AINSWORTH GAME TECHNOLOGY
ANNUAL REPORT 2018

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AINSWORTH
EXPERIENCE COUNTS™

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Welcome to our 2018 Annual Report

Within the global gaming industry, Ainsworth Game Technology has continued to strive towards future visions built upon constant game development and product innovation. Our company delivers outstanding products through investing in research and development, mathematical methods and designing aesthetically appealing graphics.

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LICENSED PRODUCT & SOCIAL CASINO APPS



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NEW PRODUCTS 2018



















NOTICE OF ANNUAL GENERAL MEETING

Ainsworth Game Technology Limited
ABN 37 068 516 665

Notice is hereby given that the 2018 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 27 November 2018 at 11:00am



Results Announcement for Six Months Ending 31st December 2018:

Tuesday 26TH Feb 2019

Dates may be subject to change

Results Announcement for Year Ending 30TH June 2019:

Tuesday 27TH Aug 2019

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

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Company Profile

Ainsworth Game Technology ("AGT"), born into the gaming industry in the year 1995 and growing for more than 20 years till this present day. Len Ainsworth founded the company with the dedication to establish a leading manufacturer and supplier of gaming products. AGT adopted a whole integrated operation procedure including design, development, assembly testing, field service and sales. As a company, Ainsworth is driven to continuously succeed in product innovation whether it be cabinet design, standalone progressive games, linked games, online social gaming and real money wager markets to provide consumers with engaging entertainment.

The key objective is to design and implement products that differentiate from others and AGT is proud to provide venues and players with high engineering standard technology, outstanding element graphics and quality customer service.



REVENUE

$265.6 MILLION

LICENSED JURISDICTIONS

266+

EMPLOYEES

597+

AGT'S GLOBAL PRESENCE



Cabinet Innovation



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PERFORMANCE OVERVIEW

Performance Overview

Strategy to expand international footprint and higher quality earnings delivering results. International revenue makes up 76% of total revenue

North America

- North America returning to growth, revenue +4%, profit -9%
- Slight revenue growth driven by strong ASP and increased win per day on route
- Strong win per day driven by PAC-MAN™ placements
- Maintained Gaming Operations install base while increasing win per day
- 900 Historical Horse Racing units delivered to Churchill Downs (CDI)

Latin America

- Latin America revenues similar to pcp with less than 1% increase, profit -19%
- Solid growth in gaming operations installing 1,600 new units. Converted to sale 900 existing units for a net install base increase of 23%
- Increase in the number of used machine sales to meet market demand for lower price point resulted in lower ASP
- Mexico remains an important market with significant market share increases and strong results
- Strong 2H result, 15% growth on 1H with new game titles and broader product offering
- Strong product performance in core Multi Games, Quad Shot™ series, Oriental Fortune™ and PAC-MAN™

Australia

- Successful launch of EVO cabinet and Golden Cash™ game series driving improvement in market share
- NSW share increased to 15% in June, more than twice the average share for the year
- Decrease in revenue of 14% on pcp, due to lower sales made
- Despite challenging period for volume and revenue growth, ASP has increased
- Continuous recovery in market share in FY19 is expected to be driven by the initial positive response of Golden Cash™ game series and further new game portfolio offerings

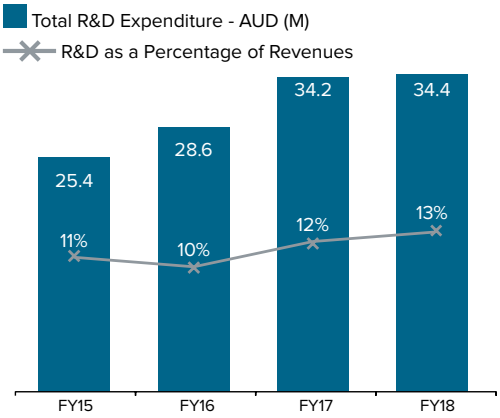
Other Regions

- Revenue drop due to lower Asia, NZ and Europe sales compared to pcp
- Delivered 1,000 units to Novomatic in FY18. Novomatic contributed revenue of $6.8m in FY18 ($11.4m pcp) and profit of $4.4m ($5.5m pcp)
- Online contributed $4.1m in revenue, +15% on pcp

Online

- Real Money Gaming - Announced online agreement with GVC to launch exclusive Ainsworth casino content for the first time in New Jersey at MGM Resorts and Borgata casino and expand Ainsworth online content – including more than 40 new land-based titles – into our existing European partners and operators
- Social Gaming- Completed development of 40 Ainsworth slot titles for Novomatic's social casino platform for North American land-based casinos

R&D EXPENDITURE PERCENTAGE
(Fiscal years ended June 30)



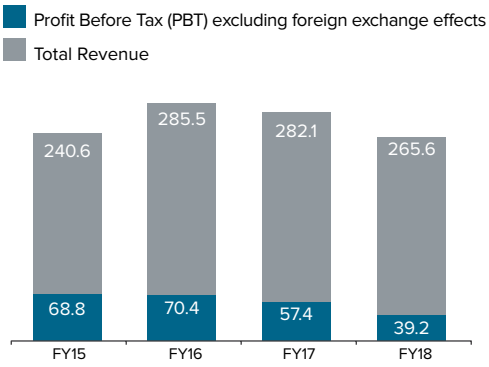
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Financial Highlights

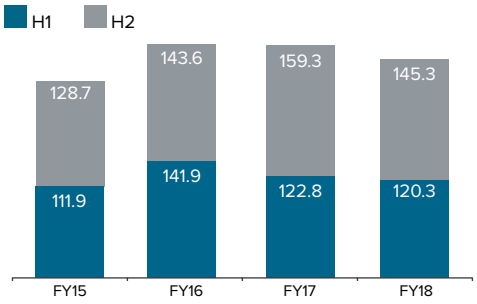
- Reported NPAT of $32 million (2017: $38 million)
- NPAT excluding currency impacts of $29 million, (-38% on pcp)
- EPS of $0.09 per share (2017: $0.12 per share)
- Reported EBITDA $68 million, down 3% on pcp
- R&D as percentage of revenue at 13% (2017: 12%)



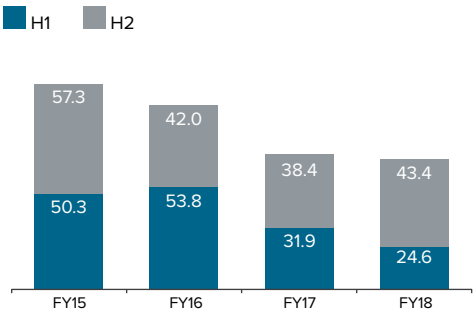
REVENUE/PROFITABILITY - AUD (M)
(Fiscal years ended June 30)



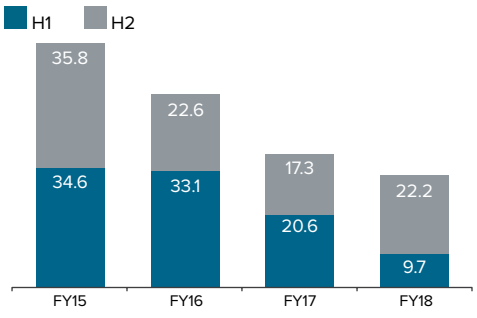
REVENUES - AUD (M)
(Fiscal years ended June 30)



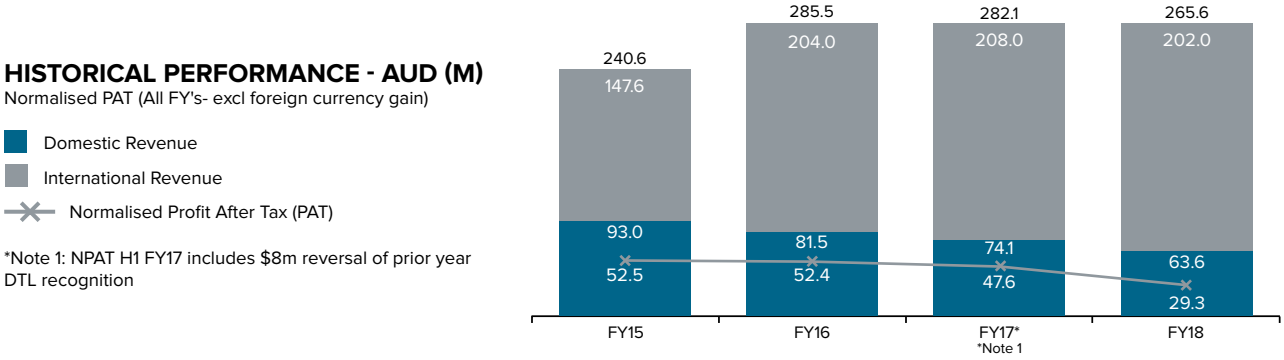
EBITDA - AUD (M)
(Fiscal years ended June 30)



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



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



*Note 1: NPAT H1 FY17 includes $8m reversal of prior year DTL recognition

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We are constantly expanding our product library with new and exciting products to enhance players experience across gaming floors.

Some key highlight products for FY18 included the intriguing Golden Cash™ and Golden Link™ which resulted in over 1000 installations in Australia. Both key products installed on the A600™ and EVO™ cabinets.

Golden Cash™

- 1 level standalone progressive
- 3 levels of bonus prizes
- Multi-Denomination
- Hold and Respin feature can be triggered
- Four game titles

Golden Link™

- 1 level link progressive
- 3 levels of bonus prizes
- Mid-High Denomination
- Hold and Respin feature can be triggered
- Duo game packs

Triple Challenge™

- 1 level standalone progressive
- 3 levels of bonus prizes
- Multi-Denomination
- Change to trigger multiplying dice features



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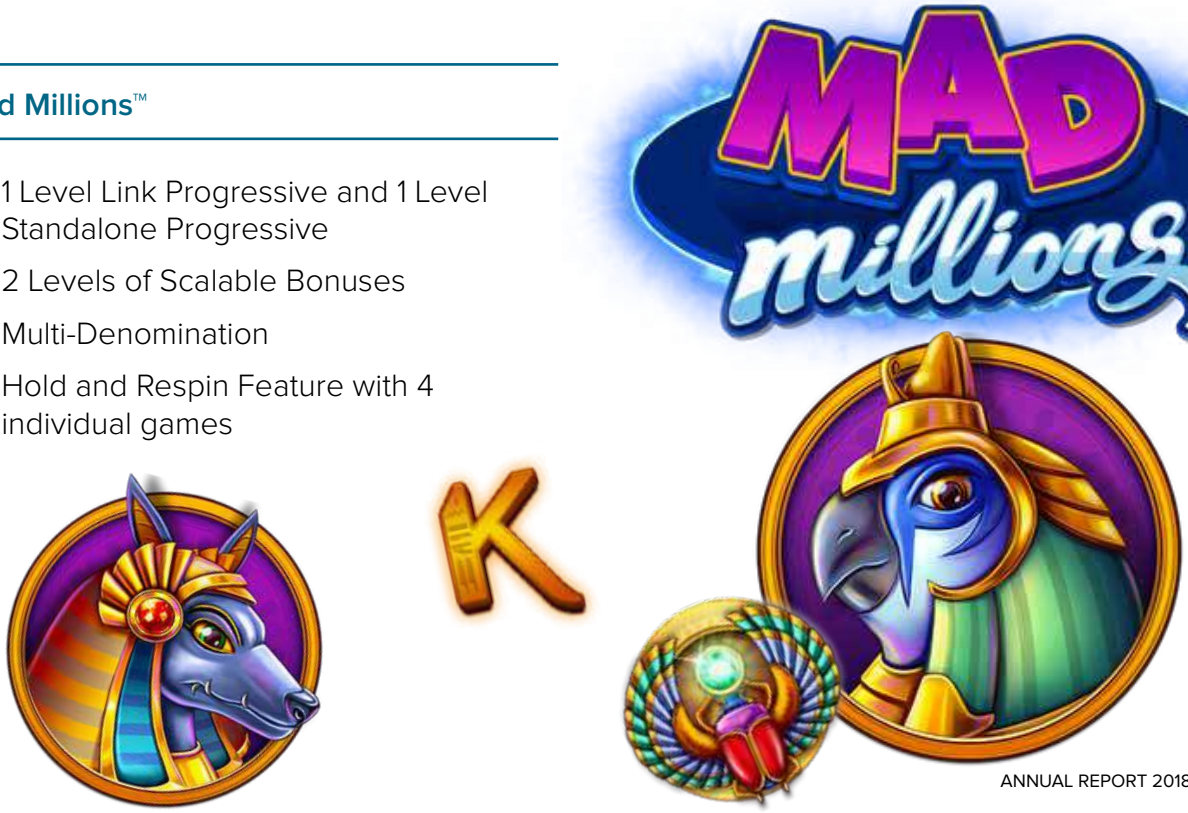
As we enter FY19, some new and exciting games are planned to be released. We thrive to pursue growth opportunities and innovative product ranges that will expand our business and possitive reputation throughout the industry.

Crazy Jackpots™

- 1 level Link Progressive & 1 level Standalone Progressive
- 3 Levels of Bonus Prizes
- Multi-Denomination
- Frequent occurence of 'Crazy Jackpots' feature that can award Bonuses & Jackpots

Mad Millions™

- 1 Level Link Progressive and 1 Level Standalone Progressive
- 2 Levels of Scalable Bonuses
- Multi-Denomination
- Hold and Respin Feature with 4 individual games



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BOARD OF DIRECTORS

"Our performance is a direct result of the strategies we have been implementing to expand our international footprint, invest in technology to enhance the product suite, and build our participation fleet to improve the quality of earnings"

Graeme Campbell
Chairman





Graeme Campbell

Chairman and Independent Non-Executive Director

Member – Audit Committee
Member – Remuneration and Nomination Committee

Appointed 18 September 2007,

Chairman since 2016



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Danny Gladstone
Chief Executive Officer and Executive Director

Member – Regulatory and Compliance Committee

Danny Gladstone was appointed Chief Executive Officer of Ainsworth Gaming Technology Limited on 5 February 2007.

Appointed Executive Director 25 February 2010



Harald Neumann
Non-Executive Director

Currently Chief Executive Officer and Chairman of the Executive Board of Novomatic since October 2014.

