Shareholder Return (TSR) relative targets and Earnings per Share (EPS) targets are required to be met as follows:

Vesting date of 17 March 2018:

- 30% vest subject to the TSR target below with a fair value at grant date of $1.9974;
- 70% vest subject to the EPS target below with a fair value at grant date of $2.3164; and

The remaining 50% of the rights vest on 17 March 2019, of which:

- 30% vest subject to the TSR target below with a fair value at grant date of $1.9290; and
- 70% vest subject to the EPS target below with a fair value at grant date of $2.2289.

The TSR and EPS targets for performance rights granted on 22 July 2013 and 17 March 2015 are as follows:

*Total Shareholder Return (TSR) Relative Targets*

| TSR rank | Proportion of TSR rights that vest |
|---|---|
| Less than 50% percentile | 0% |
| 50th percentile | 50% |
| Between 50th and 75th percentile | Pro-rata (sliding scale) percentage |
| At or above 75th percentile | 100% |

The Comparison Group of Companies for the TSR hurdle is companies in the ASX 300 Index that have the same Consumer Services GICS industry sector as Ainsworth.

## 23. SHARE-BASED PAYMENTS (continued)

*EPS Targets*

| EPS achievement | Proportion of EPS rights that vest |
|---|---|
| Less than 8.0% p.a. | 0% |
| 8.0% p.a. | 25% plus 1.25% for each 0.1% increase in EPS |
| 10% p.a. | 50% plus 2.0% for each 0.1% increase in EPS |
| 12.5% p.a. | 100% |

The vesting conditions of the performance rights issued on 1 March 2017 under the RST are as follows:

Achievement of the performance hurdle is determined by a 15% compound increase on the share price of $1.86, being the Volume Weighted Average Price (VWAP) for 90 days ending 28/02/2017.

- Tranche 1 - 20% will vest if the VWAP for 20 days preceding 01/03/2018 is equal to or greater than $2.14.
- Tranche 2 - 20% will vest if the VWAP for 20 days preceding 01/03/2019 is equal to or greater than $2.46.
- Tranche 3 - 20% will vest if the VWAP for 20 days preceding 01/03/2020 is equal to or greater than $2.83.
- Tranche 4 - 40% will vest if the VWAP for 20 days preceding 01/03/2021 is equal to or greater than $3.25.

### (b) Reconciliation of outstanding share options and rights

ESOT plan

The number and weighted average exercise prices of Group issued share options under ESOT is as follows:

| *In thousands of options* | Weighted average exercise price 2017 | Number of options 2017 | Weighted average exercise price 2016 | Number of options 2016 |
|---|---|---|---|---|
| Outstanding at the beginning of the period | – | – | $0.225 | 227 |
| Forfeited during the period | – | – | – | – |
| Cancelled during the period | – | – | – | – |
| Exercised during the period | – | – | $0.225 | (227) |
| Granted during the period | – | – | – | – |
| Outstanding at the end of the period | – | – | | – |
| Exercisable at the end of the period | – | – | | – |

The weighted-average share price at the dates of exercise for share options exercised in 2017 was $nil (2016: $2.35).

ASOT plan

The share options granted under the ASOT to Australian employees on 1 March 2011 totalled 9,899,182. There were no share options outstanding during the year, as the plan has expired. The last share options (300,764) were exercised in 2016 with a weighted average share price at the dates of exercise of $2.34.

RST plan

The rights granted under the RST to all eligible Group employees totalled 8,454,014. During the year 876,416 were cancelled with 6,979,261 rights outstanding as at 30 June 2017. No rights were exercisable as at 30 June 2017.

### (c) Measurement of fair values

(i) Performance rights programmes (equity-settled)

The estimate of the fair value of the services received is measured based on the Black Scholes Merton model. The fair value of services received in return for share options and rights granted are measured by reference to the fair value of share options and rights granted. The contractual life of the option and right is used as an input into this model. Expectations of early exercise are incorporated into these models. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options or rights), adjusted for any expected changes to future volatility due to publicly available information.

