AINSWORTH GAME TECHNOLOGY

ANNUAL REPORT 2019

AINSWORTH

Ainsworth 2019 Annual Report

With global vision and an established history of gaming experience, Ainsworth is able to provide the global gaming market with outstanding range of gaming technology and game combination software.

With a fully integrated operation including design, development, assembly testing, sales and field service, Ainsworth encompasses the entire product development cycles, from conception through to installation, service and support.

Contents

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

Notice of Annual General Meeting

Ainsworth Game Technology Limited
ABN 37 068 516 665

Notice is hereby given that the 2019 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 26 November 2019 at 11:00am

Results Announcement for Six Months Ending 31st December 2019:

Tuesday 25th February 2020

Dates may be subject to change

Results Announcement for Year Ending 30th June 2020:

Tuesday 25th Aug 2020

Dates may be subject to change


2500
7500
3500
10000
1500
5000
7500
2500
WHEEL WINS
UP TO
5x
5x
4x
3x
2x

Performance Overview

North America

- Excellent performance, revenue +8%, profit +16%.
- Revenue growth driven by increased sales of the high performing Quick Spin™ Product family on the A640 cabinet.
- Higher margin product mix and overhead containment contributed to increase in segment profit.
- Operating leverage drove further margin expansion to 41% (39% in the pcp).
- The number of machines on participation was 2,190 (Class II: 1,009 and Class III: 1,181), -15%.

Latin America

- Delivered profit of $24.0m in challenging market conditions.
- Decline in revenue to $72.7m due to greater proportion of refurbished units compared to pcp.
- Legacy game performance is strong, providing continued profitability across key markets.
- Units under gaming operations increased strongly again, + 41% to 4,616.
- The average yield per day declined to US$10 due to unfavourable currency movements and lease to sale conversions of high performing products.

Australia

- Profit was down to $2.8 million given reduced fixed overhead recovery.
- Write-down of NSW Service goodwill, $2.4m
- Decrease in revenue of 43% due to lower sales made resulting from challenging market conditions and lower than expected product performance.
- New products such as Electric Cash™, Lucky Break™, Money Up™ and Loaded with Loot™ are expected to deliver improved contributions in FY20.

Other Regions

- Revenues -35%, profit -35%, due to the reduced contribution from Novomatic compared to the pcp and challenging market conditions in New Zealand and Asia.
- Profit was down by 35% to $6.8 million.
- Online contributed $4.2 million of revenues, similar to pcp.

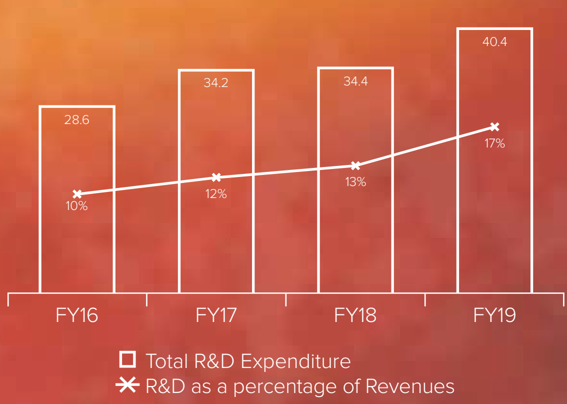
Online Gaming

- AGT's online strategy is to focus on content distribution, interactive product innovation and building player databases with live data capabilities throughout online markets in Europe and the Americas.
- 62 games developed and approved for online distribution throughout regulated territories in Europe, the USA and Latin America in FY19.
- New content distribution agreements with third party multi-channel platform providers and casino operators throughout Europe.
- 20 games now approved in New Jersey with platform provider GVC for PlayMGM online.
- Our new B2C casino, Mustang Money, continues to grow our player database and revenues to plan. Social media advertising positions our brand as a premier online wagering offering in Mexico.

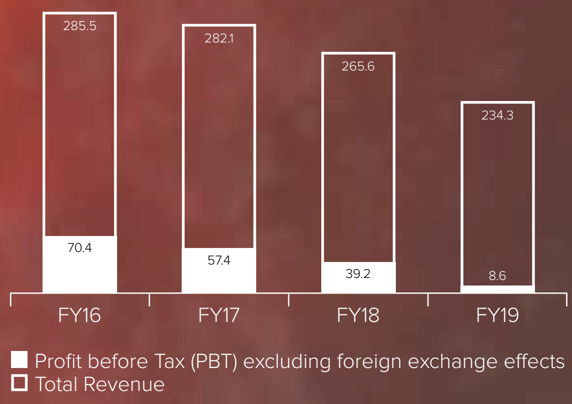
Financial Highlights

- Strong balance sheet to self-fund growth strategies.
- Net cash of $6.2m compared to net debt of ($36.2m) at pcp.
- NPBT excluding currency impacts and one-off items $13.0m.
- Reported EBITDA $44.8m (2018: $68.0m)
- R&D as a percentage of revenue at 17% (2018: 13%).

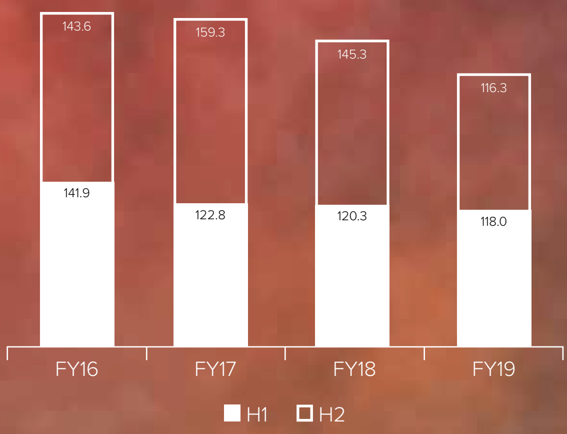
R&D Expenditure - AUD (M)
(Fiscal years ended June 30)



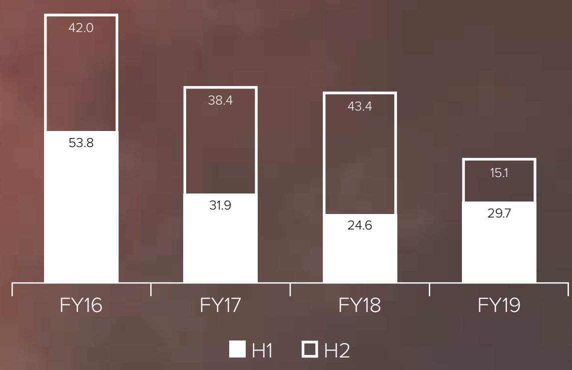
Revenue/Profitability - AUD (M)
(Fiscal years ended June 30)



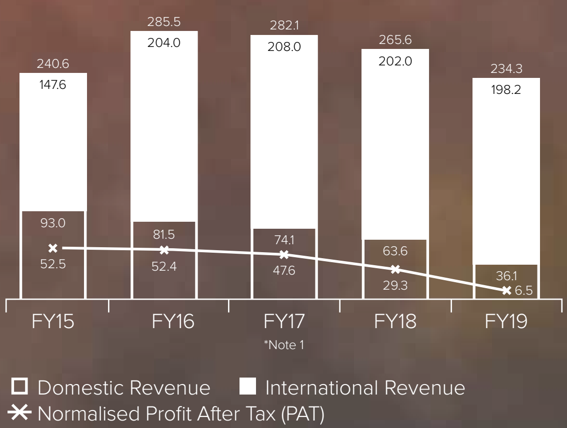
Revenues - AUD (M)
(Fiscal years ended June 30)



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



Historical Performance - AUD (M)
Normalised PAT (All FY's - excl foreign currency effects)



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

New Products

Quick Spin™

Quick Spin™ is a brand that has a strong foothold in the market in the Americas and demonstrates our commitment to the profitability of our A640 cabinet.

New releases such as Super Wheels 7's™ and Super Lit Vegas™ and new configurations with Link Progressive and a multi denomination option with games like Turbo Charged™ are among some of the new titles expected to be released.

Rio Grande Los Toritos™

Rio Grande Los Toritos™ follows the incredible success of Rio Grande Rapids™, which has been an iconic brand with tremendous performance in casinos over the years.

The new Rio Grande Los Toritos™ concept presents 3-level Link Progressive, offering Jackpots with flexible configuration options to address the need of our clients.

Rio Grande Los Toritos™ includes titles such as Rio Nights™, Rio Fiesta™, Rio Fortune™ and Rio Treasures™, all with a wide selection of bonuses, free games, and exciting features.

Electric Cash™

Building on Ainsworth's latest Credit Prize collection experience, Electric Cash™ will electrify your gaming floor by providing a unique twist on the Major Jackpot feature.

Electric Cash™ introduces a new symbol driven jackpot feature for the Major Progressive where 10 coloured symbols award the Jackpot during the 'Stick and Spin' feature. Additionally, Electric Cash™ features free games, an exciting 'Stick and Spin' feature, two Progressives and two levels of Scalable Bonuses.

Electric Cash™ is available as a Standalone and/or Link. (Depending on jurisdictional availability)

Lucky Break™

Searching for new products to captivate your players? Lucky Break™ a striking new concept in the multi-denomination Standalone Progressive segment giving players the opportunity of a 'Lucky Break'.

Two levels of Standalone Progressives and three levels of scalable Bonuses are awarded in the 'Lucky Break' feature by aligning these prizes with the 'Lucky Break' Hotspots. Additional Credit Prizes and free games build anticipation throughout the 'Lucky Break' feature.

Individual free games features vary by game with expanding wilds, multipliers and more. Retriggers and additional features in the free games enable Jackpot options to be available in any game state.

Board of Directors

Graeme Campbell OAM

Chairman and Independent Non-Executive Director

Member - Audit Committee
Member - Remuneration and Nomination Committee

Appointed 18 September 2007, Chairman Since 2016

Danny Gladstone

Non-Executive Director

Former Chief Executive Officer and Executive Director until 30 June 2019

Appointed Non-Executive Director 1 July 2019

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, FGIA, FAICD

Independent Non-Executive Director

Chairman – Remuneration and Nomination Committee
Chairman – Audit Committee

Appointed 3 April 2013

Heather Scheibenstock GAICD, FGIA

Independent Non-Executive Director

Member – Remuneration and Nomination Committee
Member - Regulatory and Compliance Committee

Appointed 18 January 2016

Chairman's Report

Dear Shareholders,

Ainsworth's FY19 results reflect our ongoing commitment to expand and diversify our offerings in the competitive global gaming market and to deliver long term results for shareholders.

For FY19, AGT achieved a Profit after Tax of $11 million. On a pre-currency basis, Profit before Tax was $9 million. These results are not as strong as we would have liked to report. While we compete in challenging markets against strong competition, we have the capacity and the capability to deliver better results in the future.

We are making progress in executing on our key strategies. Our goals are 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 were $198 million and now account for 85% of the group total. Within this, the results for North America were excellent with sales up 8% and profit up 16%. Revenue growth was driven by increased sales of the high performing Quick Spin product family on the A640 cabinet.

While we did well in North America, this growth was offset by the results in Latin America and Australia, causing a year on year decline in results for the group overall.

We continue to benefit from our strong market positions across Latin American markets. However, results were impacted by deterioration in gaming operation yields due to local currency devaluations and a greater proportion of refurbished machine sales in the current period.

We are transitioning to a new product suite in Australia. We have recently launched some important new games which we expect to re-energise our performance in the domestic markets. Additional product launches are also planned for next year.

The Australian operations results demonstrate the need to re-evaluate our R&D strategy. This is the key to long term sustained performance. This review should be completed by the end of the calendar year and is expected to lead to a targeted increase in investment.

We continue to make good progress in building our recurring revenues. These revenues provide consistency and predictability. While some of our customers choose to purchase units from the fleet that are performing well, as we saw in North America, the total number of units under gaming operations increased by 16% to 6,806 at the end of the year.

Our balance sheet and capital position are also positive features of our financial results. Net operating cash flow increased by $42 million to $61 million. We repaid over AUD20 million of debt and closed the year with net cash of $6 million.

This improved financial strength provides us with the flexibility to invest in technology and self-fund our organic growth strategies. It also provides us with the ability to potentially fund selective acquisitions to complement organic growth. We have had success with a previous acquisition and we will continue to pursue strategic acquisitions that can enhance our scale, provide new technologies and improve our earnings.

Given the product transition in Australia and scope for growth investments to drive long-term performance, the Board has decided to forgo the final dividend for the year.

During this period, we also carried out a smooth and orderly leadership transition. On July 1st Mr Lawrence Levy commenced as AGT's new Chief Executive Officer. Lawrence is a highly respected and experienced gaming executive. The directors are confident that he will further assist AGT achieve its strategies of becoming a leading provider of innovative gaming technology to the global market.

As we released to ASX, this will be my last Annual General Meeting as your Chair. I will be stepping down from the role following the end of the meeting. It has been a privilege to chair your Company. I look forward to providing an ongoing contribution as Lead Independent Director. The creation of this new role is an important signal of our commitment to good governance and effective Board operations.

The Board have resolved that previous CEO, Mr Danny Gladstone will assume the role of Chair following the AGM. This appointment provides a greater level of access to Danny's deep industry expertise and customer knowledge. We formally thank him for his significant contribution to AGT as CEO and look forward to working with him closely in the future.