Appointed 21 February 2017



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

Chairman – Regulatory and Compliance Committee

Member – Audit Committee

Appointed 15 December 2009



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

Chairperson – Remuneration and Nomination Committee

Chairperson – Audit Committee

Appointed 3 April 2013



Heather Scheibenstock GAICD, AGIA
Independent Non-Executive Director

Member – Remuneration and Nomination Committee

Member – Regulatory and Compliance Committee

Appointed 18 January 2016

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"We will continue to judiciously invest our cash flow in product improvements and innovation, and sales and marketing while retiring debt and rewarding shareholders. In FY19 we expect to release a new suite of products which should assist in translating to improved results."

Graeme Campbell
Chairman

Chairman's Report

Dear Shareholders,

I am pleased to report solid results for FY18. AGT's consistent strategy to expand and diversify its offerings to the global gaming market is delivering results.

For FY18 AGT achieved a Profit after Tax of $31.9 million. On a pre currency basis, Profit before Tax was $39.2 million, slightly ahead of the upgraded guidance we provided. Your company delivered an improved second half performance with $23.0 million PBT, an increase of 68% on the $13.7 million reported in the first half, excluding the $2.5 million profit on the sale of land.

Our performance is a direct result of the strategies we have been implementing to expand our international footprint, invest in technology to enhance the product suite, and build our participation fleet to improve the quality of earnings.

International sales now account for 76% of the group total, climbing to 82% in the second half of the year.

Revenue in the key Americas region grew by 3% for the year. Segment profits for the region were adversely affected by a weaker sales mix as we transitioned older cabinets out of participation into sales.

A significant highlight for North America was the cornerstone order to deliver 900 Historical Horse Racing machines to Churchill Downs Incorporated (CDI) in Kentucky. This sale was a direct result of the investment undertaken over several years leveraging off technology acquired from Nova Technologies. AGT's proprietary Historical Horse Racing system is expected to provide additional opportunities in new markets, as well as scope for further collaboration with CDI.

Underpinning these results is the total number of machines on lease and participation, which grew by 10%. In Latin America, I am pleased to report the fleet increased by 23%. These machines generate daily recurring income, totalling $45.9 million and now account for 17% of group revenue.

AGT's commitment to research and development is the primary driver to compete successfully in our markets and drive growth. Customers are responding well to the array of new games shown at the Australian Gaming Exhibition in August and we will have a further opportunity to demonstrate these products at the Global Gaming Expo (G2E) in Las Vegas in October 2018.

With the current products that we displayed at recent gaming exhibitions and new initiatives that are close to completion, we are confident our share of the domestic market will increase over time. The EVO™ cabinet is gaining market traction and the newly launched game titles continue to outperform house averages.

The Rest of the World segment reflects further synergy benefits from our strategic partnership with Novomatic. AGT will continue to build this core relationship through developing joint product and sales opportunities.

Our strategy in regulated real money gaming markets focuses on expanding content offerings in the



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Americas, especially New Jersey and Mexico, where more than forty new land based titles have recently been launched. Reflecting the increased level of competition from market leaders, however, we have reduced the carrying value of AGT's 40% equity share in 616 Digital by $2.5 million.

Strong cash flow was a pleasing feature of these results. Cash from operating activities increased to $18.4 million, up from $5.2 million in the prior year. This cash flow allows us to fund our technology growth initiatives, retire debt and provide returns to shareholders through dividends.

As a sign of confidence, the Board resolved to reinstate the dividend policy of returning profits to shareholders. The Directors declared a 2.5 cents per share final dividend fully franked with NIL Conduit Foreign Income (CFI). This makes a total dividend of 4 cents per share for the year which represents a payout ratio of 42% of net profit.

AGT enters FY19 confident of further improvements. While we recognise the intense competition we face across our markets, we are certain that AGT can outperform relative to its size. We continue to invest and create new product offerings to reclaim market share in traditional Class II and Class III gaming markets, while pursuing new opportunities including the recently released Historical Horse Racing products.

We will continue to judiciously invest our cash flow in product improvements and innovation, and sales and marketing while retiring debt and rewarding shareholders. In FY19 we expect to release a new suite of products which should assist in translating to improved results.

Acknowledgements

I am pleased to report Ainsworth's achievements for the year and the progress we are making in executing on our strategies to grow our international footprint and improve the quality of our earnings.

I would like to thank Len Ainsworth and my fellow board members for their contributions and support. I would also like to thank our CFO Mr Mark Ludski, the rest of the highly capable executive team, along with our dedicated and loyal employees, my fellow shareholders and valued customers.

Finally, our CEO Mr Danny Gladstone deserves special recognition. As we released to ASX in September, Danny has notified the Company of his intention to step down as CEO following the end of the 2019 financial year. Danny has been an excellent CEO for AGT and we look forward to recognising his contribution more fully in the future. A search process is underway to find a suitable replacement and Danny has kindly agreed to remain in the role to ensure a smooth and orderly transition.



Graeme Campbell
Chairman

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Chief Executive Officer's Report

Dear Shareholders,

We are pleased to deliver FY18 results slightly ahead of our upgraded guidance due to a strong second half performance. These results directly reflect our investment in game technologies, success in building and leveraging key partnerships and AGT's ongoing ability to outperform its size in competitive markets.

As we continue to execute our strategies to grow our international footprint, broaden the product library and drive higher quality recurring earnings, we are well placed to increase our market share, translating to improved financial results and returns for shareholders. We have a positive outlook for FY19.

FY18 Results

On a pre-currency basis, Profit before Tax (PBT) was $39.2 million, exceeding the original $36.0 million guidance and slightly ahead of the updated guidance provided in July 2018. We delivered an improved second half performance, with $23.0 million PBT, an increase of 68% on the $13.7 million reported in the first half, excluding the $2.5 million gain on the sale of land in Nevada. These results include $5.2m of one off costs in the second half.

Sales revenue for FY18 was $265.6 million, a decrease of 5.8% on the prior corresponding period. Sales were higher in the second half of the year at $145.3 million compared to $120.3 million in the first half. Consistent with the Group's strategy to increase sales in key offshore markets, international revenues increased to 76% of the total.

The number of units sold in FY18 was 9,714, a decrease of 9%. North America decreased by 3%, Latin America increased by 4% and Australia declined by 17%.

Units under gaming operations for the period were 5,852, an increase of 10% from the pcp.

Group EBITDA was $68.0 million, 3% lower compared to FY17. The results include the $2.5 million gain on the sale of land in Nevada reported in the first half and $5.2m of one off costs in the second half. These costs include a $2.7 million impairment loss on receivables and a $2.5 million reduction in the carrying value of 616 Digital.

Gross margins at 59.0% were broadly consistent with 60.3% in FY17. EBITDA margins increased to 26% in the year up 70 basis points from FY17, demonstrating our disciplined cost controls.

Operating costs were carefully managed and maintained with research and development expenses at $34.4 million and sales and marketing expenses at $59.6 million, an increase of 14%, mainly in the Americas. Headcount in Australia and the Rest of the World segment fell slightly to 337. Headcount in the Americas increased by 19 employees to 260, reflecting the growth opportunity in this key market.

"We manage our capital as carefully as the rest of the business in order to enhance returns for shareholders. Cash flow from operations increased to $18.4 million ($5.2 million in FY17) and total cash held increased to $35.7 million, a rise of $14.6 million."

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"As we continue to execute our strategies to grow our international footprint, broaden the product library and drive higher quality recurring earnings, we are well placed to increase our market share, translating to improved financial results and returns for shareholders. We have a positive outlook for FY19."

Danny Gladstone
Chief Executive Officer / Executive Director

Receivables totalled $193 million, an increase due to the rise in sales revenue in the fourth quarter. We collected the cash payment for the 900 CDI machines in September 2018, further improving our cash position.

Net debt at the end of the year reduced to $36.2m from $44.6m. We expect this to fall further as more debt is eliminated in FY19. We have a $90m multi option debt facility to fund any non-organic additions, and to provide us with more flexibility for growth. The facility has been extended to September 2021.

The Board continues to maintain a conservative approach to balance sheet leverage with debt to EBITDA at 1.05 times at the end of the year, down from 1.08 times at the end of the first half. Gearing is low at 16%.

Business Review

AGT continues to grow its presence in the key North American market with revenues increasing by 4% to $105.7 million. Profitability was down by 9% to $40.7 million. Unit sales were lower at 3,021 compared to 3,105 last year. The number of machines on participation fell slightly, down 3% to 2,583. These factors impacted the results. However, yield per day increased to $25, from $22 due to the premium earned for our PAC-MAN™ licensed product.

We were pleased to deliver a large order of 900 units with our specifically designed proprietary Historical Horse Racing product to CDI in Kentucky in 2H FY18. This is an important strategic relationship for AGT with scope for further collaboration in the future.

The new EVO™ cabinet is to be launched at G2E with fifteen new game titles. We continue to invest and create new product offerings to reclaim market share in traditional Class III and II gaming markets, whilst pursuing new opportunities including the recently released Historical Horse Racing products.

Joseph Bertolone commenced as President of AGT North America on 1st June 2018, based in Las Vegas. AGT will benefit from his proven leadership and deep industry expertise.

Latin America reported a consistent performance with revenues of $78.7 million, compared to $78.5 million in FY17. Units under gaming operations increased strongly, up 23% to 3,269 and unit sales increased by 4% to 3,322. Profitability however, declined by 19% to $30.6 million.

Given challenging economic conditions in the region, AGT satisfied market demand for cheaper priced products by selling a higher mix of second hand machines and machines previously on participation in the period. These second hand machines have a lower average selling price and margin. These sales reduced inventory and are expected to create replacement demand for new higher priced product elsewhere.

Domestic revenue was $63.6 million, a decrease of 14% on the pcp. Sales to corporates and casinos were well below the levels of previous years. Profit was $19.4 million. Encouragingly, our market share in New South Wales increased to 15% in June 2018, more than twice the average for the year as the new EVO™ cabinet and Golden Cash™ / Link game which was launched in May, gained market traction. Further market share gains are expected.

Rest of the World segment revenues were down by 37% to $17.6 million with lower results in Asia, Europe and New Zealand. Profit was down by 31% to $10.4 million. Unit volumes fell to 1,215 compared to 1,807 last year.

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"By growing international sales, investing in game technologies, increasing recurring revenues from participation and leveraging our partnerships, we are strengthening AGT and driving profitable growth."

Danny Gladstone
Chief Executive Officer / Executive Director

Chief Executive Officer's Report (continued)

Novomatic contributed revenue of $6.8 million and profit of $4.4 million. 1,000 kits were delivered in the year. We will continue to deliver returns for all shareholders from this strategic partnership.

The digital and on line markets have long term appeal. We can leverage our game library and product development plans. However, these markets are competitive and accordingly, we have reduced the carrying value of our equity investment in 616 Digital to a more prudent level.



Outlook

AGT has a positive outlook for FY19. Put simply, we have a clear strategic plan and we are executing that plan well.

By growing international sales, investing in game technologies, increasing recurring revenues from participation and leveraging our partnerships, we are strengthening AGT and driving profitable growth. It is the execution of these strategies that will deliver results.

We will leverage off Nova Technologies' system and game design expertise to further release Historical Horse Racing products and our partnership with CDI has scope for further growth.

The opportunities with Novomatic will continue to be reviewed. We have completed the development and integration of twenty AGT slot titles for their Greentube Pro social casino platform, which will be used in North American land based casinos. We are investigating other licensing opportunities with land based casino machine sales, taking a bundled approach.

Although we face intense competition, AGT will invest in new product offerings designed to reclaim market share in Class III and Class II markets, while also pursuing new markets.

This broader product range and extended Class II game titles underpins our growth plans. We have new leadership in America, and we have the hardware, the sales network, the brand and the game titles to succeed. We outperform our size, and should continue to do so.



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With the launch of new EVO™ cabinet and Golden Cash™ / Link game in the domestic market, we are gaining market traction. The key to our future is game performance. We expect to recover more market share this year.

I wish to express my appreciation to Mr Graeme Campbell as the Chairman, for his commitment to the Company. I would also like to thank the Board of Directors, Mark Ludski for his much-valued contribution, the executive teams from North America, Latin America and Australia for their impressive work through the year, our talented employees, our supportive shareholders and importantly our customers for whom we strive to deliver the best in gaming experiences.

Also in closing, I would like to acknowledge our past Chair and Company founder Mr Len Ainsworth for his valued contributions and continuing guidance.

D. Gladstone

Danny Gladstone
Chief Executive Officer / Executive Director



Shareholder Information

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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 2018)

Number of shareholders and shares on issue

The issued shares in the Company were 332,512,925 ordinary shares held by 5,078 shareholders.

Substantial shareholders

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

Shareholder	Number of Ordinary Shares
Novomatic AG	174,165,696
Votraint No. 1019 Pty Ltd (MCA Private Investment A/C)	30,133,804
Allan Gray Investment Management	26,949,497

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

Category	NUMBER OF EQUITY SHAREHOLDERS: Ordinary Shares	Performance Rights
1 – 1,000	1,203	8
1,001 – 5,000	2,211	147
5,001 – 10,000	768	165
10,001 – 100,000	833	97
100,001 and over	63	3
Total	**5,078**	**420**

The number of shareholders holding less than a marketable parcel of ordinary shares is 585 (101,685 ordinary shares).

