**Ainsworth Game Technology Limited**
**ABN 37 068 516 665**
**and its controlled entities**

# APPENDIX 4D
## Half Year Report
## Half Year Ended: 31 December 2016

Previous corresponding period: 31 December 2015

*Results for announcement to the market*

| | Up / Down | % Change | | Half Year ended 31/12/16 A$'000 |
|---|---|---|---|---|
| Revenue from ordinary activities | Down | 14% | to | 122,724 |
| Profit from ordinary activities after tax | Down | 38% | to | 20,598 |
| Profit for the period attributable to members | Down | 38% | to | 20,598 |

| **Dividends (distributions)** | Amount per security | Franked amount per security |
|---|---|---|
| Final dividend | -¢ | -¢ |
| Interim dividend | -¢ | -¢ |
| Previous corresponding period | 5.0¢ | 5.0¢ |

| | |
|---|---|
| Record date for determining entitlements to the dividend | Not applicable |

Refer "Review of operations' section within the attached Directors' Report.

| **NTA backing** | Current period | Previous corresponding period |
|---|---|---|
| Net tangible asset backing per ordinary security | $0.77 | $0.84 |

# Ainsworth Game Technology Limited

**ABN 37 068 516 665**

## 31 DECEMBER 2016

## INTERIM FINANCIAL REPORT

# Contents

# Directors' report

The directors of Ainsworth Game Technology Limited (the "Company") present their report together with the condensed consolidated financial statements of the Group comprising the Company and its subsidiaries for the six months ended 31 December 2016 and the auditor's review report thereon.

## Directors

The directors of the Company at any time during or since the end of the interim period are:

| Name | Period of directorship |
|---|---|
| **Executive** | |
| Mr Leonard H Ainsworth<br>*Executive Director* | Director since 1995 (Executive Chairman since 2003)<br>(Resigned as Chairman on 15 November 2016) |
| Mr Daniel Gladstone<br>*Executive Director and Chief Executive Officer* | Director since 2010 |
| **Non-executive** | |
| Mr Graeme Campbell<br>*Chairman and Independent Non-Executive Director* | Director since 2007<br>(Appointed as Chairman on 15 November 2016) |
| Mr Michael Yates<br>*Independent Non-Executive Director* | Director since 2009 |
| Mr Colin Henson<br>*Independent Non-Executive Director* | Director since 2013 |
| Ms Heather Scheibenstock<br>*Independent Non-Executive Director* | Director appointed on 18 January 2016, subject to regulatory approval |
| Mr Harald Neumann<br>*Non-Executive Director* | Director appointed on 21 February 2017, subject to regulatory approval |

## Review of operations

**Operating results**

The Company today announced profit before tax, excluding the impact of foreign currency gains, was $15.2 million, in line with the guidance announced to the Australian Securities Exchange (ASX) on the 26th October 2016.

Net profit after tax was $20.6 million for the half year ended 31 December 2016, a decrease of 38% compared to prior corresponding period in FY16. Included in the current period results was $4.8 million in net foreign currency gains on balance sheet translations (H1 FY16: $9.8 million). Profit after income tax was positively impacted by a one-off adjustment of $8.6 million in the current period reflecting the reversal of previously recognised deferred taxes resulting from the treatment of foreign currency movements. The effective income tax rate, excluding the effect of this one-off adjustment, was 31% compared to 26% in the previous corresponding period.

The results from operating activities was $13.7 million compared to $33.7 million in the prior corresponding period. This reduction was attributable to highly competitive trading conditions in the domestic markets, temporary timing delays in North America regulatory approvals and investments we are making in sales and marketing and R&D to drive future growth.