# Notes to the Financial Statements (continued)

for the year ended 30 June 2017

The fair value of the performance rights granted on 22 July 2013 under the RST were as follows:

| Fair value at grant date | TSR Target | EPS Target |
|---|---|---|
| – Vesting date 1 September 2016 | $2.43 | $3.24 |
| – Vesting date 1 September 2017 | $2.39 | $3.17 |

The inputs used in the measurement of the above fair values at grant date of the equity settlement share based payment plan under the RST were as follows:

| | RST Plan |
|---|---|
| Share price at grant date | $3.46 |
| Exercise price | – |
| Expected volatility | 40.3% |
| Expected life | 5 years |
| Expected dividends | 2.1% |
| Risk-free interest rate (based on Treasury Bonds) | 2.6% |

The fair value of the performance rights granted on 17 March 2015 under the RST were as follows:

| Fair value at grant date | TSR Target | EPS Target |
|---|---|---|
| – Vesting date 17 March 2018 | $2.00 | $2.32 |
| – Vesting date 17 March 2019 | $1.93 | $2.23 |

The inputs used in the measurement of the above fair values at grant date of the equity settlement share based payment plan under the RST were as follows:

| | RST Plan |
|---|---|
| Share price at grant date | $2.60 |
| Exercise price | – |
| Expected volatility | 24.1% |
| Expected life | 5 years |
| Expected dividends | 3.9% |
| Risk-free interest rate (based on Treasury Bonds) | 2.5% |

The fair value of the performance rights granted on 1 March 2017 under the RST were as follows:

| Fair value at grant date | Fair Value per option |
|---|---|
| – Vesting date 1 March 2018 | $0.56 |
| – Vesting date 1 March 2019 | $0.49 |
| – Vesting date 1 March 2020 | $0.42 |
| – Vesting date 1 March 2021 | $0.37 |

## 23. SHARE-BASED PAYMENTS (continued)

The inputs used in the measurement of the above fair values at grant date of the equity settlement share based payment plan under the RST were as follows:

| | RST Plan |
|---|---|
| Share price at grant date | $1.77 |
| Exercise price | – |
| Expected volatility | 36.90% |
| Expected life | 5 years |
| Expected dividends | 5.65% |
| Risk-free interest rate (based on Treasury Bonds) | 2.31% |

### (d) Expense recognised in profit or loss

For details on the related employee benefit expenses, see Note 10.

## 24. TRADE AND OTHER PAYABLES

| *In thousands of AUD* | *Note* | 2017 | 2016 |
|---|---|---|---|
| *Current* | | | |
| Trade payables | | 15,017 | 11,496 |
| Other payables and accrued expenses | | 17,834 | 18,649 |
| Amount payable to director/shareholder controlled entities | *29* | 142 | 153 |
| | | 32,993 | 30,298 |

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 26.

## 25. PROVISIONS

| *In thousands of AUD* | Service/ warranties | Legal | Total |
|---|---|---|---|
| Balance at 1 July 2016 | 746 | 67 | 813 |
| Provisions made during the year | 828 | 110 | 938 |
| Provisions used during the year | (746) | (67) | (813) |
| Balance at 30 June 2017 | 828 | 110 | 938 |

## 26. FINANCIAL INSTRUMENTS

### Credit risk

Exposure to credit risk

*Trade and other receivables*

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

| | | Carrying amount | |
|---|---|---|---|
| *In thousands of AUD* | *Note* | 2017 | 2016 |
| Receivables | *17* | 168,520 | 156,608 |
| | | 168,520 | 156,608 |

The Group's gross maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| Australia | 26,306 | 27,923 |
| Americas | 132,841 | 124,199 |
| Europe | 7,241 | 832 |
| New Zealand | 2,160 | 2,059 |
| Asia | 2,989 | 4,944 |
| | 171,537 | 159,957 |

The Group's concentration of credit risk arising from its two most significant receivable amounts is represented by a customer in North America and a customer in Latin America. They account for $8,751 thousand (2016: $14,571 thousand) and $10,414 thousand (2016: $7,781 thousand) of the trade receivables carrying amount at 30 June 2017 respectively.

*Cash and cash equivalents*

The Group held cash of $21,094 thousand at 30 June 2017 (2016: $26,433 thousand) which represents its maximum credit exposure on these assets. The cash and cash deposits are held with bank and financial institution counterparts, which are rated AA- to A-, based on rating agency Standard & Poor ratings.

*Impairment losses*

The aging of the Group's trade receivables at the reporting date was:

| *In thousands of AUD* | Gross 2017 | Impairment 2017 | Gross 2016 | Impairment 2016 |
|---|---|---|---|---|
| Not past due | 115,811 | 51 | 103,832 | – |
| Past due 0-30 days | 36,841 | – | 26,456 | – |
| Past due 31-120 days | 10,574 | – | 22,671 | 209 |
| Past due 121 days to one year | 3,186 | 169 | 980 | 8 |
| More than one year | 5,125 | 2,797 | 6,018 | 3,132 |
| | 171,537 | 3,017 | 159,957 | 3,349 |

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| Balance at 1 July | 3,349 | 1,762 |
| Impairment loss written off | (3,569) | (566) |
| Provision during the year | 3,347 | 2,094 |
| Recovered | (37) | – |
| Effect of exchange rate fluctuations | (73) | 59 |
| Balance at 30 June | 3,017 | 3,349 |

The provision of $3,347 thousand (2016: $2,094 thousand) was recognised in other expenses in the income statement.