On market buy-back

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

Unquoted equity securities

At 18 September 2018, 4,741,197 performance rights have been issued to 420 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)

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Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of total
NOVOMATIC AG	174,165,696	52.38
VOTRAINT NO 1019 PTY LIMITED <MCA PRIVATE INVESTMENT A/C>	30,133,804	9.06
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	25,193,142	7.58
CITICORP NOMINEES PTY LIMITED	19,312,541	5.81
J P MORGAN NOMINEES AUSTRALIA LIMITED	15,181,965	4.57
NATIONAL NOMINEES LIMITED	6,408,767	1.93
ASSOCIATED WORLD INVESTMENTS PTY LTD	6,190,994	1.86
WRITEMAN PTY LIMITED <P L H A INVESTMENT A/C>	2,911,622	0.88
THE PAVILION MOTOR INN OF WAGGA WAGGA PTY LTD	1,500,000	0.45
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,460,694	0.44
CASOLA HOLDINGS PTY LTD <NORDIV HOLDINGS S/FUND A/C>	1,070,000	0.32
MR CHRISTIAN JOHN HASTINGS AINSWORTH	770,650	0.23
MR SASHA ALEXANDER CAJKOVAC	690,000	0.21
MISS PATTARAWADEE SMARNKEO	684,999	0.21
BNP PARIBAS NOMS PTY LTD <DRP>	681,500	0.20
MRS CHRISTINE EMILY COGHLAN	600,000	0.18
MR DAVID WARREN LARMENT + MRS CHIZURU LARMENT <D&C LARMENT SUPER FUND A/C>	600,000	0.18
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	560,014	0.17
MS AMY WAI-CHUN CHAN	530,000	0.16
BOND STREET CUSTODIANS LIMITED <SHBC1 - V11198 A/C>	500,000	0.15
Total	**289,146,388**	**86.96**

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Directors' Report

for the year ended 30 June 2018

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 2018 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 Graeme John Campbell OAM Chairman and Independent Non-Executive Director	61 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 – 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 – Former Director of Central Coast Stadium and Blue Pyrenees Wines – Director of Liquor Marketing Group Limited (Bottle Mart) since 2013 – Director of Lantern Hotels Group and Chairman since July 2016 – Director of NSW Harness Racing Club since October 2016 – Chairman of Audit Committee of Illawarra Catholic Club Group – 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 – Lead Independent Non-Executive Director since 2013, Chairman since 2016
Mr Michael Bruce Yates B.Com (with merit), LLB Independent Non-Executive Director	64 yrs	– Michael has extensive commercial and corporate law experience in a career spanning over 35 years – 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 – Director since 2009 – Chairman of Regulatory and Compliance Committee since 2013 and member of Audit Committee since 2015
Mr Colin John Henson, Dip Law- BAB, FCPA, FGIA, FAICD Independent Non-Executive Director	70 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 – Lead associate with Madison Cross Corporate Advisory Pty Ltd since 2014 – Former directorships include; Executive Chairman of Redcape Property Fund Limited, an ASX Listed Property Trust; Chairman and non-executive director of Videlli Limited. – 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 – Director since 2013 – Member of Audit Committee until 1 April 2017 and Chairman since 1 April 2017 – Chairman of Remuneration and Nomination Committee since 2015

Directors' Report (continued)

for the year ended 30 June 2018

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Name, qualifications and independence status	Age	Experience, special responsibilities and other directorships
CURRENT		
Ms Heather Alice Scheibenstock GAICD Independent Non-Executive Director	50 yrs	– Heather has extensive leadership experience within the gaming and hospitality industries specialising in strategic planning and offshore growth spanning over 30 years – She has previously held senior executive roles at Echo Entertainment and Solaire Group – Former director of Southern Metropolitan Cemeteries Trust – Director of Ability Options since 2017 – Member of Australian Institute of Company Directors and Women on Boards – Director since 2016 – Member of Remuneration and Nomination Committee since 2016 – Member of Regulatory and Compliance Committee since 1 July 2017
Mr Daniel Eric Gladstone Executive Director and Chief Executive Officer	63 yrs	– Danny has held senior positions within the gaming industry over a successful career spanning 40 years – Former Chairman of Gaming Technologies Association – Inducted into the Club Managers Association Australia Hall of Fame in 2000 – Chief Executive Officer since 2007, Executive Director since 2010 – Member of Regulatory and Compliance Committee since 2010
Mr Harald Michael Karl Neumann Non-Executive Director	56 yrs	– Harald has extensive leadership experience in senior executive positions in a career spanning over 20 years mainly within technology companies – Former Regional Chief Executive Officer at Alcatel AG (now Alcatel–Lucent) a global tele-communications equipment Company – Former Managing Director at Bundesrechenzentrum GmbH, the Austrian government's information technology service provider, until 2006 – 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 – Currently Chief Executive Officer and Chairman of the Executive Board of Novomatic since 2014 – 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 – Non-Executive Director of Ainsworth Game Technology since 2017

Directors' Report (continued)

for the year ended 30 June 2018

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1. DIRECTORS (continued)

Name, qualifications and independence status	Age	Experience, special responsibilities and other directorships
FORMER		
Mr Leonard Hastings Ainsworth AM, DUniv, FAICD, FAIM Executive Director	95 yrs	– Sixty five years gaming industry experience – Founder and former Managing Director of Aristocrat – Fellow of the Institute of Company Directors in Australia and the Australian Institute of Management – Life member – Clubs NSW – Founder of Australian Gaming Machines Manufacturers Association – now Gaming Technology Association – Founder of Australasian Gaming Exhibition – Inducted into the Australian Gaming Hall of Fame and U.S Gaming Hall of Fame in 1994 and 1995, respectively – Recognition as export hero in 2002 by Australian Institute of Export – G2E Asia Gaming Visionary Award Recipient in 2010 – Recipient of Clubs NSW award for outstanding contribution to the club industry in 2011 – Recipient of Keno and Club Queensland Award for excellence in March 2014 for services to industry – Awarded Higher Doctorate degree by the University of New South Wales – Recipient of Jens Halle Memorial Award honouring excellence in commercial gaming professionalism in 2016 – Chairman since 1995 (Executive Chairman since 2003) until 2016 – Director since 1995 (Executive Director since 2003), resigned on 5 January 2018

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.

Directors' Report (continued)

for the year ended 30 June 2018

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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	5	5	–	–	–	–	–	–
GJ Campbell	10	10	2	2	3	3	–	–
MB Yates	9	10	2	2	–	–	4	4
DE Gladstone	10	10	–	–	–	–	4	4
CJ Henson	10	10	2	2	3	3	–	–
HA Scheibenstock	10	10	–	–	3	3	4	4
HK Neumann[1]	8	8	–	–	–	–	–	–

A Number of meetings attended

B Number of meetings held during the time the director held office during the year (excluding approved leave of absence)

[1] Mr HK Neumann had leave of absence approved for two Board meetings during the financial year due to the time difference difficulties and his international country of residence. All associated Board documentation and discussions held during these two meetings were provided to him ensuring his knowledge of any Company business was appropriately made available.

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 online 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;
- diversify and expand on 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 online 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.

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5. OPERATING AND FINANCIAL REVIEW

Overview of the Group

The Group's profit for the year ended 30 June 2018 was a profit after tax of $31,936 thousand, a decrease of 16% on the $37,930 thousand in 2017. The profit after tax excluding the effect of net foreign currency gains was $29,299 thousand which is a decrease of 38% compared to $47,569 thousand net of foreign currency losses in 2017.

The current year profit before tax result, excluding the effect of net foreign currency gains was $39,194 thousand. This result was achieved on revenue of $265,584 thousand, a decrease of 6% compared to the previous corresponding period in 2017. The second half of the current period represented revenue of $145,269 thousand, an increase of 21% compared to the first half of FY18. This increase was largely achieved in the North American region through $20,958 thousand of revenue generated from the sale of 900 Historical Horse Racing machines to Churchill Downs Inc. (CDI) for their planned opening of the Derby City Gaming facility.

The following table summarises the results for the year:

In thousands of AUD	12 months to 30 June 2018	12 months to 30 June 2017	Variance %
Total revenue	**265,584**	**282,080**	**(6%)**
Underlying EBITDA	67,548	84,212	(20%)
Reported EBITDA	68,014	70,334	(3%)
EBIT	**39,987**	**44,503**	**(10%)**
Profit before tax	42,307	46,953	(10%)
Profit after tax	**31,936**	**37,930**	**(16%)**
Total assets	**506,348**	**464,749**	**9%**
Net assets	**378,799**	**344,636**	**10%**
Earnings per share (fully diluted)	9.0 cents	12.0 cents	(25%)
Total dividends per share	4.0 cents	–	100%

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

In thousands of AUD	12 months to 30 June 2018	12 months to 30 June 2017	Variance %
Reconciliation:			
Profit before tax	**42,307**	**46,953**	**(10%)**
Net interest	(2,320)	(2,450)	(5%)
Depreciation and amortisation	28,027	25,831	9%
Reported EBITDA	**68,014**	**70,334**	**(3%)**
Foreign currency (gains)/losses	(3,113)	10,531	(130%)
Impairment losses (Receivables)	2,714	3,347	(19%)
Impairment losses (616 Digital LLC)	2,451	–	100%
Gain on sale of land	(2,518)	–	(100%)
Underlying EBITDA	**67,548**	**84,212**	**(20%)**

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

Directors' Report (continued)

for the year ended 30 June 2018

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Shareholder returns

$'000	2018	2017	2016	2015	2014
Profit attributed to owners of the company	$31,936	$37,930	$55,703	$70,353	$61,570
Basic EPS ($A)	$0.10	$0.12	$0.17	$0.22	$0.19
Dividends paid	$4,966	$16,386	$32,245	$32,227	$32,211
Change in share price ($A)	($1.12)	No Change	($0.41)	($1.17)	($0.29)

Net profit amounts for 2014 to 2018 have been calculated in accordance with Australian Accounting Standards (AASBs).

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.

During the period the Group identified and implemented improvements in the technology that underpins its game development environment. This initially presented challenges to the Group's ability to efficiently expand and create a more competitive and diverse range of global products that aligned with the current high expectations of customers and players. These initiatives and investment have been undertaken in the current period and is now complete. These allow the Group to fully benefit from the breadth and depth of its creative talent through use and access to a more open, flexible and rapid development environment which can be utilised by both internal and external development teams. Most importantly we are now able to more efficiently produce a wider range of innovative game styles should resonate with customers and players alike. The initial release of products incorporating this new operating technology was displayed at the Australasian Gaming Exhibition earlier this month with the expected release of further internally and externally developed product in FY19. It is expected these improvements in the gaming technology utilised will translate to revenue growth through the recoupment of market share.

Ainsworth's online strategy in regulated real money gaming markets focuses on expanding its content offerings into the North and Latin American markets with a primary focus on New Jersey and Mexico. In the social gaming space, the Group aims to further extend its content distribution with Novomatic's social casino platform and US land-based casino operators. Ainsworth now have the ability to utilise its complete land-based game library and innovative remote gaming server (RGS) technology to offer a complete online solution to partners in both Real Money Gaming and Social Casinos.

The Group's social casino strategy continues with delivery of 40 new slot titles to Novomatic's social casino platform, Greentube Pro, for North American land-based casinos including Foxwoods, Treasure Island, Mount Airy and Hard Rock. Ainsworth's own Players Paradise Slots App is being further boosted to include its newest land-based game titles recently displayed at the Australasian Gaming Expo.

In June, Ainsworth announced a landmark deal with the GVC Group to launch exclusive Ainsworth content for the first time in the New Jersey online casino market with MGM Resorts and Borgata Casino. The Group continues to implement an aggressive strategy of expanding online content to other land-based partners within New Jersey. Ainsworth also reached a content distribution agreement with The Logrand Group to introduce Ainsworth games for the first time into Mexico in their online casino Strendus.com.mx launching in September 2018. The Group also aims to grow its online content, including launching more than 40 new land-based titles with its existing European platforms and partner casinos.

Significant changes in the state of affairs

The sale of 172.1 million ordinary shares held by Mr LH Ainsworth and entities controlled by him to Novomatic AG was completed on 5 January 2018 and as a result, Novomatic AG became the majority shareholder of the Company.

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

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5. OPERATING AND FINANCIAL REVIEW (continued)

Review of principal businesses

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

In thousands of AUD	12 months to 30 June 2018	12 months to 30 June 2017	Variance	Variance %
Segment revenue				
Australia	63,625	74,141	(10,516)	(14%)
Americas	184,430	179,913	4,517	3%
Rest of World	17,529	28,026	(10,497)	(37%)
Total segment revenue	**265,584**	**282,080**	**(16,496)**	**(6%)**
Segment result				
Australia	19,404	24,006	(4,602)	(19%)
Americas	71,330	82,265	(10,935)	(13%)
Rest of World	10,377	15,009	(4,632)	(31%)
Total segment result	**101,111**	**121,280**	**(20,169)**	**(17%)**
Unallocated expenses				
Net foreign currency gains/(losses)	3,113	(10,531)	13,644	130%
R&D expenses	(34,407)	(34,161)	(246)	(1%)
Corporate expenses	(23,274)	(26,187)	2,913	11%
Other expenses	(2,451)	(2,473)	22	1%
Share of (loss)/profit of equity-accounted investee	(224)	153	(377)	(246%)
Total unallocated expenses	**(57,243)**	**(73,199)**	**15,956**	**22%**
Less : interest included in segment result	(3,881)	(3,578)	(303)	(8%)
EBIT	**39,987**	**44,503**	**(4,516)**	**(10%)**
Net interest	2,320	2,450	(130)	(5%)
Profit before income tax	**42,307**	**46,953**	**(4,646)**	**(10%)**
Income tax	(10,371)	(9,023)	(1,348)	(15%)
Profit after income tax	**31,936**	**37,930**	**(5,994)**	**(16%)**

Directors' Report (continued)

for the year ended 30 June 2018

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Key performance metrics	% of revenue 12 months to 30 June 2018	% of revenue 12 months to 30 June 2017	Variance Points
Segment result margin			
Australia	30	32	(2)
Americas	39	46	(7)
Rest of World	59	53	6
Segment result margin	**38**	**43**	**(5)**
R&D expense	13	12	1
Adjusted EBIT[1]	14	19	(5)
Adjusted profit before income tax[1]	15	20	(5)
Adjusted profit after income tax[1]	11	17	(6)
	%		Variance
Effective tax rate	25	19	6

[1] Excludes net foreign currency gain of $3,113 thousand (2017: Net foreign currency loss of $10,531 thousand)

Revenue

Strong revenue of $145,269 thousand was achieved in the six months ending 30 June 2018 compared to the $120,315 thousand in the six months ending 31 December 2017. The major contributors to the improved revenue in the six months ending 30 June 2018 resulted from revenue gains within the Americas and European regions with 52% improvement in the six month period. The increase was assisted by the delivery of 900 Historical Horse Racing proprietary products in North America and 800 kits to Europe in the second half of FY18.

Australian revenue declined to $63,625 thousand in 2018, a decrease of 14% compared to prior corresponding period. The decline is mainly driven by lower sales as a result of minimal business activity with large corporate customers, continuing pressure from competitors, regulatory approval delays in product submissions and further product development changes which have deferred the approval and release of previously scheduled key game titles until the first half of FY19. Notwithstanding these factors, the launch of the Golden Cash product in the last quarter in FY18 which has been well received by the market and further improvement in AGT's library of titles in the well-established EVO™ and A640™ cabinets are expected to provide market share recovery within Australia.

International revenue was $201,959 thousand compared to $207,939 thousand in 2017, a slight decrease of 3%, mainly driven by the decrease in sales in Asia and New Zealand. The Americas contributed 91% of total international revenue, with North America and Latin America representing 52% and 39% respectively.