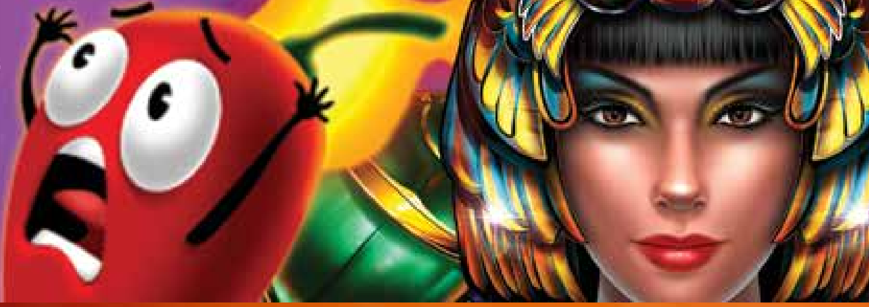
While the FY19 results were disappointing, AGT is capable of delivering improved performance. We have a dedicated and professional workforce, an excellent industry reputation and a well-established footprint across all our markets. As we re-evaluate and focus our R&D investments to develop successful new innovative products, we are confident we can deliver long-term growth.

Acknowledgements

I would like to thank my fellow board members for their counsel and support. I would also like to recognise the leadership of our CEO since his appointment, Mr Lawrence Levy, and his commitment to delivering improved performance. The directors would also like to thank our CFO, Mr Mark Ludski, the rest of the highly capable executive team, as well as our dedicated and loyal employees, my fellow shareholders and of course, our customers for entrusting us with their greatly appreciated business.

Graeme Campbell
Chairman

CEO's Report



Dear Shareholders,

I am pleased to provide this report as your new CEO. I have been in this industry for over 35 years and have admired Ainsworth's ability to innovate, compete and outperform. The company is well regarded and recognised across all global markets.

My initial observations having commenced in the role in July are that we have a strong footprint in major markets, scale and growing recurring revenues. With an increased focus on investing in game technology and new product development, I expect our domestic performance to progressively improve and our international success to continue.

FY19 Results

On a pre-currency basis, Profit before Tax (PBT) was $9m, a significant reduction from the $39 million reported in FY18. Sales revenue for the year was $234 million, a decrease of 12%. International revenues were broadly similar at $198 million while domestic revenues were disappointing at $36 million. Gross profit was down by 11% to $140 million with gross margins up slightly at 60%. Group EBITDA was $45 million, a decline of 34% on the pcp.

North America delivered an excellent result, increasing revenue by 8% to $114 million. Profitability was up by 16% to $47 million as we enjoyed some operating leverage and margin expansion.

Unit sales there were similar at 2,952 compared to 3,021 last year. FY18 included the sale of 900 historical horse racing machines, inflating the base. Excluding this substantial order, underlying sales increased by 39% this year.

The number of machines under gaming operations in North America fell by 15% to 2,190. The decline in the gaming operations installed base is a result of customers preferring to purchase top performing titles from the fleet and reduce non-performing titles for optimal floor mix. If a game is outperforming, we are happy to sell the machine. We then work to increase the size of the fleet overall with new titles.

Yield per day increased slightly to US$26. Despite the market being very competitive, this yield has been climbing steadily, mainly due to our game performance.

In Latin America, political elections and the introduction of new gaming taxes adversely affected local economies and industry spend. These factors impacted our results. Revenues were down by 8% and profitability was 22% lower than last year. Mexico is our largest market in the region and encouragingly, we continue to deliver profitable growth and gain market share.

In our Rest of the World segment, revenues fell by 35% to $12 million. We had a reduced contribution from Novomatic compared to last year. Kits and other parts sales to them generated $2.5 million of this revenue. Online gaming contributed $4 million, a similar level to last year.

Revenues declined in Asia and in New Zealand. Unit volumes were down by 64% to 438 with a weak second half.

Turning to Australia, AGT's performance continued to be adversely impacted by product performance and competitive pressures. Domestic sales were poor for the year at $36 million, a decrease of 43% and profits were $2.8 million. We had minimal sales to corporates and casinos and our performance was disappointing across all states.

We are undergoing a significant product transition to re-energise our performance in the domestic markets. The recent launches of Loaded with Loot and Crazy Jackpot are gaining positive customer feedback. We expect these products to re-energise our Australian performance and make a larger contribution to FY20.

Given the reduction in unit volumes in Australia, we have impaired our NSW Service goodwill by $2.4 million. We have written off the final remaining value in the 616 digital assets with a $1.9m charge and we have taken a $0.9 million charge against receivables to be prudent.

Total operating costs increased by 11% although the true underlying rate for the year was much lower at 6%.

Sales service and marketing expenses increased by $5 million. Contributing to this was an adverse

forex translation of $4 million. The balance of the increase was mostly increased depreciation given the growth in the gaming operations fleet.

R&D expenses increased by $6 million. Although this was strategic, again currency had an adverse effect of $1 million. We increased our third-party contractors and technical compliance costs; decreased the value of the development costs we capitalised; and prudently increased amortisation costs from previously capitalised projects.

Headline administration expenses increased by $2 million. FX made up $1 million, and $2.4 million was the reversal of a previously recognised LTI payment expense in FY18.

Overall, operating costs at constant currency basis was $125 million compared to $117 million in FY18, resulting in a modest increase of 6%.

Finally on the financial results, our balance sheet turned from a net debt position last year to a net cash position at the end of FY19.

We had good working capital controls through the year and collected more receivables, including the CDI payment for the 900 machines in September. Cash increased following investment in technology, and sales and marketing resources. We repaid over $20 million of debt and finished with loans and borrowing at $55.4 million. Our debt was clearly exceeded by our closing cash reserves of $61.6 million leaving a net cash position of $6.2 million.

As well as the cash, we have a debt facility to fund any inorganic additions. The facility has been extended to September 2021. This capital strength is a highlight of the results for me as it creates growth opportunities and flexibility.

Outlook

I am confident AGT can drive improved long-term growth by leveraging its excellent reputation, focusing on R&D and complementing organic performance with selective acquisitions that make good financial sense.

Our execution priorities to deliver this improved performance are clear:

1. Continue to grow unit sales in the key Class II and III North American markets. For example, our proprietary Historical Horse Racing product is performing well and we see good opportunities to leverage our expertise in this area and expand our footprint.
2. Increase the number of units on participation to generate high quality recurring revenues.
3. Successfully launch new products to re-energise and improve our performance in the domestic markets.
4. Complete the re-evaluation of our R&D investments to develop successful new innovative products.
5. Access Novomatic's significant expertise to identify and deliver additional benefits from this strategic partnership.
6. Pursue selective acquisitions that are on strategy and make good financial sense.

CEO's Report (Continued)

7. Expand our online capabilities with a focus on content distribution, interactive product innovation and building player databases with live data capabilities throughout online markets in Europe and the Americas.
8. Maintain strong capital disciplines and cost controls to enhance our financial strength, provide flexibility, and self-fund our organic growth strategies.

I wish to express my appreciation to Graeme Campbell as the Chairman for his commitment to the Company and for ensuring a smooth leadership transition. I congratulate him on his important new role as Lead Independent Director following the Annual General Meeting.

I would also like to credit Danny Gladstone for building the foundations for our future success and congratulate him on his upcoming appointment as Chair following the AGM. I look forward to working closely with Danny to execute on our strategic priorities. I would also like to thank the remaining directors for their guidance and support, 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 who are at the centre of everything we do.

Lawrence Levy
Chief Executive Officer


AUSTRALIA


AMERICA


LATIN AMERICA

Shareholder Information

INFORMATION ABOUT SHAREHOLDERS

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

SHARE HOLDINGS (AS AT 19 SEPTEMBER 2019)

Number of shareholders and shares on issue

The issued shares in the Company were 336,793,929 ordinary shares held by 4,575 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	178,150,817
Votraint No. 1019 Pty Ltd (MCA Private Investment A/C)	30,133,804
Allan Gray Investment Management	27,653,027
Spheria Asset Management	17,385,969

Voting rights

Ordinary shares

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

Options and Performance Rights

Option and performance right holders have no voting rights.

Distribution of shareholders

	NUMBER OF EQUITY SHAREHOLDERS		
Category	Ordinary Shares	Performance Rights	Options
1 – 1,000	1,128	0	1
1,001 – 5,000	1,938	183	29
5,001 – 10,000	665	97	52
10,001 – 100,000	777	70	464
100,001 and over	67	2	9
Total	**4,575**	**352**	**555**

The number of shareholders holding less than a marketable parcel of ordinary shares is 779 (205,965 ordinary shares).

On market buy-back

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

Unquoted equity securities

At 19 September 2019, 3,167,271 performance rights and 12,749,343 unlisted non-transferable options have been issued to 352 and 555 employees, respectively. These performance rights and options remain unexercised.

Regulatory considerations affecting shareholders

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

Shareholder Information (continued)

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of total
NOVOMATIC AG	178,150,817	52.90
VOTRAINT NO 1019 PTY LIMITED <MCA PRIVATE INVESTMENT A/C>	30,133,804	8.95
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	22,408,969	6.65
CITICORP NOMINEES PTY LIMITED	22,027,888	6.54
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	14,843,371	4.41
ASSOCIATED WORLD INVESTMENTS PTY LTD	6,332,652	1.88
NATIONAL NOMINEES LIMITED	5,765,355	1.71
BNP PARIBAS NOMS PTY LTD <DRP>	2,783,799	0.83
WRITEMAN PTY LIMITED <P L H A INVESTMENT A/C>	1,811,622	0.54
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,567,048	0.47
THE PAVILION MOTOR INN OF WAGGA WAGGA PTY LTD	1,500,000	0.45
ASSOCIATED WORLD INVESTMENTS PTY LIMITED	1,183,928	0.35
CASOLA HOLDINGS PTY LTD <NORDIV HOLDINGS S/FUND A/C>	1,070,000	0.32
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	777,424	0.23
MR CHRISTIAN JOHN HASTINGS AINSWORTH	770,650	0.23
MR SASHA ALEXANDER CAJKOVAC	690,000	0.20
MISS PATTARAWADEE SMARNKEO	684,999	0.20
MRS CHRISTINE EMILY COGHLAN	600,000	0.18
MR RICHARD JAMES GOLDSACK + MS AMANDA JANE HAY <GOLDSACK & HAY FAMILY A/C>	546,273	0.16
MS AMY WAI-CHUN CHAN	530,000	0.16
Total	**294,178,599**	**87.35**

Directors' Report

for the year ended 30 June 2019

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 2019 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	62 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, Former Director of Central Coast Stadium and Blue Pyrenees Wines. – Recipient of J.P. Stratton award and Ern Manea Gold Medal. Inducted into the Inter Dominion Hall of Fame in February 2014. Awarded Order of Australia medal in January 2018 for services to harness racing. – 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	65 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	71 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. – 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.

Name, qualifications and independence status	Age	Experience, special responsibilities and other directorships
CURRENT		
Ms Heather Alice Scheibenstock GAICD, FGIA Independent Non-Executive Director	51 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 and SenSen Networks Ltd from 7 September 2018. — Chair of Audit and Risk Committee at SenSen Networks Ltd. — Member of Australian Institute of Company Directors and Women on Boards. — Fellow of Governance Institute of Australia. — Director since 2016. — Member of Remuneration and Nomination Committee since 2016. — Member of Regulatory and Compliance Committee since 2017.
Mr Daniel Eric Gladstone Non-Executive Director	64 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. — Member of Regulatory and Compliance Committee since 2010 until 30 June 2019. — Chief Executive Officer since 2007 (Executive Director since 2010) until 30 June 2019. — Non-Executive Director since 1 July 2019.
Mr Harald Michael Karl Neumann Non-Executive Director	57 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.

2. COMPANY SECRETARY

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

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

3. DIRECTORS' MEETINGS

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

	Board Meetings		Audit Committee Meetings		Remuneration & Nomination Committee Meetings		Regulatory & Compliance Committee Meetings	
Director	A	B	A	B	A	B	A	B
GJ Campbell	11	11	2	2	3	3	–	–
MB Yates[(1)]	10	10	2	2	–	–	4	4
DE Gladstone	11	11	–	–	–	–	4	4
CJ Henson	11	11	2	2	3	3	–	–
HA Scheibenstock	11	11	–	–	3	3	4	4
HK Neumann[(1)]	9	9	–	–	–	–	–	–

A Number of meetings attended

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

(1) Mr HK Neumann had approved leave of absence for two Board meetings during the financial year due to the time difference difficulties and his international country of residence. Mr MB Yates had approved leave of absence for one Board meeting during the year due to international travel commitments. All associated Board documentation and discussions held during these meetings were provided to ensure their 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 well-established and recognised 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 regaining market share decline in domestic market and growing international revenue;
- improve 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.

5. OPERATING AND FINANCIAL REVIEW

Overview of the Group

The Group's profit for the year ended 30 June 2019 was a profit after tax of $10.9 million, a decrease of 66% on the $31.9 million in 2018. The profit after tax excluding the effect of net foreign currency movement was $6.5 million which is a decrease of 78% compared to $29.3 million in 2018.