## Review of operations (continued)

**Operating results** (continued)
The Company expects a strong recovery in profit in the second half of the year compared to the reported first half of FY17. We have a clear line of sight on stronger sales in North America with our new Las Vegas facility in operation. Our important participation business, which was boosted by the successful acquisition of Nova Technologies and strategically provides high quality recurring earnings, has much potential and continues to grow. Our investments in sales and marketing and new product releases should positively impact our results. We expect recovery through innovative game development in domestic markets. We also expect the anticipated synergies with Novomatic AG to begin to contribute to the period. We have a confident outlook.

The Group's performance for the current and previous corresponding period is set out below:

| *In millions of AUD* | **6 months to 31 Dec 2016** | **6 months to 31 Dec 2015** | **Variance %** |
|---|---|---|---|
| **Reported results** | | | |
| Total segment revenue from ordinary activities | 122.7 | 141.9 | (13.5%) |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | 31.9 | 53.8 | (40.7%) |
| Earnings before interest and tax (EBIT) | 18.6 | 43.8 | (57.5%) |
| Profit before income tax | 20.0 | 44.8 | (55.4%) |
| Profit after income tax | 20.6 | 33.1 | (37.8%) |
| Earnings per share (fully diluted) | 6.4 cents | 10.3 cents | (37.9%) |
| Total dividends per share | - | 5.0 cents | (100.0%) |

The earnings performance in the Americas, now represents 62% ($30.5 million) of total segment profit compared to 58% ($34.8 million) in the previous corresponding period. Whilst there is a decrease in the Americas segment profit, this assisted to offset the reduced segment profit contribution from Australia of $12.5 million (down from $19.0 million), which has been adversely impacted by the lower revenue in the current period. Current development initiatives from the recently introduced A600™ gaming products have been implemented in the period, including structural changes within game design management departments previously implemented. These changes and new product releases are expected to progressively and positively impact financial performance in coming periods within domestic markets whilst ensuring growth in international markets. The acquisition of Nova Technologies in January 2016 provides a solid foundation to grow revenue in the Class II gaming market in future periods and further positively impact financial performance within the Americas.

The Board after considering the financial performance in the reporting period, current investment being undertaken in product initiatives, indebtedness resulting from the completion of the US facility and the Nova acquisition determined not to declare an interim dividend. A review of the financial performance in the second half of FY17 will be undertaken to review the appropriateness of re-instating the Company's dividend policy for the financial year ending 30 June 2017.

## Review of operations (continued)

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

| *In millions of AUD* | **6 months to 31 Dec 2016** | **6 months to 31 Dec 2015** | **Variance** | **Variance %** |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Australia | 41.0 | 50.3 | (9.3) | (18.5%) |
| Americas | 70.3 | 79.9 | (9.6) | (12.0%) |
| Rest of World | 11.4 | 11.7 | (0.3) | (2.6%) |
| **Total segment revenue** | **122.7** | **141.9** | **(19.2)** | **(13.5%)** |
| **Segment result** | | | | |
| Australia | 12.5 | 19.0 | (6.5) | (34.2%) |
| Americas | 30.5 | 34.8 | (4.3) | (12.4%) |
| Rest of World | 6.2 | 6.3 | (0.1) | (1.6%) |
| **Total segment result** | **49.2** | **60.1** | **(10.9)** | **(18.1%)** |
| **Unallocated expenses** | | | | |
| Net foreign currency gains | 4.8 | 9.8 | (5.0) | (51.0%) |
| R&D expenses | (18.4) | (13.8) | (4.6) | (33.3%) |
| Corporate expenses | (12.7) | (10.7) | (2.0) | (18.7%) |
| Other expenses | (2.5) | (0.6) | (1.9) | (316.7%) |
| Share of profit of equity accounted investee | 0.1 | - | 0.1 | 100.0% |
| **Total unallocated expenses** | **(28.7)** | **(15.3)** | **(13.4)** | **(87.6%)** |
| Less : interest included in segment result | (1.9) | (1.0) | (0.9) | (90.0%) |
| **EBIT** | **18.6** | **43.8** | **(25.2)** | **(57.5%)** |
| Net interest | 1.4 | 1.0 | 0.4 | 40.0% |
| **Profit before income tax** | **20.0** | **44.8** | **(24.8)** | **(55.4%)** |
| Income tax benefit/(expense) | 0.6 | (11.7) | 12.3 | 105.1% |
| **Profit after income tax** | **20.6** | **33.1** | **(12.5)** | **(37.8%)** |