The Americas now constitutes 69% ($184,430 thousand) of total revenues, an increase of 5% on prior corresponding period. The Group expects further revenue growth for the Americas by continuing to build its participation fleet to improve the quality of earnings and capitalising on opportunities resulting from the Historical Horse Racing and Washington State Electronic Scratch Ticket System development undertaken in FY18.

North America contributed $105,718 thousand in total revenue, an increase of 4% compared to prior corresponding period. The increase in the period is driven by improved average selling price for outright sales and increased average fee per day due to Pac-man™ placements.

In conjunction with the revenue achieved from outright sales, the Group maintained a base of 2,583 gaming units under participation arrangements as at the reporting date in North America. Participation revenue contributed revenue of $29,790 thousand (28%) in the current period compared to $25,985 thousand (26%) in the previous period. Further game content offerings in both Class II and Class III markets is expected to further increase the installed base of products under participation in this market.

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5. OPERATING AND FINANCIAL REVIEW (continued)

Revenue from Latin America was $78,712 thousand, similar to the corresponding period in 2017. The Group has increased its footprint within this region and has 3,269 units under gaming operations in this market at reporting date. This represents an increase of 23% compared to the 2,648 units under gaming operations as at 30 June 2017. The solid growth in units under gaming operations for this region is a result of 1,600 new installations with 900 units converted to sales during the period. Continued high performance of products such as the Multi Win™ multi game range, Quad Shots™ series, Oriental Fortune™ and PacMan™ has assisted this region in maintaining its revenue. Mexico remains an important market with significant market share increases. During this period, the Group has presented its biggest wide area progressive jackpot ever in Mexico to the Logrand Entertainment Group and this is another step in the right direction for Ainsworth to continue leading the market in Mexico.

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 online contributed $17,529 thousand representing a decrease of 37% compared to the prior corresponding period in 2017 as a result of decrease in unit sales in all the regions within this segment except for online. Although it has been a challenging year with the Group's joint venture arrangement with 616 Digital LLC, successful negotiations with major social platform providers to provide Ainsworth premium slot game content has provided the Group with $4,092 thousand online gaming revenue compared to $3,545 thousand in 2017.

During this period, the Group has established business opportunities with major casinos such as GVC group for New Jersey and the Logrand Entertainment Group in Mexico to offer Ainsworth's land-based content in 'Real Money' gaming market. 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 59% was achieved for the full year FY18, which was broadly consistent with prior corresponding period of 60%. The slight reduction in the margin is a result of product sales mix change resulting from transition to the A600 product range in the Americas, which has higher componentry cost, and second hand units making up a larger share of Latin America sales mix. Progressive cost reductions on the A600 product range along with further recoveries through increased volumes and participation and lease revenue in the Americas are expected to occur in coming periods.

Operating costs, excluding cost of sales, other expenses and financing costs were $117,268 thousand, an increase of 4% over 2017. This increase was primarily due to selling and marketing costs in the Americas; increased expenditure on new product initiatives, increased direct selling costs in Latin America and increased depreciation for additional gaming machines placed under the participation fleet compared to 2017. 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 $34,407 thousand, an increase of $246 thousand over 2017, which represented 13% of revenue (2017: 12%). Whilst the cost has remained consistent compared to the prior corresponding period, the Group has increased its investment in creating a more diverse range of product offerings which has been offset by cost savings through the refinement of global product approval process. The Group expects to continue to invest more in R&D in an efficient manner to provide revenue opportunities in global markets the Group operates in.

Administration costs were $23,274 thousand, a decrease of $2,913 thousand compared to 2017. The reduction in administrative expenses include the reversal of previously recognised 2015 Performance Rights share based payment amortisation of $2,474 thousand. The Group will continue to prudently manage its administration costs while meeting the Company's objectives.

Financing income and costs

Net financing income was $5,433 thousand in the current period, compared to a net financing loss of $8,081 thousand in 2017. This positive movement of $13,514 thousand was a result of foreign exchange gain of $3,113 thousand in the current period compared to a foreign currency loss of $10,531 thousand in 2017, a favourable change of $13,644 thousand.

Review of financial condition

Capital structure and treasury policy

The Company currently has on issue 332,512,925 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 cash flows from operating activities. Net cash inflows from operations for the year ended 30 June 2018 was $18,366 thousand, an increase from $5,238 thousand to the corresponding period in 2017.

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This increase in operating cash flows is primarily due to the decrease in cash paid to suppliers and employees of $23,427 thousand offsetting the reduction in cash receipts from customers of $15,123 thousand compared to prior corresponding period. Efficient inventory purchase management undertaken during the period has assisted with the improvement in net operating cash flows.

Liquidity and funding

In addition to cash and cash equivalents held of $35,667 thousand (2017: $21,094 thousand), the Group has extended its existing A$90 million facility to 30 September 2021 with a leading Australian bank with similar financial covenants. This facility will continue to 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 net debt ((debt less cash)/EBITDA) at the reporting date was 0.53 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 recurring revenue in the Americas under participation arrangements. The Group also expects to commence debt repayments when cash flow allows.

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.

Market Capitalisation

An analysis based upon the share price at 30 June 2018 ($1.04) implies a market capitalisation of $345,813 thousand, which indicates a deficit of $32,986 thousand to the net assets value of $378,799 thousand as at 30 June 2018. However, as the share price does not include a premium for control, the inclusion of a control premium results in an implied market capitalisation which exceeds the net assets at 30 June 2018. In addition, the directors note that the share price has increased subsequent to year end. As such, it is our opinion that the market capitalisation of the business supports the overall net asset position. This is also supported by the value in use calculations undertaken to assess the recoverability of the carrying value of cash generating units as at 30 June 2018 (refer to Note 13 to the financial statements).

6. DIVIDENDS

The following dividends were declared by the Company for year ended 30 June 2018:

	Cents per share	Total amount $'000	Date of payment
Declared and paid during the year 2018			
Interim 2018 ordinary (franked)	1.5	4,966	8 May 2018
Total amount		4,966	

Declared after end of year

After the balance sheet date the following dividend was declared by the directors.

	Cents per share	Total amount $'000	Date of payment
Final 2018 ordinary (franked)	2.5	8,313	7 November 2018
Total amount		8,313	

The financial effect of this dividend has not been brought to account in the consolidated financial statements for the year ended 30 June 2018 and will be recognised in subsequent financial reports, and there are no income tax consequences.

Dividends have been dealt with in the financial report as:

	Note	$'000
Dividends		4,966
Noted as a subsequent event	*19(c)*	8,313

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7. EVENTS SUBSEQUENT TO REPORTING DATE

After the reporting date, the Company declared a franked dividend of 2.5 cents per ordinary share amounting to $8,313 thousand with an expected payment date of 7 November 2018. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2018 and will be recognised in subsequent financial reports.

Other than the matter discussed above, 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 online gaming company is expected to provide complementary revenue gains within online 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.

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 GJ Campbell	360,533	–
Mr MB Yates	30,600	–
Mr CJ Henson	132,164	–
Ms HA Scheibenstock	–	–
Mr DE Gladstone	52,868	462,771
Mr HK Neumann	–	–

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
17 March 2020	Rights	$Nil	942,040
01 March 2022	Rights	$Nil	3,878,972
			4,821,012

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 final 50% of performance rights granted in FY15, which have a vesting date of 17 March 2019, 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 in FY17 (i.e. 1 March 2017 performance rights) 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.

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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:

	2018 $
Services other than audit and review of financial statements:	
Other regulatory audit services	
Controlled entity audit	22,500
Other services	
Transaction support services	20,000
	42,500
Audit and review of financial statements	282,000
Total paid/payable to KPMG	**324,500**

13. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 97 and forms part of the directors' report for the financial year ended 30 June 2018.

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.

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15. REMUNERATION REPORT

Message from the Chairman of the Remuneration and Nomination Committee

On behalf of the Remuneration and Nomination Committee (RNC) and with the authority of the Board of Directors I provide the FY18 Remuneration Report. At the 2017 Annual General Meeting (AGM), 29.67% of shareholders voted against our Remuneration Report resulting in a 'first strike'. During the lead-up and subsequent to the AGM, the Company and Chairman of the RNC conducted discussions with major shareholders to better understand their concerns. Our engagement process is ongoing.

The Company contracted independent remuneration consultants (Remuneration Strategies Pty Ltd (RS)) to review current remuneration practices and proxy service reports to recommend remuneration structures to address any shareholder concerns.

The objective of the engagement involved assisting the RNC in not only reviewing the Remuneration Report, but more importantly developing remuneration structures, including Fixed Remuneration (FR), Short Term Incentives (STI) and Long Term Incentives (LTI) that achieve the shareholders financial objectives.

The Committee's approach to remuneration structures includes the following objectives:

- To align executive remuneration with the Group's business strategy and the interests of shareholders; and
- To support our people strategy by providing competitive rewards to attract, motivate and retain our most important asset – our people.

The remuneration of key executives are fully aligned to our key business objectives listed in section 15.2 which underpin future remuneration structures, including STI and LTI compensation programs.

It should be noted that the 1st March 2017 Performance Rights Plan remains in place, based on 15% compound increases in the Volume Weighted Average Price (VWAP) – refer to section 15.1.5.

FY18 remuneration outcomes

The key remuneration outcomes for FY18 include:

- No fixed annual remuneration increases for key management personnel for FY18 and FY19;
- Short Term Incentive (STI) for FY18 was not awarded given primary Board financial targets were not achieved. It was determined that no discretionary non-financial awards would be awarded given the non-achievement of these financial targets;
- A review of Short Term Incentive (STI) and Long Term Incentive (LTI) structures and plans is underway by RS and no grants under related STI and LTI plans have been made until this review is completed;
- Previous LTI grants under Rights Share Trust (RST) remain unchanged:
  - Grant of 22 July 2013 Performance Rights remaining 50% lapsed on 1 September 2017;
  - Grant of 17 March 2015 Performance Rights first 50% lapsed on 17 March 2018; and
  - Grant of 1 March 2017 Performance Rights, Tranche 1 performance conditions were not met at 1 March 2018 vesting date and will be re-tested at the next applicable performance period, subject to the higher performance conditions for the next tranche.

We value feedback as our business and remuneration strategies continue to evolve over the coming years.

Yours sincerely,



CJ Henson
Chairman, Remuneration and Nomination Committee

Directors' Report (continued)

for the year ended 30 June 2018

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15. REMUNERATION REPORT (continued)

15.1 Remuneration Framework – 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.

15.1.1 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 under the overall financial performance of the Group. This review determined that no increases were awarded from the previous year to any key management personnel.

The RNC undertook a review of fixed compensation levels in 2018 to assist with determining an appropriate mix between fixed and performance linked compensation for senior executives of the Group during the year. Given the overall financial performance in the current period no increases in base compensation were recommended for the ensuring year until the broader objective of financial performance was achieved.

15.1.2 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.

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15.1.3 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 FY18 comprise 50% for Group 'profit before tax' excluding foreign currency gains / (losses) and 30% for 'minimum international revenue' with the remaining 20% being non-financial. These financial performance targets were assessed by the RNC for all key management personnel (excluding non-executive directors) and it was determined that the Group did not achieve either the 'profit before tax' minimum target or the minimum international revenue and no STI was payable in the current year relating to these criteria.

15.1.4 Non-Financial KPI's

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 by the RNC and it was determined that given non-achievement of the financial performance objectives no STI under these criteria would be awarded in the current period.

Currently, the performance linked component of compensation comprises approximately 5% (2017: 11%) of total payments to key management personnel.

15.1.5 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.

During the year, the final 50% of the rights granted on 22 July 2013 lapsed on 1 September 2017 due to performance conditions not being met.

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

17 March 2015 Granted Plan

Of each tranche that vests, 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.

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15. REMUNERATION REPORT (continued)

15.1 Remuneration Framework – 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.

During the year 50% of these rights with vesting date of 17 March 2018 lapsed as financial performance hurdles were not met.

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 (VWAP) for 90 days ending 28/02/2017. The hurdles set for this plan were 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

This plan currently remains in place.

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.

During the year, Tranche 1 of these rights did not vest at the first vesting date of 1 March 2018 due to performance conditions not being met. The grant of this Tranche under the RST will be re-tested at the end of the next applicable performance vesting date of 1 March 2019, subject to the higher performance conditions. If the performance conditions at the end of the next applicable performance period are satisfied then the performance rights for the current performance period and any non-vested performance rights from prior performance periods will vest.

15.1.6 Short-term and long-term incentive structure

Given the highly competitive nature of the gaming industry and to ensure retention of key employees, the RNC has and continues to consider performance linked remuneration is appropriate.

The current review of both short-term and long-term incentive plans is ongoing to ensure these are aligned to Board and shareholder interests.

15.1.7 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.

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15.2 Linking the Remuneration Framework to business outcomes – audited

In the Chairman's introduction to the Remuneration Report, we indicated that the key business objectives will underpin future remuneration structures. The objectives are:

- Invest in product development to create a diverse and creative product offering to increase market share in global markets;
- Improve the Group performance through revenue and earnings growth in domestic and international markets;
- Improve cash flows through reduction in working capital investment and maintain a strong balance sheet to support growth and deliver value; and
- Maintain a strong focus on best practice compliance throughout the Group in adherence to gaming laws and regulations.

The following remuneration structures are being considered by the Remuneration Consultant to achieve these business objectives:

- Short-Term Incentives that measure and reward increased market share in selected global markets, adherent to the Good Governance and Compliance with Gaming Laws and Regulations;
- Long-Term Incentives that measure and reward revenue and earnings growth in domestic and international markets, as well as the achievement of the Balance Sheet and using Capital Investment Targets; and
- The objective of these incentive programs is to increase shareholder value for investors and key management stakeholders.

15.2.1 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. Profit is considered as one of the financial performance targets in setting the short-term incentive bonus. Profit amounts for 2014 to 2018 have been calculated in accordance with Australian Accounting Standards (AASBs).

$'000	2018	2017	2016	2015	2014
Profit attributable to owners of the company	$31,936	$37,930	$55,703	$70,353	$61,570
Dividends paid	$4,966	$16,386	$32,245	$32,227	$32,211
Change in share price ($A)	**($1.12)**	**No change**	**($0.41)**	**($1.17)**	**($0.29)**

15.3 Service contracts – audited

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 personnel that provide for the payment of benefits where the contract is terminated by the Group. The key management personnel 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 with the Company dated 5 February 2007 and amended on 7 December 2010. 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.