The current year profit before tax result, excluding the effect of net foreign currency gains, was $8.6 million. This result was achieved on revenue of $234.3 million, a decrease of 12% compared to the previous corresponding period in 2018.

Included in the FY19 results are $1.9 million write down of the remaining carrying amount of 40% investment in 616 Digital LLC and $2.4 million write down of the goodwill for the Australian service business division.

The following table summarises the results for the year:

In millions of AUD	12 months to 30 June 2019	12 months to 30 June 2018	Variance %
Total Revenue	**234.3**	**265.6**	**(11.8%)**
Underlying EBITDA	43.0	67.6	(36.4%)
Reported EBITDA	44.8	68.0	(34.1%)
EBIT	**11.4**	**40.0**	**(71.5%)**
Profit before tax	14.7	42.3	(65.2%)
Profit for the year	**10.9**	**31.9**	**(65.8%)**
Total assets	**483.3**	**506.3**	**(4.5%)**
Net assets	**393.5**	**378.8**	**3.9%**
Earnings per share (fully diluted)	3.0 cents	9.0 cents	(66.7%)
Total dividends per share	–	4.0 cents	N/A

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

In millions of AUD	12 months to 30 June 2019	12 months to 30 June 2018	Variance %
Reconciliation:			
Profit before tax	**14.7**	**42.3**	**(65.2%)**
Net Interest	(3.3)	(2.3)	43.5%
Depreciation and amortisation	33.4	28.0	19.3%
Reported EBITDA	**44.8**	**68.0**	**(34.1%)**
Foreign currency gains	(6.0)	(3.1)	(93.5%)
Impairment losses (Receivables)	0.9	2.7	(66.7%)
Impairment losses (616 Digital LLC)	1.9	2.5	(24.0%)
Impairment losses (NSW Service Goodwill)	2.4	–	N/A
Reversal of bad debt provisions	(1.0)	–	N/A
Gain on sale of land	–	(2.5)	N/A
Underlying EBITDA	**43.0**	**67.6**	**(36.4%)**

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

5. OPERATING AND FINANCIAL REVIEW (continued)

Shareholder returns

$'000	2019	2018	2017	2016	2015
Profit attributed to owners of the company	$10,895	$31,936	$37,930	$55,703	$70,353
Basic EPS ($A)	$0.03	$0.10	$0.12	$0.17	$0.22
Dividends paid	$8,313	$4,966	$16,386	$32,245	$32,227
Change in share price ($A)	($0.37)	($1.12)	No Change	($0.41)	($1.17)

Net profit amounts for 2015 to 2019 have been calculated in accordance with Australian Accounting Standards (AASBs).

Investments for future performance

The Group continues to review and evaluate opportunities within the domestic and international 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 year, the Group continued to execute previously identified strategies and plans across its global product development operations, which most notably includes game development, software and hardware activities. The Group has significantly bolstered its ability to develop highly competitive game content as a consequence of expanding its internal studios through the appointment of additional experienced game developers to its internal studios in Australia and Las Vegas. Furthermore, the Group has entered into agreements with additional new third-party game development studios located in Australia and the US to further diversify the Group's game content and complement the innovation capabilities of the Group's internal studios.

The Group has now started to secure key regulatory approvals for a new EGM software platform that will power the Group's future range of games. This software platform provides a more "off-the-shelf" development environment that allows the Group to deliver a broader and more complex range of gaming content as well as to benefit from the efficiencies provided by modern software development methodologies and tools. This has also enabled the Group to attract new software development talent from a larger pool of highly skilled software developers.

Ainsworth Interactive is now a self-contained division that is engaged in the design, development and distribution of digital gaming solutions for regulated online real-money gaming, social casino and mobile gaming worldwide. Our strategy is to focus on expanding our game content distribution network throughout the online markets of Europe, Latin America ("LATAM") and the USA, continue to invest in interactive product innovation, and for Mustang Money online casino operating in Mexico, continue to build our database of active players and grow our revenues.

Ainsworth has an extensive range of games developed and approved for online distribution throughout regulated territories in Europe, USA and LATAM with additional game titles drawn from Ainsworth's latest range of high performing land-based games currently under development for release over the coming year.

We have extended our game content development and licensing agreement with the NASDAQ listed Zynga Inc that will extend and deepen Ainsworth and Zynga's existing strategic relationship through the addition of new Ainsworth interactive content to Zynga's "Hit It Rich" social casino app. Zynga is a leading global social gaming application provider that has successfully collaborated with Ainsworth since 2015 in the provision of some of Zynga's best performing social casino games.

Our new B2C casino, Mustang Money, continues to attract new players and grow its player database and its revenues in line with expectations. We have launched strategic ad campaigns with Facebook, Instagram and Twitter geared at positioning Ainsworth's iconic Mustang brand as a premiere online wagering offering in Mexico.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

Directors' Report (continued)

for the year ended 30 June 2019

Review of principal businesses
Results in the current period and prior corresponding period are summarised as follows:

In millions of AUD	12 months to 30 June 2019	12 months to 30 June 2018	Variance	Variance %
Segment revenue				
Australia	36.1	63.6	(27.5)	(43.2%)
Americas	186.7	184.4	2.3	1.2%
Rest of World	11.5	17.6	(6.1)	(34.7%)
Total segment revenue	**234.3**	**265.6**	**(31.3)**	**(11.8%)**
Segment result				
Australia	2.8	19.4	(16.6)	(85.6%)
Americas	71.1	71.3	(0.2)	(0.3%)
Rest of World	6.8	10.4	(3.6)	(34.6%)
Total segment result	**80.7**	**101.1**	**(20.4)**	**(20.2%)**
Unallocated expenses				
Net foreign currency gains	6.0	3.1	2.9	93.5%
R&D expenses	(40.4)	(34.4)	(6.0)	(17.4%)
Corporate expenses	(25.0)	(23.3)	(1.7)	(7.3%)
Other expenses	(4.3)	(2.5)	(1.8)	(72.0%)
Share of loss of equity-accounted investee	(0.1)	(0.1)	–	–
Total unallocated expenses	**(63.8)**	**(57.2)**	**(6.6)**	**(11.5%)**
Less : interest included in segment result	(5.5)	(3.9)	(1.6)	41.0%
EBIT	**11.4**	**40.0**	**(28.6)**	**(71.5%)**
Net interest	3.3	2.3	1.0	43.5%
Profit before income tax	**14.7**	**42.3**	**(27.6)**	**(65.2%)**
Income tax expense	(3.8)	(10.4)	6.6	63.5%
Profit after income tax	**10.9**	**31.9**	**(21.0)**	**(65.8%)**

5. OPERATING AND FINANCIAL REVIEW (continued)

Key performance metrics	% of revenue 12 months to 30 June 2019	% of revenue 12 months to 30 June 2018	Variance Points
Segment result margin			
Australia	7.8	30.5	(22.7)
Americas	38.1	38.7	(0.6)
Rest of World	59.1	59.1	–
Segment result margin	**34.4**	**38.1**	**(3.7)**
R&D expense	17.2	13.0	4.2
Adjusted EBIT(1)	2.3	13.9	(11.6)
Adjusted profit before income tax(1)	3.7	14.8	(11.1)
Adjusted profit after income tax(1)	2.1	10.8	(8.7)

	%		Variance
Effective tax rate	25.9	24.6	1.3

(1) Excludes net foreign currency gain of $6,045 thousand (2018: Net foreign currency gain of $3,113 thousand).

Revenue

Revenue for the period was $234.3 million, compared to $265.6 million in 2018, a decrease of 12%. International revenue contributed 85% of total revenue, compared to 76% in prior corresponding period.

Australian revenue declined to $36.1 million in 2019, a decrease 43% 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 late second half of 2019. Notwithstanding these factors, the launch of Loaded with Loot™ product in the last quarter in FY19 has been well received by the market.

International revenue was $198.2 million compared to $202.0 million in 2018, a slight decrease of 2%, mainly driven by the decrease in sales in Europe. The Americas contributed 94% of total international revenue, with North America and Latin America representing 57% and 37% respectively.

The Americas now constitutes 80% ($186.7 million) of total revenues, an increase of 11% 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 previous periods.

North America contributed $114.0 million in total revenue, an increase of 8% compared to prior corresponding period. The increase in the period is driven by increased sales in game conversions for AGT's North America top performing game, Quick Spin™.

In conjunction with the revenue achieved from outright sales, the Group maintained a base of 2,190 gaming units under participation arrangements as at the reporting date in North America. Participation revenue decreased slightly contributing revenue of $28.1 million (25%) in the current period compared to $29.8 million (28%) 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.

Revenue from Latin America was $72.7 million, compared to $78.7 million in 2018. The Group has increased its footprint within this region and has 4,616 units under gaming operations in this market at reporting date. This represents an increase of 41% compared to the 3,269 units under gaming operations as at 30 June 2018. Despite the increased in gaming operations installed base, the average per day fee has decreased due to the devaluation of Mexican Peso against USD and increased competitor's activities.

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 $11.5 million representing a decrease of 35% compared to the prior corresponding period in 2018 as a result of decrease in unit sales in all the regions within this segment except for online.

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 marketplace.

Operating costs

Despite challenging conditions for the Group, gross margin of 60% was achieved for the full year FY19, which was broadly consistent with prior corresponding period of 59%. North America, the largest contributor to the overall gross margin for the Group, increased its margin by 4%. This increase was however offset by the drop in margin in the Australia segment due to higher production overhead recovery costs as a result of lower unit sales.

Operating costs, excluding cost of sales, other expenses and financing costs were $130.3, an increase of 11% over 2018. This increase was primarily due to increased R&D expense increased expenditure on new product initiatives, increased depreciation for additional gaming machines placed under the participation fleet in Latin America compared to 2018. 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 $40.4 million, an increase of $6.0 million over 2018, which represented 17% of revenue (2018: 13%). The increase is due to additional 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 $25.0 million, an increase of $1.7 million compared to 2018. The increase in administrative expenses include the reversal of previously recognised 2015 Performance Rights share based payment amortisation of $2.4m in 2018. The Group will continue to prudently manage its administration costs while meeting the Company's objectives.

Financing income and costs

Net financing income was $9.3 million in the current period, compared to a net financing income of $5.4 million in 2018. This positive movement of $3.9 million was a result of foreign exchange gain of $6.0 million in the current period compared to a foreign currency gain of $3.1 million in 2018, a favourable change of $2.9 million.

Review of financial condition

Capital structure and treasury policy

The Company currently has on issue 336,793,929 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 2019 was $61.2 million, an increase of $42.0 million compared to the corresponding period in 2018. Increased in debtors' collections and efficient inventory purchase management undertaken during the period has assisted with the improvement in net operating cash flows.

Liquidity and funding

Cash and cash equivalents at 30 June 19 was $61.7 million (2018: $35.7 million). The Group has in place a A$90 million facility with an expiry date of 30 September 2021 with a leading Australian bank. 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 strong cash balance in FY19 resulted in a net positive cash position with cash balances greater than debt at reporting date. 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 plans to continue to repay its loan in coming periods.

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.

5. OPERATING AND FINANCIAL REVIEW (continued)

Market Capitalisation

An analysis based upon the share price at 30 June 2019 ($0.670) implies a market capitalisation of $225,652 thousand, which indicates a deficit of $167,893 thousand to the net assets value of $393,545 thousand as at 30 June 2019. Based on future growth projections, the directors believe that the Group's recoverable amount is above market capitalisation at reporting date. 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 2019 (refer to Note 13 to the financial statements).

6. DIVIDENDS

The following dividends were declared and paid by the Company for year ended 30 June 2019:

	Cents per share	Total amount $'000	Date of payment
Declared and paid during the year 2019			
Final 2018 ordinary (franked)	2.5	8,313	7 November 2018
Total amount		8,313	

Declared after end of year

No dividend has been declared after year end.

Dividends have been dealt within the financial report as:

	Note	$'000
Dividends – Final 2018 ordinary (franked)	*19(c)*	8,313

7. EVENTS SUBSEQUENT TO REPORTING DATE

Mr Lawrence Levy commenced his role as CEO of the Group from 1 July 2019, consistent with the previous announcements made on ASX on 5 April 2019 and 1 July 2019.

On 3 July 2019, Aristocrat Technologies Australia Pty Limited commenced proceedings against the Company in the Federal Court of Australia claiming infringement of intellectual property rights and breach of the Australian Consumer Law. These proceedings are at a preliminary stage and will be vigorously defended. No liability has been recognised in the financial report. The Company considers any further disclosure is inappropriate as the matter is currently before the Court and could prejudice the Company's defence.

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 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	389,241	–
Mr MB Yates	43,600	–
Mr CJ Henson	135,189	–
Ms HA Scheibenstock	15,344	–
Mr DE Gladstone	134,765	–
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
01 March 2022	Rights	$Nil	3,224,149
			3,224,149

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

All performance rights outstanding were granted in FY17 (i.e. 1 March 2017) and are subject to achievement of share price compounded growth of at least 15% per annum measured at each vesting period. Further details about share based payments to directors and KMP's are included in the Remuneration Report in section 15. These rights do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Shares issued on exercise of options

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

11. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

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

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

Insurance premiums

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

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

12. NON-AUDIT SERVICES

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

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

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

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

	2019 $
Services other than audit and review of financial statements:	
Other regulatory audit services	
Controlled entity audit	22,500
Other services	
In relation to taxation services	116,215
	138,715
Audit and review of financial statements	262,000
Total paid/payable to KPMG	**400,715**

13. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 99 and forms part of the directors' report for the financial year ended 30 June 2019.