| | **% of revenue** | | **Variance** |
|---|---|---|---|
| **Key performance metrics** | **6 months to 31 Dec 2016** | **6 months to 31 Dec 2015** | **Points** |
| **Segment result margin** | | | |
| Australia | 30.4 | 37.8 | (7.4) |
| Americas | 43.4 | 43.6 | (0.2) |
| Rest of World | 54.4 | 53.8 | 0.6 |
| **Segment result margin** | **40.1** | **42.4** | **(2.3)** |
| R&D expense | 15.0 | 9.7 | 5.3 |
| Adjusted EBIT(1) | 11.2 | 23.9 | (12.7) |
| Adjusted profit before income tax(1) | 12.4 | 24.7 | (12.3) |
| Adjusted profit after income tax(1) | 12.9 | 18.5 | (5.6) |
| | % | | **Variance** |
| Effective tax rate(2) | 31.0 | 26.1 | 4.9 |

(1)Excludes net foreign currency gains of $4.8 million (H1FY16: $9.8 million)
(2)Excludes one off tax adjustments relating to prior year

## Review of operations (continued)

**Revenue**

Revenue for the period was $122.7 million, compared to $141.9 million for the previous corresponding period in FY16, a decrease of 14%. The international revenue resulted in a contribution of 67% from these regions of total revenue, compared to 65% in the previous corresponding period.

Domestic revenue contributed $41.0 million (33% of total revenue) a decrease on the $50.3 million in the previous corresponding period. The reduction in domestic revenues reflects the challenging domestic market and competitor factors. Despite a decline in domestic revenue of 18% compared to the prior corresponding period in FY16, an increase of 32% was achieved on the second half of FY16. This indicated that transitional strategies are showing sign of stabilisation whilst development initiatives, including new hardware configurations are progressed. Revenue in the core markets of New South Wales and Queensland showed initial positive signs from recent product development initiatives increasing revenue by 43% from the second half of FY16. Further product releases are expected to provide increased opportunities within all domestic markets in the second half of FY17 and beyond.

International revenue was $81.7 million compared to $91.6 million in the previous corresponding period, a decrease of 11%. The key markets of the Americas now constitute 57% ($70.3 million) of total revenues, up from 56% ($79.9 million) in the prior corresponding period in FY16. Revenue from participation and leased machines under operation was $20.6 million, an increase of 44% on the prior corresponding period. This represented a contribution of 25% of international revenue, an increase on the 16% in the prior corresponding period.

North America contributed $37.2 million in revenue, a decrease of 13% on the previous corresponding period. Unit sales decreased by 26% to 988 units in the period. The scheduled release of the A640™ within North America was delayed due to approvals resulting in limited contribution in the current period with revenue recognition expected to occur in the second half of FY17. The current period showed strong growth in newer markets within Colorado, Michigan, New York, Oklahoma and Texas. These newer markets assisted to offset a decline in unit volumes of 65% within California whilst we transition to the next generation gaming product in this market.

Units under gaming operation within North America at period end were 2,789, an increase of 93% on the previous corresponding period. This increase was primarily attributable to the addition of Class II gaming machines resulting from the acquisition of Nova Technologies in January 2016. Class II products under participation at the reporting date were 1,187 units representing 43% of total machines under gaming operation within North America. In addition to these units under gaming operation, approximately 12% of unit volumes sold in the period were Class II products. Further installation of Class II products are under contract for installation in the second half of FY17. The reduction in yield on these units under gaming operation to US$23 per day was a direct result of a blended yield for Class II and Class III products. Revenue under participation and lease in North America increased to $13.0 million in the period, an increase of 65% on the prior corresponding period in FY16. The introduction of licensed game themes and further game titles for Class II offerings, e.g. King Kong™, 3 Amigos™ and Pacman™, is expected to increase units under operation and improve yields achieved.