Based on historic default rates and current repayment plans in place, the Group believes that apart from the above, no impairment is necessary in respect of trade receivables not past due or on amounts past due as these relate to known circumstances that are not considered to impact collectability.

At 30 June 2017, an impairment loss of $1,499 thousand was brought to account in relation to an amount receivable from a Latin American customer that has demonstrated poor payment history.

The allowance for impairment losses in respect of receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

## 26. FINANCIAL INSTRUMENTS (continued)

### Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

**30 June 2017**

| *In thousands of AUD* | Carrying amount | Contractual cash flows | 6 mths or less | 6-12 mths | 1-2 years | 2-5 years |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| Finance lease liabilities | 189 | (194) | (166) | (17) | (11) | – |
| Secured bank loan | 65,501 | (65,501) | – | – | (65,501) | – |
| Trade and other payables | 32,993 | (32,993) | (32,993) | – | – | – |
| | 98,683 | (98,688) | (33,159) | (17) | (65,512) | – |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

**30 June 2016**

| *In thousands of AUD* | Carrying amount | Contractual cash flows | 6 mths or less | 6-12 mths | 1-2 years | 2-5 years |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| Finance lease liabilities | 171 | (180) | (94) | (31) | (55) | – |
| Secured bank loan | 67,724 | (67,724) | – | – | – | (67,724) |
| Trade and other payables | 30,298 | (30,298) | (30,298) | – | – | – |
| | 98,193 | (98,202) | (30,392) | (31) | (55) | (67,724) |

### Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the AUD.

The Group monitors and assesses under its Treasury Risk policy and facilities available whether hedging of all trade receivables and trade payables denominated in a foreign currency from time to time is considered appropriate.

#### Exposure to currency risk

The Group's significant exposures to foreign currency risk at balance date were as follows, based on notional amounts:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| *In thousands of AUD* | USD | Euro | NZD | USD | Euro | NZD |
| Trade receivables | 135,556 | 6,666 | 2,148 | 125,642 | 40 | 2,052 |
| Secured bank loan | (65,501) | – | – | (67,724) | – | – |
| Trade and other payables | (21,279) | (1) | (118) | (16,691) | (104) | (179) |
| Net exposure in statement of financial position | 48,776 | 6,665 | 2,030 | 41,227 | (64) | 1,873 |

The following significant exchange rates applied during the year:

| | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| USD | 0.7547 | 0.7286 | 0.7692 | 0.7426 |
| Euro | 0.6919 | 0.6561 | 0.6730 | 0.6699 |
| NZD | 1.0588 | 1.0909 | 1.0500 | 1.0489 |

### Sensitivity analysis

In managing currency risks the Group aims to reduce the impact of short-term fluctuations on the Group earnings. Over the longer-term, however, permanent changes in foreign exchange will have an impact on profit or (loss).

A 10 percent strengthening of the Australian dollar against the following currencies at 30 June 2017 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period.

| *Effect In thousands of AUD* | Equity | Profit or (loss) |
|---|---|---|
| **30 June 2017** | | |
| USD | (23,071) | (19,331) |
| Euro | (606) | (606) |
| NZD | (184) | (184) |
| **30 June 2016** | | |
| USD | (21,515) | (17,958) |
| Euro | 6 | 6 |
| NZD | (170) | (170) |

A 10 percent weakening of the Australian dollar against the following currencies at 30 June 17 would have increased/ (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period.