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.

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 FY19 Remuneration Report. At the 2018 Annual General Meeting (AGM), 1.2% of shareholders voted against our Remuneration Report following the ‘first strike’ recorded at the 2017 AGM. During the lead-up and subsequent to the 2018 AGM, the Company and Chairman of the RNC continued to engage with major shareholders to better understand their concerns and ensure robust remuneration strategies evolve to meet Board objectives.

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 is 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.

FY19 remuneration outcomes

The key remuneration outcomes for FY19 include:

- No fixed annual remuneration increases for key management personnel for FY19 and FY20;
- Short Term Incentive (STI) for FY19 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;
- Following a review of Long Term Incentive (LTI) by RS, it is expected a new LTI grant will be made within FY20 to help retain our workforce and better aligned achievement of financial results with the interest of shareholders;
- Previous LTI grants under Rights Share Trust (RST) remain unchanged:
  - Grant of 17 March 2015 Performance Rights remaining 50% lapsed on 17 March 2019; and
  - Grant of 1 March 2017 Performance Rights, Tranche 2 performance conditions were not met at 1 March 2019 vesting date and will be re-tested at the next applicable performance period, subject to the higher performance condition for the next tranche.

We value feedback as our business and remuneration strategies will be continually reviewed to ensure aligned with Board objectives over the coming year.

Yours sincerely,

CJ Henson
Chairman, Remuneration and Nomination Committee

Directors' Report (continued)

for the year ended 30 June 2019

Contents

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 marketplace. 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 2019 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.

15. REMUNERATION REPORT (continued)

15.1 Remuneration Framework – audited (continued)

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 FY19 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)) for FY19 were assessed on 25 June 2019 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 1% (2018: 5%) 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 17 March 2015 lapsed on 17 March 2019 due to performance conditions not being met.

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

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 2 of these rights did not vest at the second vesting date of 1 March 2019 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 2020, 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.

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's 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 2015 to 2019 have been calculated in accordance with Australian Accounting Standards (AASBs).

$'000	2019	2018	2017	2016	2015
Profit attributable to owners of the company	$10,895	$31,936	$37,930	$55,703	$70,353
Dividends paid	$8,313	$4,966	$16,386	$32,245	$32,227
Change in share price ($A)	**($0.37)**	**($1.12)**	**No change**	**($0.41)**	**($1.17)**

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.

15. REMUNERATION REPORT (continued)

15.3 Service contracts – audited (continued)

Mr Lawrence Levy was appointed as Chief Executive Officer (CEO) effective 1 July 2019 as per his contract with the company dated 2 May 2019. 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.

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 was 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 is reimbursed as incurred.

There was no increase in non-executive compensation including Board and Committee fees during the period.

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 assist the RNC review and evaluate remuneration practices of the Group. The RNC has received a preliminary report and is awaiting a final report from RS to assist in establishing a long-term incentive aligned to Board objectives and shareholder interests. A total of $12,900 was paid during the year for these services.

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.

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:

In AUD		Short-term				Post-employment	Other long term benefits		Share-based payments			
		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	2019	270,000	–	–	270,000	25,650	–	–	–	295,650	–	–
	2018	270,000	–	–	270,000	25,650	–	–	–	295,650	–	–
Mr MB Yates	2019	156,000	–	–	156,000	14,820	–	–	–	170,820	–	–
	2018	156,000	–	–	156,000	14,820	–	–	–	170,820	–	–
Mr CJ Henson	2019	152,000	–	–	152,000	14,440	–	–	–	166,440	–	–
	2018	152,000	–	–	152,000	14,440	–	–	–	166,440	–	–
Ms HA Scheibenstock	2019	143,000	–	–	143,000	13,585	–	–	–	156,585	–	–
	2018	143,000	–	–	143,000	13,585	–	–	–	156,585	–	–
Mr HK Neumann	2019	–	–	–	–	–	–	–	–	–	–	–
	2018	–	–	–	–	–	–	–	–	–	–	–
Sub-total non-executive directors' remuneration	2019	721,000	–	–	721,000	68,495	–	–	–	789,495	–	–
	2018	721,000	–	–	721,000	68,495	–	–	–	789,495	–	–

Directors' Report (continued)

for the year ended 30 June 2019

15. REMUNERATION REPORT (continued)

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

In AUD		Short-term Salary & fees $	Short-term STI cash bonus (A) $	Short-term Non-monetary benefits $	Short-term Total $	Post-employment Super-annuation benefits $	Other long term benefits (C) $	Termination benefits $	Share-based payments Rights (B) $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Executive directors												
Former												
Mr DE Gladstone (Chief Executive Officer) – resigned as CEO 30 June 2019 and appointed non-executive director	2019	750,000	20,625	81,434	852,059	73,209	70,192	–	(267,804)	727,656	3%	–
	2018	750,000	89,375	85,082	924,457	79,741	70,192	–	(161,989)	912,401	10%	–
Mr LH Ainsworth (Executive Director) – resigned 5 January 2018	2019	–	–	–	–	–	–	–	–	–	–	–
	2018	152,500	–	15,000	167,500	14,488	–	–	–	181,988	–	–
Total directors' remuneration	2019	1,471,000	20,625	81,434	1,573,059	141,704	70,192	–	(267,804)	1,517,151	1%	–
	2018	1,623,500	89,375	100,082	1,812,957	162,724	70,192	–	(161,989)	1,883,884	5%	–
Executives												
Current												
Mr ML Ludski – Chief Financial Officer/ Company Secretary	2019	362,094	10,920	79,915	452,929	35,436	33,888	–	17,341	539,594	2%	3%
	2018	362,094	46,037	85,805	493,936	38,772	33,888	–	(58,899)	507,697	9%	–
Mr V Bruzzese – General Manager Technical Services	2019	283,445	5,669	24,000	313,114	27,466	26,528	–	9,195	376,303	2%	2%
	2018	283,445	24,566	24,000	332,011	29,261	26,528	–	(32,649)	355,151	7%	–
Mr K Power – Chief Technology Officer	2019	384,000	3,840	–	387,840	36,845	35,938	–	11,116	471,739	1%	2%
	2018	384,000	11,520	–	395,520	37,574	35,938	–	20,702	489,734	2%	4%

In AUD		Short-term: Salary & fees $	Short-term: STI cash bonus (A) $	Short-term: Non-monetary benefits $	Short-term: Total $	Post-employment: Super-annuation benefits $	Other long term benefits: (C) $	Termination benefits $	Share-based payments: Rights (B) $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Former												
Mr I Cooper – General Manager Manufacturing – retired 1 April 2018	2019	–	–	–	–	–	–	–	–	–	–	–
	2018	187,828	6,678	22,232	216,738	18,478	13,184	–	(71,352)	177,048	4%	–
Total executives' remuneration	2019	1,029,539	20,429	103,915	1,153,883	99,747	96,354	–	37,652	1,387,636	1%	3%
	2018	1,217,367	88,801	132,037	1,438,205	124,085	109,538		(142,198)	1,529,630	6%	–
Total directors' and executive Officers' remuneration	2019	2,500,539	41,054	185,349	2,726,942	241,451	166,546	–	(230,152)	2,904,787	1%	–
	2018	2,840,867	178,176	232,119	3,251,162	286,809	179,730	–	(304,187)	3,413,514	5%	–

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 2019 financial year uses the criteria set out in section 15.1.3. The amount was considered on 25 June 2019 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 the remaining deferred component 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.

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 2019.

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 2019 are detailed below:

	Short term incentive bonus		
	Included in remuneration $ (A)	% vested in year (B)	% forfeited in year (C)
Director			
Mr DE Gladstone	20,625	– %	100%
Executives			
Mr ML Ludski	10,920	– %	100%
Mr V Bruzzese	5,669	– %	100%
Mr K Power	3,840	– %	100%

A. Amounts included in remuneration for the 2019 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 2019 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 (2018: nil shares) were issued on the exercise of options previously granted as compensation.

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%	–
	Rights	263,056	17 March 2015	– %	100%	–
	Rights	328,791	01 March 2017	– %	100%	–
Mr ML Ludski	Rights	30,854	22 July 2013	– %	100%	–
	Rights	95,773	17 March 2015	– %	100%	–
	Rights	119,053	01 March 2017	– %	– %	2018-2021
Mr V Bruzzese	Rights	22,685	22 July 2013	– %	100%	–
	Rights	52,490	17 March 2015	– %	100%	–
	Rights	62,131	01 March 2017	– %	– %	2018-2021
Mr K Power	Rights	112,228	01 March 2017	– %	– %	2018-2021

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

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	–	–	–	429,741
Mr ML Ludski	–	–	–	103,879
Mr V Bruzzese	–	–	–	56,932
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 2018	Granted as compensation	Exercised	Other Changes*	Held at 30 June 2019	Vested during the year	Vested and exercisable at 30 June 2019
Rights							
Mr DE Gladstone	462,771	–	–	(462,771)	–	–	–
Mr ML Ludski	167,832	–	–	(48,779)	119,053	–	–
Mr V Bruzzese	88,865	–	–	(26,734)	62,131	–	–
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 2019 were Nil (2018: Nil). No rights or options were held by related parties of key management personnel.

15. REMUNERATION REPORT (continued)

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 2018	Purchases	Sales	Dividend Re-Investment Plan (DRP) allotment	Held at 30 June 2019
Current					
Mr GJ Campbell	360,533	20,000	–	8,708	389,241
Mr MB Yates	30,600	13,000	–	–	43,600
Mr CJ Henson	132,164	–	–	3,025	135,189
Ms HA Scheibenstock	–	15,000	–	344	15,344
Mr DE Gladstone	57,395	87,000	–	1,951	146,346
Mr HK Neumann	–	–	–	–	–
Mr M Ludski	10,000	–	–	–	10,000
Mr V Bruzzese	765	–		18	783
Mr Kieran Power	4,662	–	–	–	4,662

No Shares were granted to key management personnel during the reporting period as compensation in 2018 or 2019.

Mr DE Gladstone resigned as Chief Executive Officer (CEO)/Executive Director on 30 June 2019 and undertook the role as Non-Executive Director effective 1 July 2019. Mr SL Levy was appointed CEO effective 1 July 2019.

There were no other 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 27th day of August 2019

Consolidated Statement of Financial Position

as at 30 June 2019

In thousands of AUD	*Note*	30-Jun-19	30-Jun-18
Assets			
Cash and cash equivalents	*18*	61,661	35,667
Receivables and other assets	*17*	119,964	153,464
Current tax assets		2,813	324
Inventories	*16*	66,851	79,304
Prepayments		8,436	5,239
Total current assets		**259,725**	**273,998**
Receivables and other assets	*17*	28,648	39,259
Deferred tax assets	*15*	2,786	5,001
Property, plant and equipment	*12*	130,548	118,593
Intangible assets	*13*	61,555	67,496
Equity-accounted investee	*14*	–	2,001
Total non-current assets		**223,537**	**232,350**
Total assets		**483,262**	**506,348**
Liabilities			
Trade and other payables	*24*	20,945	37,500
Loans and borrowings	*21*	12,661	239
Employee benefits	*22*	9,590	9,513
Current tax liability		618	4,069
Provisions	*25*	1,015	1,100
Total current liabilities		**44,829**	**52,421**
Loans and borrowings	*21*	42,778	71,721
Employee benefits	*22*	525	589
Deferred tax liabilities	*15*	1,585	2,818
Total non-current liabilities		**44,888**	**75,128**
Total liabilities		**89,717**	**127,549**
Net assets		**393,545**	**378,799**
Equity			
Share capital	*19*	207,709	203,032
Reserves	*19*	187,454	179,787
Accumulated losses	*19*	(1,618)	(4,020)
Total equity		**393,545**	**378,799**

* The Group has initially applied AASB 9 and AASB 15 at 1 July 2018. Under the transition methods chosen, comparative information is not restated.

The notes on pages 41 to 90 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 2019

In thousands of AUD	*Note*	30-Jun-19	30-Jun-18
Revenue	*7*	234,344	265,584
Cost of sales		(94,395)	(108,982)
Gross profit		**139,949**	**156,602**
Other income	*8*	1,228	2,929
Sales, service and marketing expenses		(64,851)	(59,587)
Research and development expenses		(40,428)	(34,407)
Administrative expenses		(25,065)	(23,274)
Other expenses		(5,414)	(5,165)
Results from operating activities		**5,419**	**37,098**
Finance income	*11*	11,559	7,013
Finance costs	*11*	(2,242)	(1,580)
Net finance income		**9,317**	**5,433**
Share of loss of equity accounted investee	*14*	(54)	(224)
Profit before tax		**14,682**	**42,307**
Income tax expense	*15*	(3,787)	(10,371)
Profit for the year		**10,895**	**31,936**
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Foreign operations - foreign currency translation differences		8,277	5,624
Total other comprehensive income		**8,277**	**5,624**
Total comprehensive income for the year		**19,172**	**37,560**
Profit attributable to owners of the Company		**10,895**	**31,936**
Total comprehensive income attributable to the owners of the Company		**19,172**	**37,560**
Earnings per share:			
Basic earnings per share (AUD)		$0.03	$0.10
Diluted earnings per share (AUD)		$0.03	$0.09

* The Group has initially applied AASB 9 and AASB 15 at 1 July 2018. Under the transition methods chosen, comparative information is not restated.