Latin America delivered revenue of $33.1 million, a decrease of 10% on the previous corresponding period. Unit sales of 1,228 were down by 12% in the period, however this was partially offset by increased revenue contributions from previously placed participation machines operating under revenue sharing models. Units under gaming operation at period end were 2,172, an increase of 19% (349 units) from the 1,823 at the previous corresponding period. Continued strong product performance of the Multi-Win™ range of products within this region was achieved in the period.

Mexico and Argentina unit sales decreased in the period by 30% and 62%, respectively, compared to previous corresponding period. Further sales within Dominican Republic, Antigua, Panama and Peru assisted to offset the initial reduction in these markets. Continued legislative changes within Argentina are expected to affect contributions in this region in the second half of FY17.

## Review of operations (continued)

**Revenue** (continued)
Rest of the world encompassing Europe, Asia and New Zealand achieved revenue of $11.4 million, similar to the $11.7 million in the prior corresponding period. Asia contributed revenue of $4.7 million (41%) from this region with shipments to Genting and Tiger Resorts in the period. Initial sale of complete machines and kits to Novomatic in the period resulted in Europe recording $2.9 million in revenue, an increase of 93% on the prior corresponding period. These increases assisted to offset the reduction in New Zealand which included a large sale to Sky City Auckland in the prior corresponding period.

**Operating costs**
Cost of sales in the period were $48.3 million compared to $57.1 million in the previous corresponding period in FY16. Gross margin achieved for the current half year period was 61%, compared to 60% for first half FY16. The gross margin achieved was primarily attributable to a greater portion of participation and lease revenue in the current period within the Americas, further assisted by the contribution from the supply of Class II gaming products through the Nova acquisition in January 2016. Progressive cost reductions on the A600™ range of products are expected to continue to maintain margin in coming periods.

Operating costs, excluding cost of sales and financing costs, were $61.3 million compared to $51.3 million in the previous corresponding period in FY16, an increase of 19%. The increase in operating expenditure is attributable to increased marketing and trade-show costs, increased level of evaluation and testing expenditure on development initiatives including establishment of game design studio in Las Vegas and the inclusion of Nova depreciation on units under operation and amortisation of acquired intangibles following the completion of this acquisition.

Research and Development (R&D) expense in the period was $18.4 million, an increase of $4.6 million (33%) compared to the previous corresponding period. R&D expense represented 15.0% of revenue, an increase from 9.7% in the corresponding period. Increased R&D activities in the period resulted from new developments initiatives expected to be progressively released in coming periods.

**Net financing income**
Net financing income was $6.2 million compared to a $10.8 million income in the previous corresponding period in FY16. Net unrealised foreign exchange gains from balance sheet translations in the current period totalled $4.8 million compared to a gain of $9.8 million in the previous corresponding period, an unfavourable variance of $5.0 million. Net interest income was $1.4 million in the current period compared to $1.0 million in the previous corresponding period.

**Cashflow**
Total cash held as at 31 December 2016 was $27.4 million compared to $17.9 million at the previous corresponding period end. The net cashflow in the current period resulted in an increase of $0.4 million (H1 FY16: decrease of $23.9 million), which included a dividend payment of $9.9 million and acquisition of property, plant and equipment of $2.6 million.

Cash inflows from operations for the current period were $7.0 million, compared to $17.0 million in the previous corresponding period, a decrease of 59%. Cash receipts for the period decreased by 6% to $137.0 million due to a reduction in domestic receivables. The investment in working capital, primarily inventory, negatively impacted cashflows. Inventory increased 28% to $71.3 million as at the reporting date compared to 30 June 2016. The release of new hardware configurations in the latter months of the period and delays encountered to commercialise these resulted in the increase of inventory. It is expected that this increase is timing in nature and higher sales revenue in the second half of FY17 will progressively reduce inventory accordingly.