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15. REMUNERATION REPORT (continued)

15.4 Non-executive directors – audited

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.

There was no increase in non-executive compensation during the period. Compensation in section 15.6 Directors' and executive officers' remuneration reflect change in the Chairman role during 2017 and associated changes to directors' participation in sub-committees.

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

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 are set out below.

POSITION	$ (per annum)
Independent Chair of Board	250,000
Australian resident non-executive director	120,000
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

15.5 Services from remuneration consultants – audited

The RNC, comprising of independent non-executive directors only, secured the services of an independent remuneration consultant (Remuneration Strategies Pty Ltd (RS)) to review remuneration practices of the Group following the 'first strike' received at the 2017 Annual General Meeting (AGM). The RNC has received a preliminary report and is awaiting a final report from RS to assist in establishing short term and long-term incentives aligned to Board objectives and shareholder interests. A total of $7,500 was paid during the year for this service.

The Board made its own inquiries and reviewed the processes and procedures followed by the remuneration consultant during the course of their assignment to ensure that they were satisfied that any remuneration recommendations are made free from undue influence.

The Board's inquiries included a summary of the way in which the remuneration consultant carried out any work, details of any interaction with non-executive directors in relation to the assignment and other services, and further questions in relation to the assignment.

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Directors' Report (continued)

for the year ended 30 June 2018

15.6 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	2018	270,000	–	–	270,000	25,650	–	–	–	295,650	–	–
	2017	246,390	–	–	246,390	23,407	–	–	–	269,797	–	–
Mr MB Yates	2018	156,000	–	–	156,000	14,820	–	–	–	170,820	–	–
	2017	156,000	–	–	156,000	14,820	–	–	–	170,820	–	–
Mr CJ Henson	2018	152,000	–	–	152,000	14,440	–	–	–	166,440	–	–
	2017	146,000	–	–	146,000	13,870	–	–	–	159,870	–	–
Ms HA Scheibenstock	2018	143,000	–	–	143,000	13,585	–	–	–	156,585	–	–
	2017	128,000	–	–	128,000	12,160	–	–	–	140,160	–	–
Mr HK Neumann	2018	–	–	–	–	–	–	–	–	–	–	–
	2017	–	–	–	–	–	–	–	–	–	–	–
Sub-total non-executive directors' remuneration	2018	721,000	–	–	721,000	68,495	–	–	–	789,495	–	–
	2017	676,390	–	–	676,390	64,257	–	–	–	740,647	–	–

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Directors' Report (continued)

for the year ended 30 June 2018

15. REMUNERATION REPORT (continued)

15.6 Directors' and executive officers' remuneration – audited (continued)

		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 %
Executive directors												
Current												
Mr DE Gladstone (Chief Executive Officer)	2018	750,000	89,375	85,082	924,457	79,741	70,192	–	(161,989)	912,401	10%	–
	2017	750,000	229,502	93,172	1,072,674	93,053	70,192	–	208,502	1,444,421	16%	14%
Former												
Mr LH Ainsworth (Executive Director)- resigned 5 January 2018	2018	152,500	–	15,000	167,500	14,488	–	–	–	181,988	–	–
	2017	305,000	–	30,000	335,000	28,975	–	–	–	363,975	–	–
Total directors' remuneration	2018	1,623,500	89,375	100,082	1,812,957	162,724	70,192	–	(161,989)	1,883,884	5%	–
	2017	1,731,390	229,502	123,172	2,084,064	186,285	70,192	–	208,502	2,549,043	9%	8%
Executives												
Current												
Mr ML Ludski - Chief Financial Officer/ Company Secretary	2018	362,094	46,037	85,805	493,936	38,772	33,888	–	(58,899)	507,697	9%	–
	2017	362,094	144,923	97,960	604,977	48,167	33,888	–	77,301	764,333	19%	10%
Mr V Bruzzese - General Manager Technical Services	2018	283,445	24,566	24,000	332,011	29,261	26,528	–	(32,649)	355,151	7%	–
	2017	283,445	62,157	24,000	369,602	32,832	26,528	–	43,631	472,593	13%	9%
Mr K Power - Chief Technology Officer – appointed 16 January 2017	2018	384,000	11,520	–	395,520	37,574	35,938	–	20,702	489,734	2%	4%
	2017	177,723	15,360	–	193,083	18,343	16,633	–	8,226	236,285	7%	3%

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Directors' Report (continued)

for the year ended 30 June 2018

		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 %
Former												
Mr I Cooper - General Manager Manufacturing – retired 1 April 2018	2018	187,828	6,678	22,232	216,738	18,478	13,184	–	(71,352)	177,048	4%	–
	2017	250,437	55,325	32,526	338,288	29,047	23,438	–	38,890	429,663	13%	9%
Total executives' remuneration	2018	1,217,367	88,801	132,037	1,438,205	124,085	109,538		(142,198)	1,529,630	6%	–
	2017	1,073,699	277,765	154,486	1,505,950	128,389	100,487	–	168,048	1,902,874	15%	9%
Total directors' and executive Officers' remuneration	2018	2,840,867	178,176	232,119	3,251,162	286,809	179,730		(304,187)	3,413,514	5%	–
	2017	2,805,089	507,267	277,658	3,590,014	314,674	170,679	–	376,550	4,451,917	11%	8%

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 2018 financial year uses the criteria set out in section 15.1.3. The amount was considered on 20 June 2018 by the RNC who recommended that no Short Term Incentives be paid for the current period. In accordance with the FY17 short term incentive program, 50% of the FY17 bonus was paid to senior executives in September 2017 with the remaining 50% deferred until September 2018 provided the senior executive is in employment with the Company at that date. The current expense included as short term incentive represents deferred components of the FY17 bonus.

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 relating to EPS (non-market) portion recognised for these applicable tranches were reversed in the current 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 in section 15.1 of this Remuneration Report. Short term incentive bonuses have been provided to the extent that these are payable as at 30 June 2018.

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15. REMUNERATION REPORT (continued)

15.7 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 2018 are detailed below:

	Short term incentive bonus		
	Included in remuneration $ (A)	% Vested in year (B)	% Forfeited in year (C)
Director			
Mr DE Gladstone	89,375	– %	100%
Executives			
Mr ML Ludski	46,037	– %	100%
Mr V Bruzzese	24,566	– %	100%
Mr I Cooper	6,678	– %	100%
Mr K Power	11,520	– %	100%

A Amounts included in remuneration for the 2018 financial year represent the amount accrued in the current year for the Short Term Incentive bonus achieved in a previous year which represented a deferred component subject to service conditions and the previously deferred component paid during the period.

B The amount vested in the 2018 year represented any STI amounts awarded and either paid in the current period or to be paid.

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

15.8 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.

15.8.1 Rights over equity instruments granted as compensation

No options over ordinary shares in the Company were granted as compensation to any key management person during the reporting period.

15.8.2 Modification of terms of equity-settled share-based payment transactions

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.

15.8.3 Exercise of options granted as compensation

During the reporting period no shares (2017: nil shares) were issued on the exercise of options previously granted as compensation.

Directors' Report (continued)

for the year ended 30 June 2018

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15.8.4 Details of equity incentives affecting current and future remuneration

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	– %	100%	2017-2018
	Rights	263,056	17 March 2015	– %	50%	2018-2019
	Rights	328,791	01 March 2017	– %	– %	2018-2021
Mr ML Ludski	Rights	30,854	22 July 2013	– %	100%	2017-2018
	Rights	95,773	17 March 2015	– %	50%	2018-2019
	Rights	119,053	01 March 2017	– %	– %	2018-2021
Mr V Bruzzese	Rights	22,685	22 July 2013	– %	100%	2017-2018
	Rights	52,490	17 March 2015	– %	50%	2018-2019
	Rights	62,131	01 March 2017	– %	– %	2018-2021
Mr I Cooper	Rights	19,947	22 July 2013	– %	100%	2017-2018
	Rights	46,953	17 March 2015	– %	100%	2018-2019
	Rights	54,894	01 March 2017	– %	100%	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 at the beginning of the year.

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15. REMUNERATION REPORT (continued)

15.8 Equity instruments – audited (continued)

15.8.5 Analysis of movements in equity instruments

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	–	–	–	485,853
Mr ML Ludski	–	–	–	192,942
Mr V Bruzzese	–	–	–	122,415
Mr I Cooper	–	–	–	183,544
Mr K Power	–	–	–	–

A. No rights were exercised during the year.

15.8.6 Rights over equity instruments

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 2017	Granted as compensation	Exercised	Other Changes*	Held at 30 June 2018	Vested during the year	Vested and exercisable at 30 June 2018
Rights							
Mr DE Gladstone	661,318	–	–	(198,547)	462,771	–	–
Mr ML Ludski	245,680	–	–	(77,848)	167,832	–	–
Mr V Bruzzese	137,306	–	–	(48,441)	88,865	–	–
Mr I Cooper	121,794	–	–	(121,794)	–	–	–
Mr K Power	112,228	–	–	–	112,228	–	–

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

Rights held by key management personnel that are vested and exercisable at 30 June 2018 were Nil (2017: Nil). No rights or options were held by related parties of key management personnel.

Directors' Report (continued)

for the year ended 30 June 2018

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15.8.7 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 2017	Purchases	Sales	Dividend Re-Investment Plan (DRP) allotment	Held at 30 June 2018
Current					
Mr GJ Campbell	307,785	50,000	–	2,748	360,533
Mr MB Yates	30,600	–	–	–	30,600
Mr CJ Henson	131,156	–	–	1,008	132,164
Ms HA Scheibenstock	–	–	–	–	–
Mr DE Gladstone	56,973	–	–	422	57,395
Mr HK Neumann	–	–	–	–	–
Mr M Ludski	10,000	–	–	–	10,000
Mr V Bruzzese	759	–		6	765
Mr Kieran Power	–	4,662	–	–	4,662
Former					
Mr LH Ainsworth[1]	212,475,104	–	(172,100,823)	–	40,374,281
Mr I Cooper	6,297	–	–	49	6,346

[1] Included above Mr LH Ainsworth sold 172,100,823 ordinary shares to Novomatic AG on 5 January 2018.

No Shares were granted to key management personnel during the reporting period as compensation in 2017 or 2018.

There were no changes in key management personnel 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 2018

Consolidated Statement of Financial Position

as at 30 June 2018

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In thousands of AUD	*Note*	2018	2017
Assets			
Cash and cash equivalents	*18*	35,667	21,094
Receivables and other assets	*17*	153,464	128,646
Current tax assets		324	3,168
Inventories	*16*	79,304	74,732
Prepayments		5,239	9,360
Total current assets		**273,998**	**237,000**
Receivables and other assets	*17*	39,259	39,877
Deferred tax assets	*15*	5,001	4,727
Property, plant and equipment	*12*	118,593	109,560
Intangible assets	*13*	67,496	68,902
Equity-accounted investee	*14*	2,001	4,683
Total non-current assets		**232,350**	**227,749**
Total assets		**506,348**	**464,749**
Liabilities			
Trade and other payables	*24*	37,500	32,993
Loans and borrowings	*21*	239	178
Employee benefits	*22*	9,513	8,367
Current tax liability		4,069	7,335
Provisions	*25*	1,100	938
Total current liabilities		**52,421**	**49,811**
Loans and borrowings	*21*	71,721	65,512
Employee benefits	*22*	589	676
Deferred tax liabilities	*15*	2,818	4,114
Total non-current liabilities		**75,128**	**70,302**
Total liabilities		**127,549**	**120,113**
Net assets		**378,799**	**344,636**
Equity			
Share capital	*19*	203,032	200,245
Reserves	*19*	179,787	152,867
Accumulated losses	*19*	(4,020)	(8,476)
Total equity		**378,799**	**344,636**

The notes on pages 48 to 89 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 2018

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In thousands of AUD	*Note*	2018	2017
Revenue	*7*	265,584	282,080
Cost of sales		(108,982)	(112,065)
Gross profit		**156,602**	**170,015**
Other income	*8*	2,929	719
Sales, service and marketing expenses		(59,587)	(52,158)
Research and development expenses		(34,407)	(34,161)
Administrative expenses		(23,274)	(26,187)
Other expenses		(5,165)	(3,347)
Results from operating activities		**37,098**	**54,881**
Finance income	*11*	7,013	3,657
Finance costs	*11*	(1,580)	(11,738)
Net finance income/(loss)		**5,433**	**(8,081)**
Share of (loss)/profit of equity accounted investee		(224)	153
Profit before tax		**42,307**	**46,953**
Income tax expense	*15*	(10,371)	(9,023)
Profit for the year		**31,936**	**37,930**
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Foreign operations – foreign currency translation differences		5,624	(1,417)
Total other comprehensive income		**5,624**	**(1,417)**
Total comprehensive income for the year		**37,560**	**36,513**
Profit attributable to owners of the Company		**31,936**	**37,930**
Total comprehensive income attributable to the owners of the Company		**37,560**	**36,513**
Earnings per share:			
Basic earnings per share (AUD)		$0.10	$0.12
Diluted earnings per share (AUD)		$0.09	$0.12

The notes on pages 48 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2018

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	Attributable to owners of the Company						
In thousands of AUD	Issued capital	Equity compensation reserve	Fair value reserve	Translation reserve	Profit reserve	Accumulated losses	Total equity
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 amortisation	–	2,131	–	–	–	–	2,131
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**
Balance at 1 July 2017	**200,245**	**5,547**	**9,684**	**5,363**	**132,273**	**(8,476)**	**344,636**
Total comprehensive income for the period							
Profit	–	–	–	–	–	31,936	31,936
Transfer between reserves	–	–	–	–	27,480	(27,480)	–
Other comprehensive income							
Foreign currency translation reserve	–	–	–	5,624	–	–	5,624
Total other comprehensive income	–	–	–	5,624	–	–	5,624
Total comprehensive income for the period	–	–	–	5,624	27,480	4,456	37,560
Transactions with owners, recorded directly in equity							
Issue of ordinary shares under the Dividend Reinvestment Plan	2,787	–	–	–	(2,787)	–	–
Dividends to owners of the Company	–	–	–	–	(2,179)	–	(2,179)
Share-based payment amortisation	–	(1,218)	–	–	–	–	(1,218)
Total transactions with owners	2,787	(1,218)	–	–	(4,966)	–	(3,397)
Balance at 30 June 2018	**203,032**	**4,329**	**9,684**	**10,987**	**154,787**	**(4,020)**	**378,799**

The notes on pages 48 to 89 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 June 2018

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In thousands of AUD	*Note*	2018	2017
Cash flows from operating activities			
Cash receipts from customers		254,310	269,433
Cash paid to suppliers and employees		(224,007)	(247,434)
Cash generated from operations		**30,303**	**21,999**
Income taxes paid		(11,045)	(16,053)
Borrowing costs paid		(892)	(708)
Net cash from operating activities	*18(a)*	**18,366**	**5,238**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		4,638	6,297
Interest received		3,900	3,657
Acquisitions of property, plant and equipment	*12*	(8,328)	(5,351)
Development expenditure	*13*	(5,547)	(4,534)
Net cash (used in)/from investing activities		**(5,337)**	**69**
Cash flows from financing activities			
Proceeds from borrowings		3,130	–
Proceeds from finance lease		217	136
Payment of finance lease liabilities		(178)	(118)
Dividend paid		(2,179)	(9,895)
Net cash from/(used in) financing activities		**990**	**(9,877)**
Net increase/(decrease) in cash and cash equivalents		14,019	(4,570)
Cash and cash equivalents at 1 July		21,094	26,433
Effect of exchange rate fluctuations on cash held		554	(769)
Cash and cash equivalents at 30 June		**35,667**	**21,094**

The notes on pages 48 to 89 are an integral part of these consolidated financial statements.