The notes on pages 41 to 90 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2019

In thousands of AUD	Issued capital	Equity compensation reserve	Fair value reserve	Translation reserve	Profit reserve	Retained Earnings/ (Accumulated losses)	Total equity
	Attributable to owners of the Company						
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**
Restated balance at 30 June 2018	**203,032**	**4,329**	**9,684**	**10,987**	**154,787**	**(4,020)**	**378,799**
Adjustment from intial application of AASB 15 (net of tax)	–	–	–	–	–	34	34
Adjustment from initial application of AASB 9 (net of tax)	–	–	–	–	–	(812)	(812)
Adjusted balance at 1 July 2018	**203,032**	**4,329**	**9,684**	**10,987**	**154,787**	**(4,798)**	**378,021**
Total comprehensive income for the period							
Profit	–	–	–	–	–	10,895	10,895
Transfer between reserves	–	–	–	–	7,715	(7,715)	–
Other comprehensive income							
Foreign currency translation reserve	–	–	–	8,277	–	–	8,277
Total other comprehensive income	–	–	–	8,277	–	–	8,277
Total comprehensive income for the period	–	–	–	8,277	7,715	3,180	19,172
Transactions with owners, recorded directly in equity							
Issue of ordinary shares under the Dividend Reinvestment Plan	4,677	–	–	–	(4,677)	–	–
Dividends to owners of the Company	–	–	–	–	(3,636)	–	(3,636)
Share-based payment amortisation	–	(12)	–	–	–	–	(12)
Total transactions with owners	4,677	(12)	–	–	(8,313)	–	(3,648)
Balance at 30 June 2019	**207,709**	**4,317**	**9,684**	**19,264**	**154,189**	**(1,618)**	**393,545**

* The Group has initially applied AASB 9 and AASB 15 at 1 July 2018. Under the transition methods chosen, comparative information is not restated.

The notes on pages 41 to 90 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 June 2019

In thousands of AUD	*Note*	30-Jun-19	30-Jun-18
Cash flows from operating activities			
Cash receipts from customers		307,693	254,310
Cash paid to suppliers and employees		(245,515)	(224,007)
Cash generated from operations		**62,178**	**30,303**
Interest received		5,503	–
Income taxes paid		(6,473)	(11,045)
Net cash from operating activities	*18(a)*	**61,208**	**19,258**
Cash flows used in investing activities			
Proceeds from sale of property, plant and equipment		29	4,638
Interest received		11	3,900
Acquisitions of property, plant and equipment	*12*	(6,521)	(8,328)
Development expenditure	*13*	(3,340)	(5,547)
Net cash used in investing activities		**(9,821)**	**(5,337)**
Cash flows (used in)/from financing activities			
Proceeds from borrowings		–	3,130
Borrowing costs paid		(1,887)	(892)
Repayment of borrowings		(20,676)	–
Proceeds from finance lease		–	217
Payment of finance lease liabilities		(929)	(178)
Dividend paid		(3,636)	(2,179)
Net cash (used in)/from financing activities		**(27,128)**	**98**
Net increase in cash and cash equivalents		24,259	14,019
Cash and cash equivalents at 1 July		35,667	21,094
Effect of exchange rate fluctuations on cash held		1,735	554
Cash and cash equivalents at 30 June		**61,661**	**35,667**

* The Group has initially applied AASB 9 and AASB 15 at 1 July 2018. Under the transition methods chosen, comparative information is not restated.

The notes on pages 41 to 90 are an integral part of these consolidated financial statements.

Index to Notes to the Financial Statements and Significant Accounting Policies

for the year ended 30 June 2019

Notes to the Financial Statements (continued)

for the year ended 30 June 2019

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 2019 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 27 August 2019.

(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.

(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 to 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.

Recognition and initial measurement

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification and subsequent measurement

Financial assets - Policy applicable from 1 July 2018

On initial recognition, a financial asset is classified as measured at amortised cost. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at Fair Value Through Profit or Loss (“FVTPL”):

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets - Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management’s strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sale of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group’s continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluation on a fair value basis are measured at FVTPL.

Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the· amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse features).

Financial assets – Subsequent measurement and gains and losses. Policy applicable from 1 July 2018

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets - Policy applicable before 1 July 2018

The Group classified its financial assets into loans and receivables. These assets were subsequently measured at amortised cost using the effective interest method.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised. Financial assets at fair value through profit or loss.

(ii) Non-derivative financial liabilities

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

Recognition and initial measurement

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 expired.

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.

Classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

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.

Derecognition

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iii) Offsetting

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

(iv) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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

Policy applicable after 1 July 2018

The Group recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost. The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitive information and analysis, based on the Group's historical experience and informed credit assessment and including available forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if there is significant difficulty of the borrower or issuer. Lifetime ECLs are the ECLs that result from possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

— significant financial difficulty of the borrower or issuer;
— the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
— a breach of contract such as a default or shortfall of agreed payment plans; or
— it is probable that the borrower will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy applicable before 1 July 2018

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

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

Financial assets measured at amortised cost

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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

The transition from AASB 118 *Revenue* to AASB 15 *Revenue from Contracts with Customers* is disclosed under Note 3(r).

Policy applicable after 1 July 2018

(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. For machine sales in which the Group is also responsible for fulfilling performance obligation related to installation of the machines sold, under AASB 15 the installation is considered as a separate performance obligation. This is because the promise to install is implicit in the contract based on established business practices and creates a valid expectation that the Group will provide the service to the customer. Therefore, the amount of revenue recognised is adjusted for machines that are yet to be installed by the Group. In such circumstances, a reversal of revenue is recorded.

(ii) Multi element arrangements

When gaming machines, games, conversions and other incidental items are licensed to customers for extended periods, the Group determines the portion of the transaction price that it allocates to each performance obligation within this arrangement using the relative standalone selling price. The transaction price is allocated to each performance obligation based on the proportion of the standalone selling price of each performance obligation to the sum of the standalone selling prices of all performance obligations.

Revenue is recognised for the hardware and software components upon delivery and interest income is recognised on a straight-line basis over the licence term. The timing of the recognition of conversion option material right is the earlier of the exercising of the conversion option or expiry of the option.

(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.

Policy applicable before 1 July 2018

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Multi element arrangements

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

(iii) Licence income

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

(b) Services

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

(c) Participation and rental

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

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

(m) Lease payments

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

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

(n) Finance income and finance costs

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

Finance costs comprise interest expense on borrowings 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) Changes in new significant accounting policies

The Group has initially adopted AASB 15 *Revenue from Contracts with Customers* (see (A) and AASB 9 *Financial Instruments* (see B) from 1 July 2018. A number of other new standards are effective from 1 January 2018, but they do not have a material effect on the Group's financial statements.

The effect of initially applying these standards is mainly attributable to the following:

- defer recognition of revenue related to installation of machines (see A);
- an adjustment in timing of revenue recognition for performance obligations on multi-element arrangement contracts (see A); and
- an increase in impairment losses recognised on financial assets (see B).

A. AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 Revenues, AASB 111 Construction Contracts and related interpretations.

The Group has adopted AASB 15 using the cumulative effect method (with practical expedients), with the effect of initially applying this standard recognised at the date of initial application, 1 July 2018. Accordingly, the information presented for the comparative period has not been restated, i.e. it is presented, as previously reported, under AASB 118, AASB 111 and related interpretations.

The Group has elected to use the following practical expedients in relation to sale of machines and multi-element arrangement contracts:

- The promised amount of consideration was not adjusted for the effects of a significant financing component for contracts if the Group, at contract inception, expects that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be of one year or less; and
- The incremental costs of obtaining a contract was recognised as an expense when incurred where the amortisation period of the asset that the entity otherwise would have recognised is one year or less. Where the amortisation period is more than one year the incremental costs of obtaining a contract were minimal.

The following table summarises the impact, net of tax, of transition to AASB 15 on retained earnings at 1 July 2018.

In thousands of AUD	*Note*	Impact of adopting AASB 15 at 1 July 2018
Retained earnings		
Machine sale contracts	*(i)*	(62)
Multi-element arrangements	*(ii)*	96
Impact at 1 July 2018		34

Notes to the Financial Statements (continued)

for the year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The following tables summarise the impacts of adopting AASB 15 on the Group's statement of financial position as at 30 June 2019 and its statement of profit or loss and other comprehensive income for the year ended 30 June 2019 for each line item affected. There was no material impact on the Group's statement of cash flows for the year ended 30 June 2019.

Impact on the consolidated statement of financial position:
30 June 2019

In thousands of AUD	As reported	Adjustments	Amounts without adoption of AASB 15
Assets			
Current Assets			
Trade and other receivables	119,964	(51)	119,913
Total Current Assets	**119,964**	**(51)**	**119,913**
Non-Current Assets			
Trade and other receivables	28,648	(297)	28,351
Total Non-Current Assets	**28,648**	**(297)**	**28,351**
Equity			
Accumulated losses	(1,618)	(348)	(1,966)
Total Equity	**(1,618)**	**(348)**	**(1,966)**

Impact on the consolidated statement of profit or loss and other comprehensive income:
For the year ended 30 June 2019

In thousands of AUD	As reported	Adjustments	Amounts without adoption of AASB 15
Revenue	234,344	(348)	233,996
Gross profit	139,949	(348)	139,601
Operating profit	5,419	(348)	5,071
Profit before tax	14,682	(348)	14,334
Profit for the year	10,895	(348)	10,547
Total comprehensive income for the year	19,172	(348)	18,824

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services offering are set as follows:

Under AASB 15, revenue is recognised when a customer obtains control of goods or services. Determining whether the timing of the transfer of control should be at a point in time or over time requires judgement.

Type of product/ service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
i. Machines sales	Customers obtain control of machines when the goods are delivered and have been accepted by the customer. Invoices are generated and revenue is recognised at that point in time.	Under AASB 118, revenue for these contracts was recognised when persuasive evidence exists usually in the form of an executed sale 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. For machine sales in which the Group is also responsible for fulfilling performance obligation related to installation of the machines sold, under AASB 15 the installation is considered as a separate performance obligation. This is because the promise to install is implicit in the contract based on established business practices and creates a valid expectation that the Group will provide the service to the customer. Therefore, the amount of revenue recognised is adjusted for machines that are yet to be installed by the Group. In such circumstances, a reversal of revenue is recorded. The impact of these changes on items other than revenue is a decrease in trade and other receivables as described on page 52.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Type of product/ service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
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 conversion option material rights on a straight-line basis over the licence term. Where a contract contains a significant financing component, there is no change from current practice in recognising interest income over time.	Under AASB 118, the Group determines the portion of the transaction price that it allocates to each performance obligation within this arrangement using the relative standalone selling price. The transaction price is allocated to each performance obligation based on the proportion of the standalone selling price of each performance obligation to the sum of the standalone selling prices of all performance obligations. Under AASB 15, the standalone selling price of the conversion option material right now reflects the discount the customer would obtain when exercising the option, adjusted for the likelihood that the option will be exercised. This results in a lower proportion of transaction price allocated to the conversion option material right, and therefore less revenue is deferred. The timing of the recognition of conversion option material right is now the earlier of the exercising of the conversion option or expiry of the option. These changes impact the timing and amount of revenue recognition. The impact of these changes on items other than revenue is trade and other receivables as described on page 52.
iii. License income	Licence income, including those received from online gaming 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.	AASB 15 did not have a significant impact on the Group's accounting policies.
iv. Services	Revenue from services rendered is recognised in profit or loss when the services are performed. The Group has concluded that revenue from services meets the criteria set with AASB15 for revenue recognised over time and progress will be measured by using the inputs method.	AASB 15 did not have a significant impact on the Group's accounting policies

Operating lease revenues including participation and rental falls outside the scope of AASB 15. These revenues are recorded in accordance with AASB 16 *Leases* (see below).

B. AASB 9 Financial Instruments

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. This standard results in changes to accounting policies for financial assets and liabilities covering classification and measurement and impairment. The Group has elected not to restate its comparatives and as a result at the date of initial application, that is, at 1 July 2018, the Group adjusted its opening retained earnings for changes in the impairment provision amount of its financial assets from inception of those assets to this date.

The following table and the accompanying notes below explain the original measurement of categories under AASB 139 and the new measurement categories under AASB 9 for each class of the Group's financial assets and liabilities as at 1 July 2018.

The effect of adopting AASB 9 on the carrying amounts of financial assets at 1 July 2018 relates solely to the new impairment requirements.