## **Directors' report** (continued)

### Events subsequent to reporting date

There has not arisen in the interval between the end of the half 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.

### Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 22 and forms part of the directors' report for the six months ended 31 December 2016.

### Rounding off

The Company 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 condensed consolidated interim financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors:

Graeme Campbell
*Chairman*

Dated at Sydney this 21st day of February 2017.

# Condensed consolidated statement of financial position

**As at 31 December 2016**

*In thousands of AUD*

| | *Note* | 31-Dec-16 | 30-Jun-16 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 27,412 | 26,433 |
| Receivables and other assets | | 114,040 | 118,800 |
| Inventories | | 71,286 | 55,717 |
| Prepayments | | 7,749 | 7,112 |
| **Total current assets** | | **220,487** | **208,062** |
| Receivables and other assets | | 34,897 | 37,903 |
| Deferred tax assets | | 4,769 | 1,569 |
| Property, plant and equipment | | 108,812 | 109,493 |
| Intangible assets | | 72,596 | 74,124 |
| Equity-accounted investee | *10* | 4,982 | 4,831 |
| **Total non-current assets** | | **226,056** | **227,920** |
| **Total assets** | | **446,543** | **435,982** |
| **Liabilites** | | | |
| Trade and other payables | | 33,959 | 30,298 |
| Loans and borrowings | *12* | 609 | 118 |
| Employee benefits | | 7,322 | 6,950 |
| Current tax liability | | 1,814 | 9,527 |
| Provisions | | 765 | 813 |
| **Total current liabilities** | | **44,469** | **47,706** |
| Loans and borrowings | *12* | 69,562 | 67,777 |
| Employee benefits | | 653 | 679 |
| Deferred tax liabilities | | 3,420 | 3,933 |
| **Total non-current liabilities** | | **73,635** | **72,389** |
| **Total liabilities** | | **118,104** | **120,095** |
| **Net assets** | | **328,439** | **315,887** |
| **Equity** | | | |
| Share capital | | 200,245 | 193,754 |
| Reserves | | 138,074 | 133,610 |
| Accumulated losses | | (9,880) | (11,477) |
| **Total equity** | | **328,439** | **315,887** |

*The notes on pages 13 to 18 are an integral part of these condensed consolidated interim financial statements.*

# Condensed consolidated statement of profit or loss and other comprehensive income

**For six months ended 31 December 2016**

*In thousands of AUD*

| | *Note* | 31-Dec -16 | 31-Dec -15 |
|---|---|---|---|
| Revenue | | 122,724 | 141,900 |
| Cost of sales | | (48,275) | (57,077) |
| **Gross profit** | | **74,449** | **84,823** |
| Other income | | 515 | 250 |
| Sales, service and marketing expenses | | (27,260) | (25,007) |
| Research and development expenses | | (18,431) | (13,757) |
| Administrative expenses | | (12,713) | (10,667) |
| Other expenses | | (2,903) | (1,896) |
| **Results from operating activities** | | **13,657** | **33,746** |
| Finance income | | 6,729 | 10,869 |
| Finance costs | | (545) | (25) |
| **Net finance income** | | **6,184** | **10,844** |
| Share of profit of equity accounted investee | | 111 | 206 |
| **Profit before tax** | | **19,952** | **44,796** |
| Income tax benefit/(expense) | *8* | 646 | (11,667) |
| **Profit for the year** | | **20,598** | **33,129** |
| **Other comprehensive income** | | | |
| **Items that may be reclassified to profit and loss:** | | | |
| Foreign operations - foreign currency translation differences | | 1,087 | 1,584 |
| **Total other comprehensive income** | | **1,087** | **1,584** |
| **Total comprehensive income for the year** | | **21,685** | **34,713** |
| **Profit attributable to owners of the Company** | | **20,598** | **33,129** |
| **Total comprehensive income attributable to the owners of the Company** | | **21,685** | **34,713** |
| **Earnings per share:** | | | |
| Basic earnings per share (AUD) | | **$0.06** | $0.10 |
| Diluted earnings per share (AUD) | | **$0.06** | $0.10 |