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for the year ended 30 June 2018

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Notes to the Financial Statements (continued)

for the year ended 30 June 2018

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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 2018 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 2018.

(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).

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.

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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 is 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-accounted 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.

(vii) Common control acquisitions

Acquisitions made by the Group, where the combining entities or businesses are ultimately controlled by the same party or parties before and after the combination, and that control is not transitory, are treated as common control transactions and book value accounting is applied. Under book value accounting no purchase price allocation is performed. The acquired net assets are included in the consolidated financial statements at carrying value. The difference between the consideration transferred and the net assets is recognised in equity in a common control reserve.

(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.

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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 the 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 assessment 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.

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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.

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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 and 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 assets (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 corporate 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.

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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.

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(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 and foreign currency losses. 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 published that are not mandatory for 30 June 2018 reporting periods. Those which may have a significant to the Group are set out below. The Group does not plan to adopt these standards early.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018, with the Group adopting this standard from 1 July 2018. AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement*. The new standard results in changes to accounting policies for financial assets and liabilities covering classification and measurement, hedge accounting and impairment.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group has assessed the new standard and based on its financial assets and liabilities, the key impact of the standard on the Group will be in relation to trade receivables and the assessment of the provision of doubtful receivables under the 'expected credit loss' model (rather than the current 'incurred loss model'). The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date.

The Group expects that the provision for impairment of trade receivables may increase upon the adoption of AASB 9 on 1 July 2018 as the expected credit loss model is expected to result in an acceleration of impairment recognition. The assessment of credit risk, and the estimation of ECL, will be unbiased and probability weighted, and incorporate all relevant available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable information about future events and economic conditions at the reporting date. The Group's assessment of the impact of this standard on its consolidated financial statements is ongoing and the likely impact on adoption is not yet known. Additional disclosures surrounding expected credit losses will also be required.

As permitted under AASB 9, the Group plans to adopt the cumulative effect method, with the effect of initially applying the standard recognised at the date of initial application (i.e. 1 July 2018). As a result, the Group will not apply the requirements of AASB 9 to the comparative period and the cumulative effect of initially applying the standard will be recognised as an adjustment to the opening balance sheet at date of initial application.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018, with the Group adopting this standard from 1 July 2018. AASB 15 establishes a comprehensive five-step model for determining how much and when revenue is recognised, including in respect of multiple element arrangements. AASB 15 will supersede the current revenue recognition guidance including AASB 111 *Construction Contracts*, AASB 118 *Revenue* and AASB 1004 *Contributions* when it becomes effective.

The five steps in the model are:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation

The core principle of AASB 15 is that it requires identification of distinct 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 reviewed a representative sample of sales contracts of its key revenue streams to assess the impacts of adopting AASB 15. The Group's assessment of the impact of this standard on its consolidated financial statements is ongoing and the likely impact on adoption is not yet known. However, the following expected implications have already been noted:

Multi-element arrangements: This sales arrangement relates to gaming machines, games, conversions and other incidental items that are licensed to customers for extended periods. Currently revenue is recognised on delivery for gaming machines and games and for other items including conversions and interest on a straight-line basis over the license term. Under the new AASB 15, the transaction price allocation will vary from current accounting practice. In allocating the transaction price to the performance obligations, the standalone selling price of the conversion option material right reflects the discount that the customer would obtain when exercising the option, adjusted for the likelihood that the option will be exercised. Revenue will be recognised when the conversion option is exercised or upon expiry of the option. These changes will impact the timing and amount of revenue recognition compared with current practice. Where a contract contains a significant financing component there is no change from current practice in recognising interest income.

In addition to the revenue recognition mentioned above, the Group currently recognises commission fee payable related to multi-element arrangement contracts as selling expenses when they are incurred. Under AASB 15, the Group will capitalise these commission fees as costs of obtaining a contract. The capitalised contract cost asset will be amortised based on the transfer of goods or services in the contract to which the asset relates.

Operating lease arrangements: Revenues including participation and rental will likely be out of scope of AASB 15 and fall within AASB 16.

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Additional disclosures of the following information by revenue stream will be required:

- The nature, amount, timing and uncertainty of revenue and cash flows;
- The performance obligations and the determination of allocation of the relative stand-alone transaction price to performance obligations; and
- Significant judgements applied in adopting the five-step model.

As permitted under AASB 15, the Group plans to adopt the cumulative effect method, with the effect of initially applying the standard recognised at the date of initial application (i.e. 1 July 2018). As a result, the Group will not apply the requirements of AASB 15 to the comparative period and the cumulative effect of initially applying the standard will be recognised as an adjustment to the opening balance sheet at date of initial application.

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 depreciation replacing operating lease expense.

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

Operating lease arrangements: Revenues including participation and rental will likely be out of scope of AASB 15 and fall within AASB 16.

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 leases. As at 30 June 2018, the Group has $10,291 thousand of non-cancellable operating lease commitments, predominantly relating to property leases. The Group's assessment of the impact of adopting AASB 16 on its consolidated financial statements is ongoing and the quantitative effect will depend on, amongst other things, additional leases that the Group enters into up until date of adoption of the new standard, the transition method chosen and, the extent to which the Group uses the practical expedients available under the 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.

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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's Audit Committee, which is responsible for developing and monitoring risk management policies. The Audit 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.

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.

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 2018 no guarantees were outstanding (2017: 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.

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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 are primarily denominated is in USD for the Australian business operations.

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. 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 Latin America segments include the aggregation of the Group's other operating segments that are not separately reportable. Included in the NSW and North and Latin 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 8.62% of the total reportable revenue.

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Notes to the Financial Statements (continued)

for the year ended 30 June 2018

6. OPERATING SEGMENTS (continued)

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 2018

	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	35,206	16,677	9,168	2,574	105,718	78,712	3,273	3,226	11,030	265,584
Result										
Segment result	8,107	6,279	4,321	697	40,709	30,621	373	1,500	8,504	101,111
Interest revenue not allocated to segments										19
Interest expense										(1,580)
Foreign currency gain										3,113
Share of loss of equity-accounted investee										(224)
R & D expenses										(34,407)
Corporate and administrative expenses										(23,274)
Other expenses not allocated to segments										(2,451)
Profit before tax										42,307
Income tax expense										(10,371)
Net profit after tax										31,936

Non-current assets, other than financial instruments and deferred tax assets, located in the entity's county of domicile (Australia) as at 30 June 2018 are $46,199 thousand (2017:$50,500 thousand). Non-current assets, other than financial instruments and deferred tax assets, located in foreign countries as at 30 June 2018 total $139,890 thousand (2017:$127,962 thousand), of which $117,049 thousand (2017:$113,252 thousand), are located in North America.

* Included in the North America and Asia segments are one-off impairment losses recognised for a North America trade receivable ($922 thousand) and an Asia trade receivable ($920 thousand).

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Notes to the Financial Statements (continued)

for the year ended 30 June 2018

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 loss										(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 2018

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7. REVENUE

In thousands of AUD	*Note*	2018	2017
Sale of goods		211,809	232,936
Rendering of services		7,862	7,890
Rental and participation revenue		45,913	41,254
		265,584	282,080

8. OTHER INCOME

In thousands of AUD	2018	2017
Royalties income	343	584
Rental income from lease of machinery	–	63
Gain on sale of property plant and equipment	2,586	72
	2,929	719

9. EXPENSES BY NATURE

In thousands of AUD		2018	2017
Changes in raw material and consumables, finished goods and work in progress	*16*	98,598	103,571
Employee benefits expense	*10*	62,101	64,255
Depreciation and amortisation expense	*12,13*	28,027	25,831
Legal expenses		801	290
Evaluation and testing expenses		6,591	9,905
Marketing expenses		5,261	4,633
Operating lease expenses	*27*	2,241	2,276
Impairment loss		5,165	3,347
Other expenses		22,630	13,810
		231,415	227,918

Notes to the Financial Statements (continued)

for the year ended 30 June 2018

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10. EMPLOYEE BENEFIT EXPENSES

In thousands of AUD	*Note*	2018	2017
Wages and salaries		56,898	55,441
Short term incentives		1,874	2,822
Contributions to defined contribution superannuation funds		3,483	3,547
Increase in liability for annual leave	*22*	396	8
Increase in liability for long service leave	*22*	333	168
Termination benefits		335	138
Equity settled share-based payment transactions		(1,218)	2,131
		62,101	64,255

11. FINANCE INCOME AND FINANCE COSTS

In thousands of AUD	2018	2017
Interest income on trade receivables	3,881	3,578
Interest income on bank deposits	19	79
Net foreign exchange gain	3,113	–
Finance income	7,013	3,657
Interest expense on financial liabilities	(1,580)	(1,207)
Net foreign exchange loss	–	(10,531)
Finance costs	(1,580)	(11,738)
Net finance income / (costs) recognised in profit or loss	5,433	(8,081)

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12. PROPERTY, PLANT AND EQUIPMENT

In thousands of AUD	*Note*	Land and buildings	Plant and equipment	Leasehold improvements	Total
Cost					
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
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
Balance at 1 July 2017		55,066	101,014	3,091	159,171
Re-classification of inventory to plant and equipment		–	34,201	–	34,201
Re-classification of PPE category		–	–	–	–
Additions		4,389	3,828	111	8,328
Disposals		(2,432)	(38,694)	(163)	(41,289)
Effect of movements in foreign exchange		2,243	2,821	13	5,077
Balance at 30 June 2018		59,266	103,170	3,052	165,488
Depreciation and impairment losses					
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
Balance at 1 July 2017		2,386	45,932	1,293	49,611
Depreciation charge for the year		1,847	17,856	271	19,974
Disposals		–	(24,417)	(163)	(24,580)
Effect of movements in foreign exchange		188	1,681	21	1,890
Balance at 30 June 2018		4,421	41,052	1,422	46,895
Carrying amounts					
At 1 July 2016		59,207	46,149	4,137	109,493
At 30 June 2017		52,680	55,082	1,798	109,560
At 30 June 2018		54,845	62,118	1,630	118,593

Disposals in the table above includes sale of gaming machines previously under participation or rental agreements of $12,624 thousand (2017: $8,901 thousand) at net book value.

The carrying amount of plant and equipment on operating lease is $46,598 thousand (2017: $38,672 thousand).

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 2018, the net carrying amount of leased plant and equipment was $59 thousand (2017: $96 thousand).

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Notes to the Financial Statements (continued)

for the year ended 30 June 2018

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 2016		22,947	42,533	7,569	1,583	9,944	11,076	695	433	96,780
Additions		–	4,534	–	–	–	–	–	–	4,534
Intangible assets 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
Balance at 1 July 2017		22,238	34,889	7,336	1,583	9,599	10,692	671	433	87,441
Additions		–	5,547	–	–	–	–	–	–	5,547
Intangible assets fully amortised and written off		–	(79)	(7,601)	–	–	–	–	–	(7,680)
Effects of movements in foreign currency		806	–	265	–	–	436	–	–	1,507
Balance at 30 June 2018		23,044	40,357	–	1,583	9,599	11,128	671	433	86,815
Amortisation and impairment losses										
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
Intangible assets 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
Balance at 1 July 2017		–	6,826	7,336	–	1,728	1,908	308	433	18,539
Amortisation for the year		–	5,159	–	–	1,358	1,296	240	–	8,053
Intangible assets fully amortised and written off		–	(79)	(7,601)	–	–	–	–	–	(7,680)
Effects of movements in foreign currency		–	–	265	–	–	142	–	–	407
Balance at 30 June 2018		–	11,906	–	–	3,086	3,346	548	433	19,319
Carrying amounts										
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
At 30 June 2018		23,044	28,451	–	1,583	6,513	7,782	123	–	67,496

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13. INTANGIBLE ASSETS (continued)

Impairment testing for development costs

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

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.

The carrying amount of the Group's development costs amounts to $28,451 thousand (2017: $28,063 thousand), comprising of $26,353 thousand in development costs relating to product development and $2,098 thousand in development costs relating to online development activities.

Development costs include development costs relating to products and online gaming 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 Group has allocated corporate assets, goodwill and intangible assets on a consistent basis with last financial year. This includes allocation of goodwill arising from the acquisition of Nova Technologies in 2016 which has been allocated to the North America CGU.

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:

	2018		2017	
CGUs	Discount rate[1]	Average annual revenue growth rate[2]	Discount rate[1]	Average annual revenue growth rate[3]
Development	14.3%	3.3%	14.4%	4.8%
Australia and other	15.2%	2.9%	14.5%	2.4%
North America	13.5%	3.1%	17.2%	7.8%
Latin America	19.8%	4.0%	23.5%	4.6%

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

(2) The 2018 average annual revenue growth rate for 5 years (2019 to 2023) presented above is calculated based on historical experience, actual operating results and estimated financial results based on planned strategic initiatives.

(3) The 2017 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:

	2018				
CGUs	Goodwill '$000	Indefinite life intangible assets '$000	Capitalised Development costs '$000	Other assets '$000	Recoverable amount '$000
Development	–	–	28,451	581	139,208
Australia and other	2,436	–	–	7,981	23,993
North America	20,608	1,583	–	99,382	152,133
Latin America	–	–	–	25,067	32,198

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	2017				
CGUs	Goodwill '$000	Indefinite 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	19,802	1,583	–	100,175	177,600
Latin America	–	–	–	16,219	36,073

Impairment testing for goodwill and indefinite life intangibles

Goodwill arising from the Class II gaming business acquired in 2016 and Nevada license indefinite life 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 13.5% (2017: 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 2.5% (2017: 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 3.1% (2017: 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 15.2% (2017: 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 2% (2017: 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 2.9% (2017: 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.