In thousands of AUD	*Note*	Original classification under AASB 139	New classification under AASB 9	Original carrying amount under AASB 139	New carrying amount under AASB 9
Financial assets					
Trade and other receivables	*(a)*	Loans and receivables	Amortised cost	192,723	191,509
Cash and cash equivalents		Loans and receivables	Amortised cost	35,667	35,667
Total financial assets				**228,390**	**227,176**
Financial liabilities					
Secured bank loans		Other financial liabilities	Other financial liabilities	71,721	71,721
Finance lease liabilities		Other financial liabilities	Other financial liabilities	239	239
Trade payables		Other financial liabilities	Other financial liabilities	37,500	37,500
Total financial liabilities				**109,460**	**109,460**

a) Trade and receivables that were classified as loans and receivables under AASB 139 are now classified at amortised cost. An increase of $1,214 thousand in the allowance for impairment over these receivables were recognised in opening retained earnings at 1 July 2018 on transition to AASB 9.

The following table summarises the impact, net of tax, of transition to AASB 9 on the opening balance of reserves and retained earnings.

In thousands of AUD	*Note*	Impact of adopting AASB 9 at 1 July 2018
Retained earnings		
Recognition of expected credit losses under AASB 9 recognised over time	*(i)*	(1,214)
Related tax		402
Impact at 1 July 2018		**(812)**

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out as follows:

(i) Impairment of financial assets – trade receivables

AASB 9 replaces the 'incurred loss' model in AASB 139 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost. Under AASB 9, credit losses are recognised earlier than under AASB 139.

Under AASB 9, loss allowances are measured on either of the following basis:

- 12 month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group has elected to measure loss allowances for trade receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information and analysis, based on the Group's historical experience, informed credit assessment and forward-looking information.

Measurement of ECLS

ECLs are probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

Credit-impaired financial assets

At each reporting date, the Group will assess whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the asset.

Impact of the new impairment model

For assets in the scope of the AASB 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of AASB 9's impairment requirements at 1 July 2018 results in an additional impairment allowance as outlined as follows:

In thousands of AUD	Impact of adopting AASB 9 at 1 July 2018
Loss allowance at 30 June 2018 under AASB 139	3,931
Additional impairment recognised at 1 July 2018 on:	
Trade and other receivables as at 30 June 2018	1,214
Loss allowance at 1 July 2018 under AASB 9	**5,145**

The ECLs on trade and other receivables were calculated based on actual credit loss experience over the past four years. Exposures within each group were segmented based on common credit risk characteristics for each geographical region. The Group performed the calculation of ECL rates based on the customers geographic region and applied the calculated ECL to the closing trade receivables amounts at reporting date.

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables as at 1 July 2018 upon adoption of AASB 9.

In thousands of AUD

Geographical region	Loss rate	Debtor Balance	Impairment loss allowance under AASB 9	Impairment loss allowance under AASB 139
Australia & Other	3.2%	33,414	(1,085)	(942)
North America	1.6%	69,930	(1,126)	(967)
Latin America	3.1%	93,309	(2,934)	(2,022)
		196,653	**(5,145)**	**(3,931)**

The methodology described above has also been used at this reporting date. Changes during the period to the Group's exposure to credit risk are shown in the following table which provides information about exposure to credit risk and ECLs for trade and other receivables as at 30 June 2019.

In thousands of AUD

Geographical region	Loss rate	Debtor Balance	Impairment loss allowance under AASB 9
Australia & Other	1.8%	19,109	336
North America	3.4%	45,961	1,541
Latin America	3.6%	87,951	3,125
		153,021	**5,002**

(s) Changes in new standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2018 and earlier application is permitted, however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

The Group has the following updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Group's consolidated financial statements.

AASB 16 Leases

AASB 16 replaces the current AASB 117 Leases standard. The standard is effective for annual periods beginning 1 January 2019. AASB 16 introduces a single, on-balance sheet lease accounting model for lessees, effectively treating all leases as finance leases. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to current practice, i.e. lessors continue to classify leases as finance or operating leases.

The Group has completed the assessment on the impact on its consolidated financial statements. The Group has assessed all of the leases at 30 June 2019 and have determined the impact of applying AASB 16 on the financial statements in the period of initial application at 1 July 2019.

Thus far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of office, warehouse, factory facilities and office equipment.

In addition, the nature of expenses related to those leases will now change because AASB 16 replaces the straight-line operating leases expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

(i) Determining whether an arrangement contains a lease

The Group has an arrangement that was not in the legal form of a lease, for which it concluded that the arrangement contains a lease of equipment under Interpretation 4.

On transition to AASB 16, the Group can choose whether to:

- apply the AASB 16 definition of a lease to all its contracts, or
- apply a practical expedient and not reassess whether a contract is, or contains, a lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition whereby all contracts entered into before 1 July 2019 been identified as leases under AASB 117 and Interpretation 4.

(ii) Transition to AASB 16

As the lessee, the Group can either apply the standard using a:

- retrospective approach, or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

Under the modified retrospective approach, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information. Optional practical expedients also allow the lessee to elect, on a lease-by-lease basis to calculate the right-of-use asset as either equal to the lease liability or with respect to historical lease payments.

As at 1 July 2019, the Group expects to recognise a right of use asset and a corresponding lease liability of $17,972 thousand with no adjustment to the opening retained earnings, using a modified retrospective approach.

The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

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

4. DETERMINATION OF FAIR VALUES

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

(i) Intangible assets

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

(ii) Trade and other receivables/payables

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

(iii) Non-derivative financial instruments

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

(iv) Loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

(v) Finance lease liabilities

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

(vi) Share-based payment transactions

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

5. FINANCIAL RISK MANAGEMENT

Overview

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

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

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established processes through the Group'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 and expected credit 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 2019 no guarantees were outstanding (2018: 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.

5. FINANCIAL RISK MANAGEMENT (continued)

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 5% of the total reportable revenue.

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

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 2019	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	21,379	5,851	6,990	1,848	114,067	72,702	2,540	2,328	6,639	234,344
Result										
Segment result	(845)	586	2,490	563	47,143	23,992	1,277	646	4,877	80,729
Interest revenue not allocated to segments										11
Interest expense										(2,242)
Foreign currency gain										6,045
Share of loss of equity-accounted investee										(54)
R & D expenses										(40,428)
Corporate and administrative expenses										(25,065)
Other expenses not allocated to segments										(4,314)
Profit before tax										14,682
Income tax expense										(3,787)
Net profit after tax										10,895

Non-current assets, other than financial instruments and deferred tax assets, located in the entity's county of domicile (Australia) as at 30 June 2019 are $43,357 thousand (2018: $46,199 thousand). Non-current assets, other than financial instruments and deferred tax assets, located in foreign countries as at 30 June 2019 total $148,746 thousand (2018: $139,890 thousand), of which $116,045 thousand (2018: $117,049 thousand), are located in North America.

Impairment expenses relating to write down of NSW service goodwill of $2,436 thousand and write down of investment in 616 Digital LLC segmented as Europe/Other amounting to $1,878 thousand are recorded in 'other expenses not allocated to segments' for 30 June 2019.

* The Group has initially applied AASB 9 and AASB 15 at 1 July 2018. Under the transition methods choses, comparative information is not restated.

Notes to the Financial Statements (continued)

for the year ended 30 June 2019

6. OPERATING SEGMENTS (continued)

Information about reportable segments

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

For the year ended 30 June 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.

Impairment expenses relating to write down of investment in 616 Digital LLC segmented as Europe/Other amounting to $2,451 thousand are recorded in 'other expenses not allocated to segments' for 30 June 2018.

* 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).

* The Group has initially applied AASB 9 and AASB 15 at 1 July 2018. Under the transition methods choses, comparative information is not restated.

Notes to the Financial Statements (continued)

for the year ended 30 June 2019

7. REVENUE

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers The nature and effect of applying AASB 15 on the Group's financial statements are disclosed in Note 3.

a) Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market major products and service lines and timing of revenue recognition.

For the year ended 30 June 2019	Australia				Americas		Others			
In thousands of AUD	NSW	QLD/NT	VIC/TAS	South Australia	North America	Latin America	Asia	New Zealand	Europe/ Other	Total
Major products/service lines										
Machine and part sales	12,013	4,523	5,197	949	77,773	52,187	2,522	2,291	1,417	158,872
Multi element arrangements	2,923	1,320	1,781	899	–	–	–	–	–	6,923
Sale type leases	–	–	–	–	3,056	2,586	–	–	–	5,642
Rendering of services	6,412	–	–	–	4,165	–	–	–	–	10,577
License income	31	8	12	–	957	35	18	37	5,222	6,320
Rental and participation	–	–	–	–	28,116	17,894	–	–	–	46,010
	21,379	5,851	6,990	1,848	114,067	72,702	2,540	2,328	6,639	234,344
Timing of revenue recognition										
Products and services transferred at a point in time	14,725	5,668	6,789	1,808	79,827	55,724	2,540	2,328	2,451	171,860
Products and services transferred over time	6,654	183	201	40	34,240	16,978	–	–	4,188	62,484
	21,379	5,851	6,990	1,848	114,067	72,702	2,540	2,328	6,639	234,344

* The Group has initially applied AASB 9 and AASB 15 at 1 July 2018. Under the transition methods chosen, comparative information is not restated.

7. REVENUE (continued)

In thousands of AUD	*Note*	2019	2018
Sale of goods		177,757	211,809
Rendering of services		10,577	7,862
Rental and participation revenue		46,010	45,913
		234,344	265,584

8. OTHER INCOME

In thousands of AUD	2019	2018
Royalties income	257	343
Bad debts reversed	960	–
Gain on sale of property plant and equipment	–	2,586
Other income	11	–
	1,228	2,929

9. EXPENSES BY NATURE

In thousands of AUD		2019	2018
Changes in raw material and consumables, finished goods and work in progress	*16*	77,673	98,598
Employee benefits expense	*10*	65,201	62,101
Depreciation and amortisation expense	*12,13*	33,419	28,027
Legal expenses		1,015	801
Evaluation and testing expenses		7,681	6,591
Marketing expenses		5,720	5,261
Operating lease expenses	*27*	2,331	2,241
Impairment loss		5,189	5,165
Other expenses		31,924	22,630
		230,153	231,415

10. EMPLOYEE BENEFIT EXPENSES

In thousands of AUD	*Note*	2019	2018
Wages and salaries		60,495	56,898
Short term incentives		1,172	1,874
Contributions to defined contribution superannuation funds		3,439	3,483
Increase in liability for annual leave	*22*	23	396
(Decrease)/increase in liability for long service leave	*22*	(97)	333
Termination benefits		181	335
Equity settled share-based payment transactions		(12)	(1,218)
		65,201	62,101

11. FINANCE INCOME AND FINANCE COSTS

In thousands of AUD	2019	2018
Interest income	5,514	3,900
Net foreign exchange gain	6,045	3,113
Finance income	11,559	7,013
Interest expense on financial liabilities	(2,242)	(1,580)
Finance costs	(2,242)	(1,580)
Net finance income recognised in profit or loss	9,317	5,433

Notes to the Financial Statements (continued)

for the year ended 30 June 2019

12. PROPERTY, PLANT AND EQUIPMENT

In thousands of AUD	*Note*	Land and buildings	Plant and equipment	Leasehold improvements	Total
Cost					
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
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
Balance at 1 July 2018		59,266	103,170	3,052	165,488
Re-classification of inventory to plant and equipment		–	36,206	–	36,206
Additions		116	5,246	1,159	6,521
Disposals		–	(22,292)	–	(22,292)
Effect of movements in foreign exchange		3,194	4,722	17	7,933
Balance at 30 June 2019		62,576	127,052	4,228	193,856
Depreciation and impairment losses					
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
Balance at 1 July 2018		4,421	41,052	1,422	46,895
Depreciation charge for the year	*9*	2,005	22,751	313	25,069
Disposals		–	(11,080)	–	(11,080)
Effect of movements in foreign exchange		278	2,134	12	2,424
Balance at 30 June 2019		6,704	54,857	1,747	63,308
Carrying amounts					
At 1 July 2017		52,680	55,082	1,798	109,560
At 30 June 2018		54,845	62,118	1,630	118,593
At 30 June 2019		55,872	72,195	2,481	130,548

Disposals in the table above includes sale of gaming machines previously under participation or rental agreements of $10,852 thousand (2018: $12,624 thousand) at net book value.

The carrying amount of plant and equipment on operating lease is $57,426 thousand (2018: $46,598 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 2019, the net carrying amount of leased plant and equipment was $8 thousand (2018: $59 thousand).

Notes to the Financial Statements (continued)

for the year ended 30 June 2019

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 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
Balance at 1 July 2018		23,044	40,357	–	1,583	9,599	11,128	671	433	86,815
Additions		–	3,340	–	–	–	–	–	–	3,340
Intangible assets fully amortised and written off		–	(1,208)	–	–	–	–	–	(433)	(1,641)
Effects of movements in foreign currency		1,111	–	–	–	–	600	–	–	1,711
Balance at 30 June 2019		24,155	42,489	–	1,583	9,599	11,728	671	–	90,225
Amortisation and impairment losses										
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
Balance at 1 July 2018		–	11,906	–	–	3,086	3,346	548	433	19,319
Amortisation for the year	9	–	5,736	–	–	1,255	1,236	123	–	8,350
Intangible assets fully amortised and written off		–	(1,208)	–	–	–	–	–	(433)	(1,641)
Impairment losses	9	2,436	–	–	–	–	–	–	–	2,436
Effects of movements in foreign currency		–	–	–	–	–	206	–	–	206
Balance at 30 June 2019		2,436	16,434	–	–	4,341	4,788	671	–	28,670
Carrying amounts										
At 1 July 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
At 30 June 2019		21,719	26,055	–	1,583	5,258	6,940	–	–	61,555

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 $26,055 thousand (2018: $28,451 thousand), comprising of $22,151 thousand in development costs relating to product development and $3,904 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 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 Group's corporate assets largely comprises of building facilities, IT infrastructure and manufacturing equipment. During the period, the allocation of the corporate assets was reviewed and management determined that it was more appropriate to allocate these corporate assets based on the usage pattern by each CGU. Previously, the allocation of corporate assets was based on the geographical location of those corporate assets.