*The notes on pages 13 to 18 are an integral part of these condensed consolidated interim financial statements.*

# Condensed consolidated statement of changes in equity

**For six months ended 31 December 2016**

*In thousands of AUD*

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Issued Capital** | **Equity compensation reserve** | **Fair value reserve** | **Translation reserve** | **Profits Reserve** | **Accumulated losses** | **Total equity** |
| Balance at 1 July 2015 | **182,360** | **3,960** | **9,684** | **5,829** | **96,912** | **(18,258)** | **280,487** |
| **Total comprehensive income for the period** | | | | | | | |
| Profit | - | - | - | - | - | 33,129 | 33,129 |
| Transfer between reserves | - | - | - | - | 30,536 | (30,536) | - |
| **Other comprehensive income** | | | | | | | - |
| Foreign currency translation reserve | - | - | - | 1,584 | - | - | 1,584 |
| Total other comprehensive income | - | - | - | 1,584 | - | - | 1,584 |
| Total comprehensive income for the period | - | - | - | 1,584 | 30,536 | 2,593 | 34,713 |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Issue of ordinary shares on exercise of share options | 51 | - | - | - | - | - | 51 |
| Dividends to owners of the Company | - | - | - | - | (16,117) | - | (16,117) |
| Issue of ordinary shares under the Dividend Reinvestment Plan | - | - | - | - | - | - | - |
| Share-based payment transactions | - | 1,403 | - | - | - | - | 1,403 |
| Share based payment adjustment on non-vesting options | - | - | - | - | - | - | - |
| Total transactions with owners | 51 | 1,403 | - | - | (16,117) | - | (14,663) |
| Balance at 31 December 2015 | **182,411** | **5,363** | **9,684** | **7,413** | **111,331** | **(15,665)** | **300,537** |
| Balance at 1 July 2016 | **193,754** | **3,416** | **9,684** | **6,780** | **113,730** | **(11,477)** | **315,887** |
| **Total comprehensive income for the period** | | | | | | | |
| Profit | - | - | - | - | - | 20,598 | 20,598 |
| Transfer between reserves | - | - | - | - | 19,071 | (19,071) | - |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation reserve | - | - | - | 1,087 | - | - | 1,087 |
| Total other comprehensive income | - | - | - | 1,087 | - | - | 1,087 |
| Total comprehensive income for the period | - | - | - | 1,087 | 19,071 | 1,527 | 21,685 |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| Issue of ordinary shares under the Dividend Reinvestment Plan | 6,491 | - | - | - | - | - | 6,491 |
| Dividends to owners of the Company | - | - | - | - | (16,386) | - | (16,386) |
| Share-based payment transactions | - | 762 | - | - | - | - | 762 |
| Share based payment adjustment on non-vesting options | - | (70) | - | - | - | 70 | - |
| Total transactions with owners | 6,491 | 692 | - | - | (16,386) | 70 | (9,133) |
| Balance at 31 December 2016 | **200,245** | **4,108** | **9,684** | **7,867** | **116,415** | **(9,880)** | **328,439** |

*The notes on pages 13 to 18 are an integral part of these condensed consolidated interim financial statements.*