## 26. FINANCIAL INSTRUMENTS (continued)

| *Effect In thousands of AUD* | Equity | Profit or (loss) |
|---|---|---|
| **30 June 2017** | | |
| USD | 28,167 | 23,626 |
| Euro | 741 | 741 |
| NZD | 225 | 225 |
| **30 June 2016** | | |
| USD | 26,299 | 21,952 |
| Euro | (7) | (7) |
| NZD | 208 | 208 |

### Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| *In thousands of AUD* | *Note* | Carrying amount 2017 | Fair value 2017 | Carrying amount 2016 | Fair value 2016 |
|---|---|---|---|---|---|
| **Assets carried at amortised cost** | | | | | |
| Receivables and other assets | *17* | 168,523 | 168,523 | 156,703 | 156,703 |
| Cash and cash equivalents | *18* | 21,094 | 21,094 | 26,433 | 26,433 |
| | | 189,617 | 189,617 | 183,136 | 183,136 |

| *In thousands of AUD* | | Carrying amount 2017 | Fair value 2017 | Carrying amount 2016 | Fair value 2016 |
|---|---|---|---|---|---|
| **Liabilities carried at amortised cost** | | | | | |
| Trade and other payables | *24* | 32,993 | 32,993 | 30,298 | 30,298 |
| Secured bank loan | *21* | 65,501 | 65,501 | 67,724 | 67,724 |
| Finance leases | *21* | 189 | 189 | 171 | 171 |
| | | 98,683 | 98,683 | 98,193 | 98,193 |

### Estimates of fair values

The methods used in determining the fair values of financial instruments are discussed in Note 4.

### Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve as of 30 June 2017 plus an adequate constant credit spread and are as follows:

| | 2017 | 2016 |
|---|---|---|
| Receivables | 6.00% - 7.99% | 6.00% - 9.64% |
| Secured bank loan | LIBOR+0.65% | LIBOR+0.65% |
| Leases | 0.90% - 8.39% | 0.90% - 8.39% |

### Interest rate risk

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) profit or loss. An increase in 100 basis points would lead to a decrease in profit by $194 thousand and a decrease in 100 basis points would lead to an increase in profit by $194 thousand. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

## 27. OPERATING LEASES

*Leases as lessee*

Non-cancellable operating lease rentals are payable as follows:

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| Less than one year | 2,489 | 2,338 |
| Between one and five years | 8,956 | 8,315 |
| More than five years | 2 | – |
| | 11,447 | 10,653 |

The Group leases a number of warehouse and office facilities under operating leases. The leases typically run for a period of 1-10 years, with an option to renew the lease after that date. Lease payments are increased every year either by annual increases of 2-4% per annum, or by market rent reviews at stipulated dates. None of the leases include contingent rentals.

During the year $2,276 thousand was recognised as an expense in profit or loss in respect of operating leases (2016: $3,217 thousand).

The warehouse and office lease are combined leases of land and buildings. Since the land title does not pass, the rent paid to the landlord for the building is increased to market rent at regular intervals, and the Group does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the building are with the landlord. As such, the Group determined that the leases are operating leases.

## 28. CAPITAL AND OTHER COMMITMENTS

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| **Plant and equipment** | | |
| *Contracted but not yet provided for and payable:* | | |
| Within one year | 4,780 | 899 |
| **Employee compensation commitments** | | |
| *Key management personnel* | | |
| Commitments under non-cancellable employment contracts not provided for in the financial statements and payable: | | |
| Within one year | 2,059 | 1,902 |

## 29. RELATED PARTIES

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

***Non-executive directors***

***Current***

Mr GJ Campbell

Mr MB Yates

Mr CJ Henson

Ms HA Scheibenstock[(i)]

Mr HK Neumann[(ii)]

***Executives***

***Current***

Mr ML Ludski (Chief Financial Officer and Company Secretary, Ainsworth Game Technology Limited)

Mr V Bruzzese (General Manager Technical Services, Ainsworth Game Technology Limited)

Mr I Cooper (General Manager Manufacturing, Ainsworth Game Technology Limited)

Mr K Power (Chief Technology Officer, Ainsworth Game Technology Limited - appointed 16 Jan 2017)

***Executive directors***

Mr LH Ainsworth (Executive Director)

Mr DE Gladstone (Executive Director and Chief Executive Officer, Ainsworth Game Technology Limited)

(i) Ms HA Scheibenstock is subject to approval in Ohio and the Canadian province of Saskatchewan

(ii) Mr HK Neumann is subject to approval in Ohio

### *Key management personnel compensation*

The key management personnel compensation included in 'employee benefit expenses' (see Note 10) is as follows:

| *In AUD* | 2017 | 2016 |
|---|---|---|
| Short-term employee benefits | 3,590,014 | 3,111,533 |
| Post-employment benefits | 314,674 | 267,799 |
| Share based payments | 376,550 | (41,171) |
| Other long term benefits | 170,679 | 167,705 |
| | 4,451,917 | 3,505,866 |