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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-18	Ownership 30-Jun-17	Carrying amount 30-Jun-18	Carrying amount 30-Jun-17
616 Digital LLC	40%	40%	2,001	4,683

The Group's share of loss of equity accounted investee is $224 thousand (2017: $153 thousand profit).

616's earnings growth profile has been adversely affected by the ongoing maturation of the North American and Australian social gaming market and an increase in player acquisition and retention costs. These market changes have been to the disadvantage of smaller operators like 616 in favour of larger scale competitors, and are reflected in lower than anticipated year on year revenue and EBITDA growth, requiring a write down in the carrying value of AGT's 40% interest in 616 by $2,451 thousand (2017: $nil thousand). The write down is reflected within 'Other expenses' and 'Other expenses not allocated to segments' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and Note 6 respectively.

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	2018	2017
Cash and cash equivalents	705	1,450
Current assets (excluding cash and cash equivalents)	264	267
Non-current assets	7	2
Current financial liabilities (excluding trade and other payables and provisions)	(11)	(21)
Current financial liabilities (including trade and other payables and provisions)	(137)	(149)
Net Assets	828	1,549
Income	2,069	2,271
Expenses	(2,790)	(2,222)
Elimination of upstream purchases	161	334
(Loss) / Profit	(560)	383

The movement of the Group's investment in 616 during the year, adjusted for the percentage ownership held by the Group was as follows:

Carrying amount at beginning of period	4,683	4,831
Share of (loss) / profit	(224)	153
Write down of carrying amount	(2,451)	–
Effects of movements in foreign exchange	(7)	(301)
Carrying amount at end of period	2,001	4,683

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Notes to the Financial Statements (continued)

for the year ended 30 June 2018

15. TAXES

Current tax expense

In thousands of AUD	2018	2017
Tax recognised in profit or loss		
Current tax expense		
Current year	(19,141)	(24,312)
Prior year adjustments	1,849	8,325
Recognition of R&D tax credits	7,417	8,669
	(9,875)	(7,318)
Deferred tax benefit		
Timing differences movement	(1,480)	(1,705)
Reduction in tax rate	984	–
	(496)	(1,705)
Total income tax expense	(10,371)	(9,023)

Reconciliation of effective tax rate

In thousands of AUD	2018	2018	2017	2017
Profit before income tax		42,307		46,953
Income tax expense using the Company's domestic tax rate	(30.00%)	(12,692)	(30.00%)	(14,086)
Effective tax rates in foreign jurisdictions	(2.27%)	(962)	(5.03%)	(2,360)
Non-deductible expenses	(15.77%)	(6,673)	(20.28%)	(9,519)
Non-assessable income and concessions	17.53%	7,417	18.46%	8,669
Other tax concessions	–	–	–	–
Prior year adjustments	4.37%	1,849	17.73%	8,325
Recognition of previously unrecognised tax losses and timing differences	(0.69%)	(294)	(0.11%)	(52)
Impact of change in tax rates	2.33%	984	–	–
	(24.50%)	(10,371)	(19.22%)	(9,023)

Recognised deferred tax assets/liabilities

In thousands of AUD	2018 Deferred tax assets	2017 Deferred tax assets	2018 Deferred tax liabilities	2017 Deferred tax liabilities
Employee benefits	2,371	2,204	328	307
Provisions	529	1,887	2,210	–
Property, plant and equipment	82	–	(4,756)	(6,475)
Unrealised foreign exchange gain	(1,191)	619	–	–
Other items	1,607	(127)	(600)	1,940
Tax loss carry-forwards	1,603	144	–	114
Net tax assets/liabilities	5,001	4,727	(2,818)	(4,114)

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15. TAXES (continued)

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.

During the first half, a tax reform was substantially enacted on 22 December 2017 in the United States, whereby the corporate tax rate was reduced from 35% to 21% effective 1 January 2018. The members of the Group that were affected by this tax reform have assessed the carrying value of their deferred tax assets and deferred tax liabilities and have appropriately included the adjusted balances of these accounts in the consolidated financial reports.

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.

Management has assessed that the carrying amount of the deferred tax assets of $5,001 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	2018	2017
Raw materials and consumables	37,333	37,859
Finished goods	38,254	31,699
Stock in transit	3,717	5,174
Inventories stated at the lower of cost and net realisable value	79,304	74,732

During the year ended 30 June 2018 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to $98,598 thousand (2017: $103,571 thousand).

A re-classification from inventory to property, plant and equipment of $34,201 thousand (2017: $29,799 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 2018, the write down of inventories to net realisable value amounted to $2,365 thousand (2017: $1,174 thousand). The write down is included in cost of sales.

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17. RECEIVABLES AND OTHER ASSETS

In thousands of AUD	*Note*	2018	2017
Current			
Trade receivables		152,266	125,095
Less impairment losses	*26*	(3,931)	(3,017)
		148,335	122,078
Other assets		1	3
Amount receivable from director/shareholder controlled entities		5,128	6,565
		153,464	128,646
Non-current			
Trade receivables		39,259	39,877
		39,259	39,877

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	2018	2017
Minimum lease payments under finance leases are receivable as follows:		
Within one year	3,840	4,730
Later than one year but not later than 5 years	6,365	5,659
	10,205	10,389
Unearned finance income		
Within one year	381	400
Later than one year but not later than 5 years	226	238
	607	638
The present value of minimum lease payments is as follows:		
Within one year	3,459	4,330
Later than one year but not later than 5 years	6,139	5,421
	9,598	9,751
Lease receivables are classified as follows:		
Within one year	3,459	4,330
Later than one year but not later than 5 years	6,139	5,421
	9,598	9,751

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18. CASH AND CASH EQUIVALENTS

In thousands of AUD	2018	2017
Bank balances	33,352	21,094
Cash deposits	2,315	–
Cash and cash equivalents in the statement of cash flows	35,667	21,094

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*	2018	2017
Cash flows from operating activities			
Profit for the period		31,936	37,930
Adjustments for:			
Depreciation	*12*	19,974	17,468
Impairment losses on trade receivables and provision for obsolescence		5,079	4,521
Write down on Equity-accounted investee	*14*	2,451	–
Amortisation of intangible assets	*13*	8,053	8,363
Net finance (income) / cost	*11*	(5,433)	8,081
Gain on sale of property, plant and equipment		(2,554)	(26)
Unrealised currency translation movements		3,745	(241)
Equity-settled share-based payment transactions	*10*	(1,218)	2,131
Income tax expense	*15*	10,371	9,023
Operating profit before changes in working capital and provisions		**72,404**	**87,250**
Change in trade and other receivables		(19,047)	(21,101)
Change in inventories		(2,287)	(22,315)
Net transfers between inventory and leased assets		(22,154)	(20,793)
Change in other assets		(545)	(6,521)
Change in trade and other payables		3,498	4,489
Change in provisions and employee benefits		(1,566)	990
		30,303	21,999
Interest paid		(892)	(708)
Income taxes paid		(11,045)	(16,053)
Net cash from operating activities		**18,366**	**5,238**

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19. CAPITAL AND RESERVES

(a) Share capital

	Ordinary shares	
In thousands of shares	2018	2017
In issue at 1 July	331,086	327,716
Exercise of share options	–	–
Shares issued under dividend reinvestment plan	1,427	3,370
In issue at 30 June – fully paid	332,513	331,086

(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, 1,427 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 paid by the Company during the year:

In thousands of AUD	2018	2017
1.5 cents per qualifying ordinary share (2017: 5.0 cents)	4,966	16,386

After the reporting date, the following dividends were proposed by the board of directors (2017: $nil thousand). The dividends have not been recognised as liabilities and there are no tax consequences.

In thousands of AUD	2018	2017
2.5 cents per qualifying ordinary share (2017: nil cents)	8,313	–

The amount of franking credits available to shareholders for subsequent financial years is $28,931 thousand (2017: $19,496 thousand). The ability to utilise the franking credits is dependent upon the ability to declare dividends.

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20. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2018 was based on the profit attributable to ordinary shareholders of $31,936 thousand (2017: $37,930 thousand) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2018 of 331,293 thousand (2017: 329,673 thousand), calculated as follows:

Profit attributable to ordinary shareholders

In thousands of AUD	*Note*	2018	2017
Profit for the period		31,936	37,930
Profit attributable to ordinary shareholders		31,936	37,930
Weighted average number of ordinary shares			
In thousands of shares			
Issued ordinary shares at 1 July	*19*	331,086	327,716
Effect of shares issued		207	1,957
Weighted average number of ordinary shares at 30 June		331,293	329,673
Total basic earnings per share attributable to the ordinary equity holders of the Company		$0.10	$0.12

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2018 was based on the profit attributable to ordinary shareholders of $30,718 thousand (2017: $40,061 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 336,114 thousand (2017: 333,735 thousand), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

In thousands of AUD	2018	2017
Profit attributable to ordinary shareholders	31,936	37,930
Amortisation of performance rights (RST)	(1,218)	2,131
Profit attributable to ordinary shareholders (diluted)	30,718	40,061
Weighted average number of ordinary shares (diluted)		
In thousands of shares		
Weighted average number of ordinary shares at 30 June	331,293	329,673
Effect of rights and options on issue	4,821	4,062
Weighted average number of ordinary shares (diluted) at 30 June	336,114	333,735
Total diluted earnings per share attributable to the ordinary equity holders of the Company	$0.09	$0.12

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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	2018	2017
Current		
Finance lease liabilities	239	178
Non-current		
Finance lease liabilities	–	11
Secured bank loan	71,721	65,501
	71,721	65,512

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				2018		2017	
In thousands of AUD	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Finance lease liabilities	AUD	0.90-2.90%	2019	243	239	194	189
Secured bank loan	USD	LIBOR+0.65%	2021	71,721	71,721	65,501	65,501
Total interest-bearing liabilities				71,964	71,960	65,695	65,690

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 2018	Interest 2018	Present value of minimum lease payments 2018	Future minimum lease payments 2017	Interest 2017	Present value of minimum lease payments 2017
Less than one year	243	4	239	183	5	178
Between one and five years	–	–	–	11	–	11
	243	4	239	194	5	189

The Group leases plant and equipment under finance leases with terms expiring within one year. 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.

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Notes to the Financial Statements (continued)

for the year ended 30 June 2018

22. EMPLOYEE BENEFITS

In thousands of AUD	2018	2017
Current		
Accrual for salaries and wages	505	464
Accrual for short term incentive plan	1,574	1,285
Liability for annual leave	4,165	3,769
Liability for long service leave	3,269	2,849
	9,513	8,367
Non-current		
Liability for long service leave	589	676
	589	676

23. SHARE-BASED PAYMENTS

Performance rights programmes (equity-settled)

On 22 July 2013, 17 March 2015 and 1 March 2017, employee incentive plans were established whereby performance rights were granted to all eligible Group employees under the Rights Share Trust (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	–	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	–	Four years service and performance hurdles from grant date as per RST below	5 years
Rights grant to key management at 17 March 2015	209,493	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	732,547	Four years service and performance hurdles from grant date as per RST below	5 years
Rights grant to key management at 1 March 2017	622,203	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	3,256,769	Four years service and performance hurdles from grant date as per RST below	5 years
Total rights RST	**4,821,012**		

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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.

For details of the related employee benefits expenses, see Note 10.

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.

Further details of the share performance rights issued under the RST are detailed below.

(i) 22 July 2013 Performance rights

The total rights granted to all eligible employees on 22 July 2013 was 1,489,358. During the year, the remaining 50% of these performance rights lapsed on 1 September 2017 due to performance conditions not being met. 563,334 rights were cancelled during the year with no rights outstanding at 30 June 2018.

The vesting conditions of the performance rights issued on 22 July 2013 under the RST were 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 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%

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23. SHARE-BASED PAYMENTS (continued)

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 are companies in the ASX 300 Index that have the same Consumer Services GICS industry sector as Ainsworth.

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%

(ii) 17 March 2015 Performance rights

The total rights granted to all eligible employees on 17 March 2015 was 2,555,853. During the year, the first 50% of these performance rights lapsed on 17 March 2018 due to performance hurdles not being met. 1,110,089 rights were cancelled during the year with 942,040 rights outstanding as at 30 June 2018.

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.

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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 are 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%

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 are companies in the ASX 300 Index that have the same Consumer Services GICS industry sector as Ainsworth.

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%

(iii) 1 March 2017 Performance rights

The total rights granted to all eligible employees on 1 March 2017 was 4,408,803. During the year, Tranche 1 of these rights did not vest at the first vesting date of 1 March 2018 due to performance conditions not being met. The grant of this Tranche under the RST will be re-tested at the end of the next applicable performance vesting date of 1 March 2019, subject to the higher performance conditions. If the performance conditions at the end of the next applicable performance period are satisfied then the performance rights for the current performance period and any non-vested performance rights from prior performance periods will vest. 484,826 rights were cancelled due to termination of employees during the year with 3,878,972 rights outstanding as at 30 June 2018.

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.

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23. SHARE-BASED PAYMENTS (continued)

The fair value of the performance rights granted on 1 March 2017 under the RST are 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

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%

24. TRADE AND OTHER PAYABLES

In thousands of AUD	*Note*	2018	2017
Current			
Trade payables		18,423	15,017
Other payables and accrued expenses		18,964	17,834
Amount payable to director/shareholder controlled entities	*29*	113	142
		37,500	32,993

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 2017	828	110	938
Provisions made during the year	959	141	1,100
Provisions used during the year	(828)	(110)	(938)
Balance at 30 June 2018	959	141	1,100

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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*	2018	2017
Receivables	*17*	192,722	168,520
		192,722	168,520

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

In thousands of AUD	2018	2017
Australia	23,825	26,306
Americas	163,247	132,841
Europe	5,174	7,241
New Zealand	1,101	2,160
Asia	3,070	2,989
South Africa	236	–
	196,653	171,537

The Group's concentration of credit risk arises from its two most significant receivable amounts is represented by customers in North America. They account for $23,301 thousand (2017: $nil thousand) and $11,384 thousand (2017: $8,751 thousand) of the trade receivables carrying amount at 30 June 2018 respectively.