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:

	2019		2018	
CGUs	Discount rate(1)	Average annual revenue growth rate(2)	Discount rate(1)	Average annual revenue growth rate(3)
Development	17.2%	5.6%	14.3%	3.3%
Australia and other	16.6%	15.8%	15.2%	2.9%
North America	13.5%	3.4%	13.5%	3.1%
Latin America	18.7%	8.1%	19.8%	4.0%

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

(2) The 2019 average annual revenue growth rate for 5 years (2020 to 2024) presented above is calculated based on historical experience, actual operating results and estimated financial results based on planned strategic initiatives. The change in the average growth rate particularly for the Australia and other CGU is underpinned by the underperformance of this CGU in 2019.

(3) 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.

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

	2019				
CGUs	Goodwill '$000	Indefinite life intangible assets '$000	Capitalised Development costs '$000	Other assets '$000	Recoverable amount '$000
Development	–	–	26,055	20,200	76,367
Australia and other	–	–	–	4,810	5,244
North America	21,719	1,583	–	73,604	128,215
Latin America	–	–	–	44,132	72,296

CGUs	Goodwill '$000	Indefinite life intangible assets '$000	Capitalised Development costs '$000	Other assets '$000	Recoverable amount '$000
	2018				
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

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% (2018: 13.5%) used is a pre-tax rate;
– Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity of 1.8% (2018: 2.5%) 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 3.4% (2018: 3.1%) 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 16.6% (2018: 15.2%) 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 2.0% (2018: 2.0%) 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 15.8% (2018: 2.9%) based on past experience, adjusted for anticipated revenue growth, product development changes which have occurred and planned strategic initiatives.

The deterioration of the Australia and other business performance has resulted in the recoverable amount of this CGU estimated to be lower than the carrying amount of its CGU's assets. As such, a write-down of the $2,436 thousand goodwill arising from service business in Australia is considered necessary.

Impact of possible changes in key assumptions

When taking into account the historical and forecast performance of the Australia and other CGU, an impairment charge of $2,436 thousand was recognised at 30 June 2019, with headroom of approximately $434 thousand at that date. However, given this headroom, a change in a key assumption in the Australia and other CGU, in particular the forecast revenue growth rate, may result in a deficiency in the net recoverable amount when compared to the carrying value of the CGU. In turn, this could result in further impairment charges in the CGU in future periods. At this point, management is confident to meet the Australia and other CGU forecast growth rates based on the current strategic initiatives and product portfolios. In respect CGUs' other than Australia and other CGU, management does not believe a reasonable possible change in key assumptions will result in a material impairment charge.

14. EQUITY-ACCOUNTED INVESTEE

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

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

In thousands of AUD	Ownership 30-Jun-19	Ownership 30-Jun-18	Carrying amount 30-Jun-19	Carrying amount 30-Jun-18
616 Digital LLC	40%	40%	–	2,001

The Group's share of loss of equity accounted investee is $54 thousand (2018: $224 thousand profit).

616's earnings growth profile continued to be 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 previously anticipated year on year revenue and EBITDA growth. Despite progressive initiatives to consolidate the position and acquire 100% of 616 within FY20 no certainty exists as to the future profitability of this investment and a write down in the remaining carrying value of AGT's 40% interest in 616 by $1,878 thousand (2018: $2,451 thousand) was considered necessary in the current period. 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	2019	2018
Cash and cash equivalents	206	705
Current assets (excluding cash and cash equivalents)	9	264
Non-current assets	3	7
Current financial liabilities (excluding trade and other payables and provisions)	(11)	(11)
Current financial liabilities (including trade and other payables and provisions)	(112)	(137)
Net Assets	95	828
Income	1,923	2,069
Expenses	(2,393)	(2,790)
Elimination of upstream purchases	334	161
Loss	(136)	(560)

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	2,001	4,683
Share of loss	(54)	(224)
Write down of carrying amount	(1,878)	(2,451)
Effects of movements in foreign exchange	(69)	(7)
Carrying amount at end of period	–	2,001

15. TAXES

Current tax expense

In thousands of AUD	2019	2018
Tax recognised in profit or loss		
Current tax expense		
Current year	(11,806)	(19,141)
Prior year adjustments	(179)	1,849
Recognition of R&D tax credits	7,216	7,417
	(4,769)	(9,875)
Deferred tax benefit		
Timing differences movement	982	(1,480)
Reduction in tax rate	–	984
	982	(496)
Total income tax expense	(3,787)	(10,371)

Reconciliation of effective tax rate

In thousands of AUD	2019	2019	2018	2018
Profit before income tax		14,682		42,307
Income tax expense using the Company's domestic tax rate	(30.0%)	(4,405)	(30.00%)	(12,692)
Effective tax rates in foreign jurisdictions	4.19%	615	(2.27%)	(962)
Non-deductible expenses	(43.66%)	(6,409)	(15.77%)	(6,673)
Non-assessable income and concessions	53.71%	7,885	17.53%	7,417
Prior year adjustments	(1.22%)	(179)	4.37%	1,849
Derecognition of tax losses and timing differences	(8.81%)	(1,294)	(0.69%)	(294)
Impact of change in tax rates	–	–	2.33%	984
	(25.79%)	(3,787)	(24.50%)	(10,371)

Recognised deferred tax assets/liabilities

	2019	2018	2019	2018
In thousands of AUD	Deferred tax assets		Deferred tax liabilities	
Employee benefits	2,284	2,371	377	328
Provisions	677	529	3,446	2,210
Property, plant and equipment	120	82	(6,021)	(4,756)
Unrealised foreign exchange gain	(1,510)	(1,191)	–	–
Other items	807	1,607	609	(600)
Tax loss carry-forwards	408	1,603	4	–
Net tax assets/(liabilities)	2,786	5,001	(1,585)	(2,818)

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.

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 $2,786 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	2019	2018
Raw materials and consumables	31,613	37,333
Finished goods	33,550	38,254
Stock in transit	1,688	3,717
Inventories stated at the lower of cost and net realisable value	66,851	79,304

During the year ended 30 June 2019 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to $77,673 thousand (2018: $98,598 thousand).

A re-classification from inventory to property, plant and equipment of $36,206 thousand (2018: $34,201 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 2019, the write down of inventories to net realisable value amounted to $2,726 thousand (2018: $2,365 thousand). The write down is included in cost of sales.

17. RECEIVABLES AND OTHER ASSETS

In thousands of AUD	*Note*	2019	2018
Current			
Trade receivables		122,998	152,266
Less impairment losses	*26*	(5,002)	(3,931)
		117,996	148,335
Other assets		593	1
Amount receivable from director/shareholder-controlled entities	*29*	1,375	5,128
		119,964	153,464
Non-current			
Trade receivables		28,648	39,259
		28,648	39,259

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	2019	2018
Minimum lease payments under finance leases are receivable as follows:		
Within one year	5,614	3,840
Later than one year but not later than 5 years	3,703	6,365
	9,317	10,205
Unearned finance income		
Within one year	366	381
Later than one year but not later than 5 years	197	226
	563	607
The present value of minimum lease payments is as follows:		
Within one year	5,248	3,459
Later than one year but not later than 5 years	3,506	6,139
	8,754	9,598
Lease receivables are classified as follows:		
Within one year	5,248	3,459
Later than one year but not later than 5 years	3,506	6,139
	8,754	9,598

18. CASH AND CASH EQUIVALENTS

In thousands of AUD	2019	2018
Bank balances	59,695	33,352
Cash deposits	1,966	2,315
Cash and cash equivalents in the statement of cash flows	61,661	35,667

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*	2019	2018
Cash flows from operating activities			
Profit for the period		10,895	31,936
Adjustments for:			
Depreciation	*12*	25,069	19,974
Impairment losses on trade receivables and provision for obsolescence		3,601	5,079
Write down on Equity-accounted investee	*14*	1,878	2,451
Write down of goodwill	*13*	2,436	–
Amortisation of intangible assets	*13*	8,350	8,053
Net finance income	*11*	(9,317)	(5,433)
Loss/(gain) on sale of property, plant and equipment		224	(2,554)
Unrealised currency translation movements		6,062	3,745
Equity-settled share-based payment transactions	*10*	(12)	(1,218)
Income tax expense	*15*	3,787	10,371
Operating profit before changes in working capital and provisions		**52,973**	**72,404**
Change in trade and other receivables		46,608	(19,047)
Change in inventories		15,745	(2,287)
Net transfers between inventory and leased assets		(25,942)	(22,154)
Change in other assets		(405)	(545)
Change in trade and other payables		(21,732)	3,498
Change in provisions and employee benefits		(5,069)	(1,566)
		62,178	30,303
Interest received		5,503	–
Income taxes paid		(6,473)	(11,045)
Net cash from operating activities		**61,208**	**19,258**

Interest received relating to receivables in the current period was reclassified from investing activities to operating activities.

19. CAPITAL AND RESERVES

(a) Share capital

In thousands of shares	Ordinary shares 2019	2018
In issue at 1 July	332,513	331,086
Shares issued under dividend reinvestment plan	4,281	1,427
In issue at 30 June – fully paid	336,794	332,513

(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, 4,281 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	2019	2018
2.5 cents per qualifying ordinary share (2018: 1.5 cents)	8,313	4,966

After the reporting date, no dividends were proposed by the board of directors (2018: $8,313 thousand). The dividends have not been recognised as liabilities and there are no tax consequences.

In thousands of AUD	2019	2018
0.0 cents per qualifying ordinary share (2018: 2.5 cents)	–	8,313

The amount of franking credits available to shareholders for subsequent financial years is $30,185 thousand (2018: $28,931 thousand). The ability to utilise the franking credits is dependent upon the ability to declare dividends.

20. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2019 was based on the profit attributable to ordinary shareholders of $10,895 thousand (2018: $31,936 thousand) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2019 of 335,000 thousand (2018: 331,293 thousand), calculated as follows:

Profit attributable to ordinary shareholders

In thousands of AUD	*Note*	2019	2018
Profit for the period		10,895	31,936
Profit attributable to ordinary shareholders		10,895	31,936
Weighted average number of ordinary shares			
In thousands of shares			
Issued ordinary shares at 1 July	*19*	332,513	331,086
Effect of shares issued		2,487	207
Weighted average number of ordinary shares at 30 June		335,000	331,293
Total basic earnings per share attributable to the ordinary equity holders of the Company		$0.03	$0.10

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2019 was based on the profit attributable to ordinary shareholders of $10,883 thousand (2018: $30,718 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 338,224 thousand (2018: 336,114 thousand), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

In thousands of AUD	2019	2018
Profit attributable to ordinary shareholders	10,895	31,936
Amortisation of performance rights (RST)	(12)	(1,218)
Profit attributable to ordinary shareholders (diluted)	10,883	30,718
Weighted average number of ordinary shares (diluted)		
In thousands of shares		
Weighted average number of ordinary shares at 30 June	335,000	331,293
Effect of rights and options on issue	3,224	4,821
Weighted average number of ordinary shares (diluted) at 30 June	338,224	336,114
Total diluted earnings per share attributable to the ordinary equity holders of the Company	$0.03	$0.09

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	2019	2018
Current		
Finance lease liabilities	295	239
Secured bank loan	12,366	–
	12,661	239
Non-current		
Secured bank loan	42,778	71,721
	42,778	71,721

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				2019		2018	
In thousands of AUD	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Finance lease liabilities	AUD	1.73%	2019	299	295	243	239
Secured bank loan	USD	LIBOR+0.85%	2021	55,144	55,144	71,721	71,721
Total interest-bearing liabilities				55,443	55,439	71,964	71,960

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

Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

In thousands of AUD	Future minimum lease payments 2019	Interest 2019	Present value of minimum lease payments 2019	Future minimum lease payments 2018	Interest 2018	Present value of minimum lease payments 2018
Less than one year	299	4	295	243	4	239
Between one and five years	–	–	–	–	–	–
	299	4	295	243	4	239

Notes to the Financial Statements (continued)

for the year ended 30 June 2019

22. EMPLOYEE BENEFITS

In thousands of AUD	2019	2018
Current		
Accrual for salaries and wages	1,245	505
Accrual for short term incentive plan	921	1,574
Liability for annual leave	4,188	4,165
Liability for long service leave	3,236	3,269
	9,590	9,513
Non-current		
Liability for long service leave	525	589
	525	589

23. SHARE-BASED PAYMENTS

Performance rights programmes (equity-settled)

On 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 17 March 2015	–	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	–	Four years service and performance hurdles from grant date as per RST below	5 years
Rights grant to key management at 1 March 2017	293,412	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	2,930,737	Four years service and performance hurdles from grant date as per RST below	5 years
Total rights RST	**3,224,149**		

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 amounts recorded in profit and loss during the year for share-based payment transactions, 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) 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 remaining 50% of these performance rights lapsed on 17 March 2019 due to performance hurdles not being met. 942,040 rights were cancelled during the year with no rights outstanding as at 30 June 2019.