### *Individual directors and executives compensation disclosures*

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

***Other key management personnel transactions***

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of those entities transacted with the Group during the year. Other than as described below the terms and conditions of the transactions with key management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and their related parties were as follows:

| | | | Transactions value year ended 30 June | | Balance receivable/ (payable) as at 30 June | |
|---|---|---|---|---|---|---|
| *In AUD* | | *Note* | 2017 | 2016 | 2017 | 2016 |
| **Key management person** | **Transaction** | | | | | |
| Mr LH Ainsworth | Leased plant and equipment and other costs | *(i)* | 62,404 | 62,400 | – | – |
| Mr LH Ainsworth | Sales revenue | *(ii)* | – | 1,511,963 | – | – |
| Mr LH Ainsworth | Purchases and other charges payments made on behalf of the Company | *(ii)* | – | 99,857 | – | – |
| Mr LH Ainsworth | Other charges payments made on behalf of Mr LH Ainsworth | *(ii)* | – | 93,955 | – | 93,955 |
| Mr LH Ainsworth | Sales of property, plant and equipment | *(iii)* | 5,988,167 | – | – | – |
| Mr LH Ainsworth | Operating lease rental costs | *(iv)* | 1,549,115 | 1,580,980 | (142,002) | (153,133) |
| Mr HK Neumann | Sales revenue | *(v)* | 7,957,275 | – | 6,565,428 | – |
| Mr HK Neumann | Purchases and other charges payments made on behalf of the Company | *(v)* | 288,740 | – | (78,003) | – |

(i) The Company leased associated plant and equipment from an entity controlled by Mr LH Ainsworth on normal commercial terms and conditions. This lease was terminated at 30 June 2017 and no further obligation will occur from this date.

(ii) Transactions were with Ainsworth (UK) Ltd and Associated World Investments Pty Ltd (AWI), entities controlled by Mr LH Ainsworth. These sales are on normal commercial terms i.e. at arm's length, but purchases are on a direct recharge. On 15th April 2016, Mr LH Ainsworth sold his 100% interest in Ainsworth(UK) held by AWI to Novomatic AG. Any subsequent transaction between the Group and Ainsworth(UK) ceased to be a related party transaction effective from this date. AWI remains a related party of Mr LH Ainsworth and the Group.

(iii) The Company sold its car park building at Newington to an entity controlled by Mr LH Ainsworth. The car park was sold at the cost of construction.

(iv) Operating leases rental costs of the premises at Newington from an entity controlled by Mr LH Ainsworth on normal commercial terms and conditions.

(v) During the year, the Group transacted with Novomatic AG and its related entities of which Mr HK Neumann holds a directorship role in Novomatic AG. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-key management personnel related companies on an arm's length basis. Transactions with Novomatic AG and its related entities are considered as related parties transactions when Mr HK Neumann became a Key Management Person of the Group effective from his appointment on 21 Feb 2017.

# Notes to the Financial Statements (continued)

for the year ended 30 June 2017

## 29. RELATED PARTIES (continued)

In addition to the transactions above, AGT Pty Argentina S.R.L. was incorporated in FY13 with the shareholding currently held in trust by Mr D Gladstone and an officer of Ainsworth Game Technology Inc. on behalf of the Group. This shareholding is in the process of being transferred and was originally structured to facilitate the incorporation within Argentina.

Amounts receivable from and payable to key management personnel and their related parties at reporting date arising from these transactions were as follows:

| *In AUD* | 2017 | 2016 |
|---|---|---|
| ***Assets and liabilities arising from the above transactions*** | | |
| Current receivables and other assets | | |
| Amount receivable from director/shareholder controlled entities | 6,565,428 | 93,955 |
| Current trade and other payables | | |
| Amount payable to director/shareholder controlled entities | 220,005 | 153,133 |

## 30. GROUP ENTITIES

| | Country of incorporation | Ownership Interest 2017 | Ownership Interest 2016 |
|---|---|---|---|
| **Parent entity** | | | |
| Ainsworth Game Technology Limited | Australia | | |
| **Subsidiaries** | | | |
| AGT Pty Ltd | Australia | 100% | 100% |
| AGT Pty Mexico S. de R.L. de C.V. | Mexico | 100% | 100% |
| AGT Pty Peru S.A.C. | Peru | 100% | 100% |
| AGT Pty Argentina S.R.L. | Argentina | 100% | 100% |
| AGT Pty Colombia SAS | Colombia | 100% | 100% |
| AGT Alderney Limited | Alderney | 100% | 100% |
| Ainsworth Game Technology Inc | USA | 100% | 100% |
| Ainsworth Interactive Pty Ltd | Australia | 100% | 100% |
| AGT Gaming Services S. de R.L de C.V. | Mexico | 100% | – |
| AGT Service Pty Ltd | Australia | 100% | 100% |
| AGT Service (NSW) Pty Ltd | Australia | 100% | 100% |
| J & A Machines Pty Ltd | Australia | 100% | 100% |
| RE & R Baker & Associates Pty Ltd | Australia | 100% | 100% |
| Bull Club Services Pty Ltd | Australia | 100% | 100% |