Cash and cash equivalents

The Group held cash of $33,352 thousand at 30 June 2018 (2017: $21,094 thousand) and $2,315 thousand of cash deposits at 30 June 2018 (2017: $nil 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 2018	Impairment 2018	Gross 2017	Impairment 2017
Not past due	128,398	9	115,811	51
Past due 0-30 days	29,879	–	36,841	–
Past due 31-120 days	22,379	–	10,574	–
Past due 121 days to one year	8,996	570	3,186	169
More than one year	7,001	3,352	5,125	2,797
	196,653	3,931	171,537	3,017

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26. FINANCIAL INSTRUMENTS (continued)

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

In thousands of AUD	2018	2017
Balance at 1 July	3,017	3,349
Impairment loss written off	(1,896)	(3,569)
Provision during the year	2,714	3,347
Recovered	(25)	(37)
Effect of exchange rate fluctuations	121	(73)
Balance at 30 June	3,931	3,017

The provision of $2,714 thousand (2017: $3,347 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 2018, two significant impairment losses were recognised in the income statement relating to a North American customer ($922 thousand) and an Asian customer ($920 thousand) that were behind from previously negotiated payment plans. The remainder of the impairment loss at 30 June 2018 relates to several customers that have also 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.

Liquidity risk

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

30 June 2018

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	239	(243)	(238)	(5)	–	–
Secured bank loan	71,721	(71,721)	–	–	–	(71,721)
Trade and other payables	37,500	(37,500)	(37,500)	–	–	–
	109,460	(109,464)	(37,738)	(5)	–	(71,721)

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

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)	–

Currency risk

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

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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:

	2018			2017		
In thousands of AUD	USD	Euro	NZD	USD	Euro	NZD
Trade receivables	167,551	4,829	1,087	135,556	6,666	2,148
Secured bank loan	(71,721)	–	–	(65,501)	–	–
Trade and other payables	(26,878)	–	–	(21,279)	(1)	(118)
Net exposure in statement of financial position	68,952	4,829	1,087	48,776	6,665	2,030

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
USD	0.7753	0.7547	0.7391	0.7692
Euro	0.6501	0.6919	0.6344	0.6730
NZD	1.0854	1.0588	1.0903	1.0500

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 2018 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 2018		
USD	(25,049)	(12,955)
Euro	(439)	(439)
NZD	(99)	(99)
30 June 2017		
USD	(23,071)	(19,331)
Euro	(606)	(606)
NZD	(184)	(184)

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26. FINANCIAL INSTRUMENTS (continued)

A 10 percent weakening of the Australian dollar against the following currencies at 30 June 18 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 2018		
USD	34,454	15,834
Euro	536	536
NZD	121	121
30 June 2017		
USD	28,167	23,626
Euro	741	741
NZD	225	225

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 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
Assets carried at amortised cost					
Receivables and other assets	*17*	192,723	192,723	168,523	168,523
Cash and cash equivalents	*18*	35,667	35,667	21,094	21,094
		228,390	228,390	189,617	189,617

In thousands of AUD	*Note*	Carrying amount 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
Liabilities carried at amortised cost					
Trade and other payables	*24*	37,500	37,500	32,993	32,993
Secured bank loan	*21*	71,721	71,721	65,501	65,501
Finance leases	*21*	239	239	189	189
		109,460	109,460	98,683	98,683

Estimates of fair values

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

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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 2018 plus an adequate constant credit spread and are as follows:

	2018	2017
Receivables	6.00% - 7.20%	6.00% - 7.99%
Secured bank loan	LIBOR+0.65%	LIBOR+0.65%
Leases	0.90% - 2.90%	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 $261 thousand and a decrease in 100 basis points would lead to an increase in profit by $261 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	2018	2017
Less than one year	2,386	2,489
Between one and five years	7,905	8,956
More than five years	–	2
	10,291	11,447

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 $2,241 thousand was recognised as an expense in profit or loss in respect of operating leases (2017: $2,276 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	2018	2017
Plant and equipment		
Contracted but not yet provided for and payable:		
Within one year	456	4,780
Employee compensation commitments		
Key management personnel		
Commitments under non-cancellable employment contracts not provided for in the financial statements and payable:		
Within one year	2,081	2,059

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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

Mr HK Neumann

Executive directors

Current

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

Former

Mr LH Ainsworth (Executive Director), until 5 January 2018

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

Former

Mr I Cooper (General Manager Manufacturing, Ainsworth Game Technology Limited), until 1 April 2018

Key management personnel compensation

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

In AUD	2018	2017
Short-term employee benefits	3,251,162	3,590,014
Post-employment benefits	286,810	314,674
Share based payments	(304,187)	376,550
Other long term benefits	179,730	170,679
	3,413,515	4,451,917

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.

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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*	2018	2017	2018	2017
Key management person	**Transaction**					
Mr LH Ainsworth	Leased plant and equipment and other costs	*(i),(ii)*	–	62,404	–	–
Mr LH Ainsworth	Sales of property, plant and equipment	*(i),(iii)*	–	5,988,167	–	–
Mr LH Ainsworth	Operating lease rental costs	*(iv)*	774,557	1,549,115	–	(142,002)
Mr HK Neumann	Sales revenue	*(v)*	7,294,551	7,957,275	5,127,919	6,565,428
Mr HK Neumann	Other charges made on behalf of Novomatic	*(v)*	772,708	–	–	–
Mr HK Neumann	Purchases and other charges payments made on behalf of the Company	*(v)*	951,505	288,740	(112,996)	(78,003)

(i) Mr LH Ainsworth was a related party as he was the director of the company during financial year ending 30 June 2018. He ceased to be a related party on 5th January 2018.

(ii) 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.

(iii) The Company sold its car park building at Newington on 15th August 2016 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 party transactions when Mr HK Neumann became a Key Management Person of the Group effective from his appointment on 21 Feb 2017.

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.

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29. RELATED PARTIES (continued)

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	2018	2017
Assets and liabilities arising from the above transactions		
Current receivables and other assets		
Amount receivable from director/shareholder controlled entities	5,127,919	6,565,428
Current trade and other payables		
Amount payable to director/shareholder controlled entities	112,996	220,005

Transaction with joint ventures in which entity is a joint venture

616 Digital LLC ("616") is a joint venture in which the Group has 40% ownership interest. The portions of transactions with 616 that was not eliminated in applying equity accounting is $97 thousand (2017: $200 thousand).

Further information regarding the joint venture is provided in Note 14.

30. GROUP ENTITIES

	Country of incorporation	Ownership Interest 2018	Ownership Interest 2017
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%	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%
Bull Club Services Pty Ltd	Australia	100%	100%

31. SUBSEQUENT EVENTS

After the reporting date, the Company declared a franked dividend of 2.5 cents per ordinary share amounting to $8,313 thousand with an expected payment date of 7 November 2018. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2018 and will be recognised in subsequent financial reports.

Other than the matter discussed above, 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.

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Notes to the Financial Statements (continued)

for the year ended 30 June 2018

32. AUDITOR'S REMUNERATION

In AUD	2018	2017
Audit and review services		
Auditors of the Company - KPMG		
Audit and review of financial statements	282,000	260,000
Other regulatory audit services	22,500	22,500
	304,500	282,500
Other services		
Auditors of the Company - KPMG		
In relation other assurance, due diligence and taxation	20,000	35,451

33. PARENT ENTITY DISCLOSURES

As at and throughout the financial year ended 30 June 2018 the parent entity of the Group was Ainsworth Game Technology Limited.

In thousands of AUD	2018	2017
Result of parent entity		
Profit for the year	21,244	36,503
Total comprehensive income for the year	21,244	36,503
Financial position of parent entity at year end		
Current assets	71,864	156,205
Total assets	438,058	421,344
Current liabilities	32,207	36,783
Total liabilities	84,938	87,387
Total equity of parent entity comprising of:		
Share capital	203,032	200,245
Equity compensation and translation reserve	10,511	10,414
Fair value reserve	9,684	9,684
Profit reserves	154,787	132,271
Accumulated losses	(24,894)	(18,657)
Total equity	**353,120**	**333,957**

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

In thousands of AUD	2018	2017
Plant and equipment		
Contracted but not yet provided for and payable:		
Within one year	456	1,034

Directors' Declaration

for the year ended 30 June 2018

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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 44 to 89 and the Remuneration report in sections 15.1 to 15.8 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 2018 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 2018.
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:

Dated at Sydney this 29th day of August 2018.



GJ Campbell
Chairman

Independent Auditor's Report

for the year ended 30 June 2018

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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 2018 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 2018
- 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.

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Independent Auditor's Report (continued)

for the year ended 30 June 2018

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Key Audit Matters	
The ***Key Audit Matters*** we identified are: • Revenue recognition • Recoverability of trade receivables • 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. 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 ($265.6m 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 with different recognition criteria across different geographic locations. Key revenue streams include; • outright machine and spare parts sales, • rendering of services, • revenue from fixed and participation rental and • revenue from multi-element arrangements which consist of several components within the revenue stream. Due to varying revenue recognition and measurement principles of the revenues generated by the Group, it necessitated greater involvement by the audit team to evaluate timing and measurement of revenue recognised.	Our procedures included: • evaluating the appropriateness of the Group's revenue recognition policies against the requirements of AASB 118 *Revenue* and/or AASB 117 *Leases*; • testing key revenue recognition controls of the Group, across different geographic locations, such as the Group's process of matching underlying documents to determine the timing of revenue recognition. In testing this control we inspected underlying documents such as invoices, delivery notes, customer contracts, purchase orders and sales orders; • testing statistical samples of transactions in key revenue streams, across different geographic locations, to underlying records. We inspected the terms and conditions of the revenue contract for consistency to the Group's policy for timing and measurement of revenue recognition; • testing a sample of revenue transactions, across different geographic locations, from immediately before and immediately after year end. We compared the year in which the revenue was recognised by the Group to terms of the underlying contract; • assessing the methodology used to calculate the Group's multi-element arrangement revenue by checking samples of multi-element revenue transactions recorded by the Group against contract terms and rates and then recalculating these samples for accuracy.

Independent Auditor's Report (continued)

for the year ended 30 June 2018

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Recoverability of trade receivables	
Refer to note 17 of the Financial Report ($192.7m 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.
 	
These conditions give rise to heightened exposure to credit risk across the Group, thus requiring greater audit focus.
 	
The prevailing practice by the Group in certain locations in which the Group operates is to provide payment terms which are extended beyond traditional payment terms observed in Australia. This required a heightened element of judgement, and scrutiny to be applied by us when assessing the recoverability of trade receivables, such as:
 	
• assessment of amounts overdue compared to contractual payment terms;
• evidence from internal diligence performed by the Group on the continued credit worthiness of customers;
• settlement history of previous sales with the Group; and
• evidence of ongoing dialogue and correspondence with the Group.
	Our audit procedures included:
	
	• testing a key control in relation to credit limits approvals by senior management within the Group;
	• testing the recoverability of selected samples of overdue receivable balances held by the Group across geographic locations through:
	  - enquiries with the Group on the samples selected to understand the rationale behind the Group's recoverability assessment;
	  - challenging 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;
	• for those locations with 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 2018

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Carrying value of goodwill and intangible assets	
Refer to note 13 of the Financial Report ($67.5m 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:
• 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 continued its declining trend in the current year due to ongoing competition. In addition, the market capitalisation was less than net assets at 30 June 2018. These conditions increase the possibility of goodwill and intangible assets being impaired, plus the risk of inaccurate forecasts or a wider range of outcomes for us to consider.
• value in use model prepared is sensitive to the assumptions adopted by the Group including forecast growth rates and the discount rates applied for different jurisdictions and geographic locations applicable to each identified Cash Generating Unit (CGU). Such assumptions have a significant impact on the calculated recoverable amount of the assets within the identified CGUs. This drives additional audit effort to assess the assumptions adopted by the Group.
• 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.
	Working with our valuation specialists, our procedures included:
	• analysing the Group's share price and market capitalisation including reading various analysts' reports to obtain an understanding of the market's view of the value of the Group. This included consideration of the share price subsequent to year end; and
	• In relation to the key assumptions in the Group's value in use model, we:
	  • challenged the Group's forecast cash flow and growth rates' assumptions in light of ongoing competition and against historical results of the group;
	  • applied increased scepticism to assumptions in areas where previous forecasts were not achieved;
	  • compared key assumptions to the Board approved plan and strategy;
	  • compared forecast growth rates and the terminal growth rates to published studies of industry trends and expectations across different jurisdictions and geographic locations , and considered differences for the Group's operations;
	  • applied our knowledge of the Group, their past performance, business and customers, and our industry experience;
	• we considered the sensitivity of the models by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures;

Independent Auditor's Report (continued)

for the year ended 30 June 2018

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The Group uses complex models to perform their annual impairment testing of goodwill and intangible assets. Complex modelling, particularly those containing highly judgemental forward-looking assumptions tend to be prone to greater risk of potential bias, error and 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.	• we independently developed a discount rate range, across different jurisdictions and geographic locations applicable to each identified CGU. We did this using publicly available market data for comparable entities, adjusted by risk factors specific to the Group and the industry it operates in; • evaluating the appropriateness of the value in use model used for goodwill and intangibles impairment testing against the requirements of the accounting standards; • we assessed the integrity of the value in use models used, including the accuracy of the underlying calculation formulas; and • we assessed the appropriateness and adequacy of the disclosures in the financial report using our understanding of the issue 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 2018 At a Glance, 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.

Independent Auditor's Report (continued)

for the year ended 30 June 2018

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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 and Company's ability to continue as a going concern and whether the use of the going concern assumption is appropriate. 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 and Company or to cease operations, or have no realistic alternative but to do so.

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 the 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_responsibilities/ar1.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 2018, 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 pages 30 to 43 of the Directors' report for the year ended 30 June 2018.

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

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Stephen May
Partner

Sydney
29 August 2018

Lead Auditor's Independent Declaration

for the year ended 30 June 2018

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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 2018 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

Stephen May
Partner

Sydney
29 August 2018

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Corporate Directory

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CORPORATE DIRECTORY

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

Non-Executive Director
Mr HK Neumann

Chief Executive Officer and Executive Director
Mr DE Gladstone

Company Secretary and Chief Financial Officer
Mr ML Ludski

Securities Exchange Listing
The Company is listed on the Australian Securities Exchange. The Home Exchange is Sydney.

CODE: AGI

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Other Information
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Notes

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