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

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

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

Vesting date of 17 March 2018:

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

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

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

The 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.

23. SHARE-BASED PAYMENTS (continued)

EPS Targets

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

(ii) 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 2 of these rights did not vest at the second vesting date of 1 March 2019 due to performance conditions not being met. The grant of this Tranche along with Tranche 1 under the RST will be re-tested at the end of the next applicable performance vesting date of 1 March 2020, 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. 654,823 rights were cancelled due to termination of employees during the year with 3,224,149 rights outstanding as at 30 June 2019.

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.

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*	2019	2018
Current			
Trade payables		5,418	18,423
Other payables and accrued expenses		15,527	18,964
Amount payable to director/shareholder-controlled entities	*29*	–	113
		20,945	37,500

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 2018	959	141	1,100
Provisions made during the year	925	90	1,015
Provisions used during the year	(959)	(141)	(1,100)
Balance at 30 June 2019	925	90	1,015

Contingencies relating to the claims by Aristocrat Technologies Australia Pty Limited has been disclosed under Note 31 – Subsequent events. The directors are of the opinion that provision is not required in respect of this matter, as it is not capable of reliable measurement.

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*	2019	2018
Receivables	*17*	148,019	192,722
		148,019	192,722

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

In thousands of AUD	2019	2018
Australia	14,658	23,825
Americas	133,911	163,247
Europe	1,488	5,174
New Zealand	694	1,101
Asia	2,172	3,070
South Africa	98	236
	153,021	196,653

26. FINANCIAL INSTRUMENTS (continued)

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 $10,147 thousand (2018: $11,384 thousand) and $5,489 thousand (2018: $2,165 thousand) of the trade receivables carrying amount at 30 June 2019 respectively.

Cash and cash equivalents
The Group held cash of $59,695 thousand at 30 June 2019 (2018: $33,352 thousand) and $1,966 thousand of cash deposits at 30 June 2019 (2018: $2,315 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

Comparative information under AASB 139
An analysis of the credit quality of trade receivables based on the aging group at 30 June 2018 is as follows:

In thousands of AUD	Gross 2018	Impairment 2018
Not past due	128,398	9
Past due 0-30 days	29,879	–
Past due 31-120 days	22,379	–
Past due 121 days to one year	8,996	570
More than one year	7,001	3,352
	196,653	3,931

The exposure to credit risk for trade receivables as at 30 June 2019 by geographic region is disclosed under Note 3(r).

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

In thousands of AUD	2019	2018
Balance at 1 July	3,931	3,017
Impairment loss written off	(309)	(1,896)
Provision during the year	2,128	2,714
Reversal of provision	(958)	(25)
Effect of exchange rate fluctuations	210	121
Balance at 30 June 2019	5,002	3,931

The provision of $2,128 thousand (2018: $2,714 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.

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 2019

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	295	(299)	(299)	–	–	–
Secured bank loan	55,144	(55,144)	(12,366)	–	–	(42,778)
Trade and other payables	20,945	(20,945)	(20,945)	–	–	–
	76,384	(76,388)	(33,610)	–	–	(42,778)

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

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)

Currency risk

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

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

Exposure to currency risk

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

	2019			2018		
In thousands of AUD	USD	Euro	NZD	USD	Euro	NZD
Trade and other receivables	134,903	1,394	682	167,551	4,829	1,087
Secured bank loan	(55,144)	–	–	(71,721)	–	–
Trade and other payables	(14,773)	–	–	(26,878)	–	–
Net exposure in statement of financial position	64,986	1,394	682	68,952	4,829	1,087

26. FINANCIAL INSTRUMENTS (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2019	2018	2019	2018
USD	0.7156	0.7753	0.7013	0.7391
Euro	0.6270	0.6501	0.6171	0.6344
NZD	1.0669	1.0854	1.0462	1.0903

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 2019 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 2019		
USD	(26,673)	(13,197)
Euro	(127)	(127)
NZD	(62)	(62)
30 June 2018		
USD	(25,049)	(12,955)
Euro	(439)	(439)
NZD	(99)	(99)

A 10 percent weakening of the Australian dollar against the following currencies at 30 June 19 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 2019		
USD	36,341	16,129
Euro	155	155
NZD	76	76
30 June 2018		
USD	34,454	15,834
Euro	536	536
NZD	121	121

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 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Assets carried at amortised cost					
Receivables and other assets	*17*	148,612	148,612	192,723	192,723
Cash and cash equivalents	*18*	61,661	61,661	35,667	35,667
		210,273	210,273	228,390	228,390

In thousands of AUD	*Note*	Carrying amount 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Liabilities carried at amortised cost					
Trade and other payables	*24*	20,945	20,945	37,500	37,500
Secured bank loan	*21*	55,144	55,144	71,721	71,721
Finance leases	*21*	295	295	239	239
		76,384	76,384	109,460	109,460

Estimates of fair values

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

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve as of 30 June 2019 plus an adequate constant credit spread and are as follows:

	2019	2018
Receivables	4.24% - 6.00%	6.00% - 7.20%
Secured bank loan	LIBOR+0.85%	LIBOR+0.65%
Leases	1.73%	0.90% - 2.90%

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 $254 thousand and a decrease in 100 basis points would lead to an increase in profit by $254 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	2019	2018
Less than one year	2,472	2,386
Between one and five years	8,525	7,905
More than five years	–	–
	10,997	10,291

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 $2,331 thousand was recognised as an expense in profit or loss in respect of operating leases (2018: $2,241 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	2019	2018
Plant and equipment		
Contracted but not yet provided for and payable:		
Within one year	3,234	456
Employee compensation commitments		
Key management personnel		
Commitments under non-cancellable employment contracts not provided for in the financial statements and payable:		
Within one year	1,214	2,081

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

Mr DE Gladstone
(appointed as Non-Executive Director on 1 July 2019)

Executive directors

Former

Mr DE Gladstone (Executive Director and Chief Executive Officer, Ainsworth Game Technology Limited), until 30 June 2019

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)

Key management personnel compensation

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

In AUD	2019	2018
Short-term employee benefits	2,726,942	3,251,162
Post-employment benefits	241,451	286,810
Share based payments	(230,152)	(304,187)
Other long term benefits	166,546	179,730
	2,904,787	3,413,515

Individual directors and executives compensation disclosures

Information regarding individual directors and executive's 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.

29. RELATED PARTIES (continued)

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*	2019	2018	2019	2018
Key management person	**Transaction**					
Mr LH Ainsworth	Operating lease rental costs	*(i)*	–	774,557	–	–
Mr HK Neumann	Sales revenue	*(ii)*	2,450,269	7,294,551	1,327,918	5,127,919
Mr HK Neumann	Purchases from Novomatic	*(ii)*	589,793	–	–	–
Mr HK Neumann	Other charges made on behalf of Novomatic	*(ii)*	1,488,008	772,708	47,021	–
Mr HK Neumann	Purchases and other charges made on behalf of the Company	*(ii)*	1,504,359	951,505	–	(112,996)

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

(ii) 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.

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	2019	2018
Assets and liabilities arising from the above transactions		
Current receivables and other assets		
Amount receivable from director/shareholder-controlled entities	1,374,939	5,127,919
Current trade and other payables		
Amount payable to director/shareholder-controlled entities	–	112,996

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 $200 thousand (2018: $97 thousand).

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

30. GROUP ENTITIES

	Country of incorporation	Ownership Interest 2019	Ownership Interest 2018
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.R.L.	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 Interactive 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%
Bull Club Services Pty Ltd	Australia	100%	100%

31. SUBSEQUENT EVENTS

Mr Lawrence Levy commenced his role as CEO of the Group from 1 July 2019, consistent with the previous announcements made on ASX on 5 April 2019 and 1 July 2019.

On 3 July 2019, Aristocrat Technologies Australia Pty Limited commenced proceedings against the Company in the Federal Court of Australia claiming infringement of intellectual property rights and breach of the Australian Consumer Law. These proceedings are at a preliminary stage and will be vigorously defended. No liability has been recognised in the financial report. The Company considers any further disclosure is inappropriate as the matter is currently before the Court and could prejudice the Company's defence.

Other than the matters 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.

32. AUDITOR'S REMUNERATION

In AUD	2019	2018
Audit and review services		
Auditors of the Company - KPMG		
Audit and review of financial statements	262,000	282,000
Other regulatory audit services	22,500	22,500
	284,500	304,500
Other services		
Auditors of the Company - KPMG		
In relation to taxation services	116,215	20,000

33. PARENT ENTITY DISCLOSURES

As at and throughout the financial year ended 30 June 2019 the parent entity of the Group was Ainsworth Game Technology Limited.

In thousands of AUD	2019	2018
Result of parent entity		
Profit for the year	1,382	21,244
Total comprehensive income for the year	1,382	21,244
Financial position of parent entity at year end		
Current assets	68,836	71,864
Total assets	428,003	438,058
Current liabilities	24,988	32,207
Total liabilities	68,394	84,938
Total equity of parent entity comprising of:		
Share capital	207,709	203,032
Equity compensation and translation reserve	12,311	10,511
Fair value reserve	9,684	9,684
Profit reserves	154,189	154,787
Accumulated losses	(24,284)	(24,894)
Total equity	**359,609**	**353,120**

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

In thousands of AUD	2019	2018
Plant and equipment		
Contracted but not yet provided for and payable:		
Within one year	3,226	456

Directors' Declaration

for the year ended 30 June 2019

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 37 to 90 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 2019 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 2019.
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 27th day of August 2019.

GJ Campbell
Chairman

Independent Auditor's Report

for the year ended 30 June 2019

KPMG

Independent Auditor's Report

To the shareholders of Ainsworth Game Technology Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2019 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 2019
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

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

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

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

KPMG

Key Audit Matters	
The ***Key Audit Matters*** we identified are: • 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 ($234.3m 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 along with the transition to AASB 15 *Revenue from contracts with customers.* 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 15 *Revenue from contracts with customers* 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; and • assessing the methodology used to calculate the Group's multi-element arrangement revenue by checking samples of multi-element revenue transactions

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	recorded by the Group against contract terms and rates and then recalculating these samples for accuracy.
Recoverability of trade receivables	
Refer to note 17 of the Financial Report ($148.6m 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 limit approvals and review of customers adherence to payment plans 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;
	• evaluating the appropriateness of the expected credit loss model for the geographical locations in which the Group operates in accordance with AASB 9 *Financial Instruments*; and
	• 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.

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<table>
<tr><th colspan="2">Carrying value of goodwill and intangible assets</th></tr>
<tr><td colspan="2">Refer to note 13 of the Financial Report ($61.6m AUD)</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>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 profit before interest and tax, the performance of the Group has continued its declining trend in the current year due to ongoing competition and the underlying performance of games, primarily in the Australian market. In addition, the market capitalisation was less than net assets at 30 June 2019. 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.

The Group uses complex models to perform</td><td>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;

• 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; and
  - 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 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</td></tr>
</table>

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.	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; • 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 standard; and • we assessed the Group's allocation of corporate assets to CGUs for reasonableness and consistency based on 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 2019 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.

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.

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Ainsworth Game Technology Limited for the year ended 30 June 2019, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in on pages 25 to 36 of the Directors' report for the year ended 30 June 2019.

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

KPMG

KPMG

Stephen May
Partner

Sydney
27 August 2019

Lead Auditor's Independent Declaration

for the year ended 30 June 2019

KPMG

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

To the Directors of Ainsworth Game Technology Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Ainsworth Game Technology Limited for the financial year ended 30 June 2019 there have been:

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

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

KPMG

KPMG

Stephen May
Partner

Sydney
27 August 2019

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Corporate Directory

CORPORATE DIRECTORY

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

Non-Executive Director
Mr DE Gladstone
Mr HK Neumann

Chief Executive Officer
Mr SL Levy

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

Websites
www.agtslots.com.au (Australasia)
www.agtslots.com (The Americas)

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

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

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

OFFICES

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

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

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

South Australia
Mrs Kelly Frackowski
Snr Sales Manager
Tel: +61 0409 171 616
Email: kfrackowski@agtslots.com

THE AMERICAS
Nevada
5800 Rafael Rivera Way,
Las Vegas, NV 89118
Tel: +1 (702) 954-3000
Fax: +1 (702) 954-3001
Email: enquiries@agtslots.com

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

EUROPE
Novomatic AG
Wiener Strasse 158
2352 Gumpoldskirchen
Austria
Tel: +43 2252 6060
Email: sales@novomatic.com

ASIA
Macau
Mr Keith Jeffery
Asia Sales Manager
Tel: +61 419 161 554
Email: kjeffery@agtslots.com

Singapore
Mr Alfred Hwee
Key Account Sales Executive
Tel: +65 9176 0666
Email: awhee@agtslots.com

Ainsworth Game Technology
ABN: 37 068 516 665

10 Holker Street, Newington
New South Wales, Australia 2127

T: +61 2 9739 8000
F: +61 2 9648 4327

www.agtslots.com