## 31. SUBSEQUENT EVENTS

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

# Notes to the Financial Statements (continued)

for the year ended 30 June 2017

## 32. AUDITOR'S REMUNERATION

| *In AUD* | 2017 | 2016 |
|---|---|---|
| **Audit and review services** | | |
| Auditors of the Company – KPMG | | |
| Audit and review of financial statements | 260,000 | 255,000 |
| Other regulatory audit services | 22,500 | 35,000 |
| | 282,500 | 290,000 |
| **Other services** | | |
| Auditors of the Company – KPMG | | |
| In relation other assurance, due diligence and taxation | 35,451 | 36,077 |

## 33. PARENT ENTITY DISCLOSURES

As at and throughout the financial year ended 30 June 2017 the parent entity of the Group was Ainsworth Game Technology Limited.

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| **Result of parent entity** | | |
| Profit for the year | 36,503 | 52,235 |
| Total comprehensive income for the year | 36,503 | 52,235 |
| **Financial position of parent entity at year end** | | |
| Current assets | 156,205 | 156,641 |
| Total assets | 421,344 | 348,926 |
| Current liabilities | 36,783 | 37,573 |
| Total liabilities | 87,387 | 42,346 |
| **Total equity of parent entity comprising of:** | | |
| Share capital | 200,245 | 193,754 |
| Equity compensation and translation reserve | 10,414 | 9,786 |
| Fair value reserve | 9,684 | 9,684 |
| Profit reserves | 132,271 | 113,730 |
| Accumulated losses | (18,657) | (20,374) |
| **Total equity** | **333,957** | **306,580** |

**Parent entity capital commitments for acquisitions of property, plant and equipment**

| *In thousands of AUD* | 2017 | 2016 |
|---|---|---|
| **Plant and equipment** | | |
| Contracted but not yet provided for and payable: | | |
| Within one year | 1,034 | 899 |

# Directors' Declaration

for the year ended 30 June 2017

1. In the opinion of the directors of Ainsworth Game Technology Limited (the 'Company'):
   (a) the consolidated financial statements and notes that are set out on pages 42 to 85 and the Remuneration report in sections 15.1 to 15.4 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; 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.
2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and chief financial officer for the financial year ended 30 June 2017.
3. The directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

**GJ Campbell**
Chairman
Dated at Sydney this 29th day of August 2017.

KPMG

# Independent Auditor's Report

To the shareholders of Ainsworth Game Technology Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the ***Financial Report*** of Ainsworth Game Technology Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated Statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

| Key Audit Matters | |
|---|---|
| The ***Key Audit Matters*** we identified are:<br>• Revenue recognition<br>• Recoverability of trade receivables<br>• Carrying value of goodwill and intangible assets | ***Key Audit Matters*** are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.<br>These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. |

| Revenue recognition | |
|---|---|
| Refer to note 7 of the Financial Report ($282m AUD) | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| Revenue recognition was a key audit matter due to the audit effort associated with multiple revenue streams across different geographic locations with differing recognition criteria for us to assess, and evaluate the application thereof to the Group's transactions.<br>These include; outright machine and spare parts sales, rendering of services, revenue from fixed and participation rental, royalty revenue including online gaming royalties and revenue from multi-element arrangements which consist of several components within the revenue stream.<br>Due to varying revenue recognition and measurement principles of the revenues generated by the Group, it necessitated greater involvement by our senior team members to understand and challenge the complexities behind the timing of recognition and measurement. | Our audit procedures included:<br>• evaluating of the Group's process for establishing criteria to determine the appropriate revenue stream based on the characteristics of each sale and the recognition of this revenue across different geographic locations in accordance with AASB 118 *Revenue* and/or AASB 117 *Leases*;<br>• identifying key controls of the Group in recognising revenue, and testing the control for operating effectiveness. The key control identified by us was in relation to the Group's process of matching documents such as customer contracts, purchase orders and sales orders to delivery notes and invoices, used to determine the timing of revenue recognition;<br>• testing of statistical samples of transactions in key revenue streams by checking them to underlying records and inspecting the terms and conditions of the revenue contract for consistency to the Group's timing and measurement of revenue recognition;<br>• testing a sample of revenue transactions from immediately before and immediately after year end, across different geographic locations and revenue streams, comparing the year in which the revenue was recognised to terms of the underlying contract; |

KPMG

| | |
|---|---|
| | • testing the accuracy of the methodology used to calculate the multi-element arrangement revenue by checking samples of revenue transactions against contract terms and rates and then recalculating these samples for accuracy. |
| **Recoverability of trade receivables** | |
| Refer to note 17 of the Financial Report ($168.5m AUD) | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| Recoverability of trade receivables was a key audit matter because payment terms, prevailing industry practices and market conditions vary significantly across the different customers and the geographic locations in which the Group operates.<br><br>These conditions give rise to heightened exposure to credit risk across the Group, thus requiring greater audit focus.<br><br>The prevailing practice in certain locations in which the Group operates is to provide payment terms which are extended beyond traditional payment terms observed in Australian. This required a heightened element of judgement, and scrutiny to be applied when assessing the recoverability of trade receivables, such as an:<br><br>• assessment of amounts overdue compared to contractual payment terms;<br>• evidence from internal diligence performed by the Group on the continued credit worthiness of customers;<br>• settlement history of previous sales with the Group;<br>• evidence of ongoing dialogue and correspondence with the Group and willingness of the customer to confirm the receivable balance. | Our audit procedures included:<br><br>• identifying key controls performed by the Group and testing this control for its operating effectiveness. The key control identified by us was in relation to credit limits approvals by senior management within the Group;<br>• performing an assessment of the credit risk of the Group's trade receivables by selecting samples in certain locations with overdue customer balances. Enquiries with management were conducted on the samples selected to understand the rationale behind the Group's recoverability assessment. We challenged the Group's recoverability assessment with our understanding of market practice, ongoing correspondence between the debtor and the Group, the Group's internal diligence check on the credit worthiness of the debtor, customer payment history and customer contract to evidence recoverability;<br>• for those locations determined by us at a heightened risk of non-recoverability, the trade receivable balance by customer at year end was compared against established credit limits. Our assessment of those locations at higher risk of non-recoverability was based on the historical pattern for long outstanding trade receivables in those locations. |

# Independent Auditor's Report (continued)

for the year ended 30 June 2017

| Carrying value of goodwill and intangible assets | |
|---|---|
| Refer to note 13 of the Financial Report ($68.9m AUD) | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| Annual testing of goodwill and intangible assets is a key audit matter, due to the significant judgement applied by us when evaluating the significant forward looking assumptions including:<br>• forecast cash flows and the growth rates (including terminal growth rates) applied to those forecasts in light of current market conditions. Whilst the Group continues to generate a significant profit before interest and tax, the performance of the Group has been declining in recent years. These conditions increase the risk of inaccurate forecasting and the possibility of goodwill and intangible assets being impaired.<br>• value in use model prepared is sensitive to the assumptions adopted by the Group including future growth rate of the business and the discount rate applied for various locations. Such assumptions have a significant impact on the calculated recoverable amount of the assets within the identified Cash Generating Units (CGU). This drives additional audit effort to assess the assumptions adopted by the Group.<br>• discount rates are complex in nature and vary according to the conditions and environment in which the CGU operates. The Group operates in various jurisdictions and is therefore subject to different discount rates for each CGU. This drives additional audit effort in challenging the assumptions used by the Group in determining the discount rate for each CGU.<br>The Group uses complex models to perform their annual impairment testing of goodwill and intangibles. The models are developed with significant judgement incorporated within. Complex modelling, particularly those containing highly judgemental allocations of corporate assets and costs to CGU's, using forward-looking assumptions tend to be prone to greater risk of potential bias, error and | Working with our valuation specialists, our procedures included:<br>• evaluating the appropriateness of the model used for goodwill and intangibles impairment testing against the requirements of the accounting standards;<br>• working with our valuation specialists we independently developed a discount rate range, across different jurisdictions and geographic locations applicable to each identified CGU, using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in.<br>• considering the Group's determination of their CGUs based on our understanding of the operations of the Group, and how independent cash inflows are generated in line with the accounting standards;<br>• assessing the Group's allocation of corporate assets and corporate costs to CGUs for consistency based on the requirements of the accounting standards;<br>• challenging the Group's forecasted cash flow and growth assumptions in light of market competition. We compared key assumptions to the Board approved plan and strategy. We applied increased scepticism to assumptions in areas where previous forecasts were not achieved. We compared forecast growth rates and the terminal growth rates to published studies of industry trends and expectations with inputs from our valuation specialist, and considered differences for the Group's operations. In doing so, we applied our knowledge of the Group, their past performance, business and customers, and our industry experience; and<br>• considering the sensitivity of the models by varying key assumptions, such as forecast |

| | |
|---|---|
| inconsistent application. Such conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used to derive assumptions, and their consistent application. | growth rates, terminal growth rates and discount rates, within a reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures;<br>• assessing the appropriateness and adequacy of the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards. |

## Other Information

Other Information is financial and non-financial information in Ainsworth Game Technology Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors Report, and Remuneration Report. The 2017 Highlights, Chairman's Report, Chief Executive Officer's Report, Shareholder Information and Corporate Directory are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

# Independent Auditor’s Report (continued)

for the year ended 30 June 2017

KPMG

## Auditor’s responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor’s Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor’s Report.

## Report on the Remuneration Report

**Opinion**

In our opinion, the Remuneration Report of Ainsworth Game Technology Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

**Directors’ responsibilities**

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

**Our responsibilities**

We have audited the Remuneration Report included in on pages 30 to 41 of the Directors’ report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Tony Nimac
Partner

29 August 2017

# Lead Auditor’s Independent Declaration

for the year ended 30 June 2017

KPMG

## Lead Auditor’s Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Ainsworth Game Technology Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Ainsworth Game Technology Limited for the financial year ended 30 June 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Tony Nimac
Partner

29 August 2017

# Corporate Directory

## CORPORATE DIRECTORY

**Independent Non-Executive Directors**
Mr GJ Campbell - Chairman
Mr MB Yates
Mr CJ Henson
Ms HA Scheibenstock

**Executive Director**
Mr LH Ainsworth

**Non-Executive Director**
Mr HK Neumann

**Chief Executive Officer and Executive Director**
Mr DE Gladstone

**Company Secretary and Chief Financial Officer**
Mr ML Ludski

**Stock Exchange Listing**
The Company is listed on the Australian Stock Exchange.
The Home Exchange is Sydney.
**CODE: AGI**

**Website**
www.agtslots.com.au (Australasia)
www.agtslots.com (The Americas)

**Share Registry**
**Computershare Investor Services Pty Ltd**
Level 4, 60 Carrington Street,
Sydney NSW Australia 2001
Tel: 1300 850 505 (within Aust)
+61 3 9415 4000 (outside Aust)
Fax: +61 3 9473 2500

**Auditor**
**KPMG**
Level 38, Tower Three
International Towers Sydney
300 Barangaroo Avenue
Sydney NSW Australia 2000
Tel: +61 2 9335 7000
Fax: +61 2 9299 7001

**Other Information**
Ainsworth Game Technology Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

## OFFICES

**AUSTRALIA**
**Corporate and Head Office**
10 Holker Street,
Newington NSW Australia 2127
Tel: +61 2 9739 8000
Fax: +61 2 9648 4327
Email: sales@agtslots.com

**Queensland**
Unit 5 / 3990 Pacific Highway
Loganholme QLD Australia 4129
Tel: +61 7 3209 6210
Fax: +61 7 3209 6510
Email: sales@agtslots.com

**Victoria**
Mr Wayne Flood
State Sales Manager
Tel: +61 0419 551 454
Email: wflood@agtslots.com

**South Australia**
Mr Michael Queale
State Sales Manager
Tel: +61 0408 462 321
Email: mqueale@agtslots.com

**THE AMERICAS**
**Nevada**
5800 Rafael Rivera Way,
Las Vegas, NV 89118
Tel: +1 (702) 954-3000
Fax: +1 (954) 317-5555
Email: sales@agtslots.com

**Florida**
1011 SW 30th Avenue,
Deerfield Beach, FL 33442
Tel: +1 (954) 944-3800
Fax: +1 (954) 317-5555
Email: sales@agtslots.com

**EUROPE**
**Astra Games Ltd / Novomatic AG**
Astra House, 1 Kingsway
Bridgend Industrial Estate
Bridgend. CF31 3RY. UK
Tel: +44 (0) 1656 658658
Fax: +44 (0) 1656 672849
Email: sales@astra-games.com

**ASIA**
**Macau**
Mr Jim Tang
Key Account Sales Executive
Tel: +853 6648 5180
Email: jtang@agtslots.com

**Singapore**
Mr Alfred Hwee
Key Account Sales Executive
Tel: +65 9667 1375
Email: ahwee@agtslots.com

# Notes

# Notes

10 Holker Street, Newington
New South Wales, Australia 2127