# Condensed consolidated statement of cash flows

**For the six months ended 31 December 2016**

*In thousands of AUD*

| | 31-Dec-16 | 31-Dec-15 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash receipts from customers | 136,953 | 146,347 |
| Cash paid to suppliers and employees | (118,682) | (111,355) |
| Cash generated from operations | **18,271** | **34,992** |
| | | |
| Income taxes paid | (10,684) | (18,002) |
| Borrowing costs paid | (544) | (25) |
| | | |
| **Net cash from operating activities** | **7,043** | **16,965** |
| | | |
| **Cash flows from / (used in) from investing activities** | | |
| Proceeds from sale of equipment | 6,161 | 4 |
| Interest received | 1,955 | 1,165 |
| Acquisitions of property, plant and equipment | (2,641) | (26,828) |
| Acquisitions of equity-accounted investee | - | (2,045) |
| Development expenditure | (2,202) | (4,039) |
| | | |
| **Net cash from / (used in) investing activities** | **3,273** | **(31,743)** |
| | | |
| **Cash flows used in financing activities** | | |
| Proceeds from issue of ordinary shares | - | 51 |
| Proceeds from borrowings | - | 14,626 |
| Repayment of borrowings | - | (7,617) |
| Payment of finance lease liabilities | (31) | (37) |
| Dividend paid | (9,895) | (16,117) |
| | | |
| **Net cash used in financing activities** | **(9,926)** | **(9,094)** |
| | | |
| **Net increase/(decrease) in cash and cash equivalents** | **390** | **(23,872)** |
| | | |
| Cash and cash equivalents at 1 July | 26,433 | 41,300 |
| Effect of exchange rate fluctuations on cash held | 589 | 490 |
| | | |
| **Cash and cash equivalents** | **27,412** | **17,918** |

*The notes on pages 13 to 18 are an integral part of these condensed consolidated interim financial statements.*

# Notes to the condensed consolidated interim financial statements

## 1. Reporting entity

Ainsworth Game Technology Limited (the “Company”) is a company domiciled in Australia. These condensed consolidated interim financial statements ("interim financial statements") as at and for the six months ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group primarily is involved in the design, development, manufacture, sale and servicing of gaming machines and other related equipment and services.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2016 is available upon request from the Company’s registered office at 10 Holker Street, Newington, NSW, 2127 or at www.agtslots.com.

## 2. Basis of preparation

### Statement of compliance

These interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001, and with IAS 34 Interim Financial Reporting.

These interim financial statements do not include all of the information required for a complete set of annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Group as at and for the year ended 30 June 2016.

These interim financial statements were approved by the Board of Directors on 21 February 2017.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors’ Report) Instrument 2016/191 dated 1 April 2016 and in accordance with that Instrument, amounts in the condensed consolidated interim financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

### Judgements and estimates

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

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2016.

## 3. Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 30 June 2016.

# Notes to the condensed consolidated interim financial statements

## 4. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2016.

## 5. 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.

# Notes to the condensed consolidated interim financial statements

## 5. Operating segments (continued)

**For the six months ended 31 December 2016**

| In thousands of AUD | NSW | QLD | VIC / TAS | South Aust / N.T | North America | Latin America | Asia | New Zealand | Europe / Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | -------------------- Australia | | | ---------------------- | ------- Americas | ------- | | | | |
| Reportable segment revenue | 23,422 | 8,838 | 6,832 | 1,929 | 37,208 | 33,093 | 4,705 | 2,462 | 4,235 | 122,724 |
| **Result** | | | | | | | | | | |
| Segment result | 5,418 | 2,964 | 3,343 | 738 | 14,321 | 16,188 | 2,796 | 1,256 | 2,145 | 49,169 |
| Interest revenue not allocated to segments | | | | | | | | | | 62 |
| Interest expense | | | | | | | | | | (545) |
| Foreign currency gain | | | | | | | | | | 4,772 |
| Share of profit of equity-accounted investee | | | | | | | | | | 111 |
| R & D expenses | | | | | | | | | | (18,431) |
| Corporate and administrative expenses | | | | | | | | | | (12,713) |
| Other expenses not allocated to segments | | | | | | | | | | (2,473) |
| Profit before tax | | | | | | | | | | 19,952 |
| Income tax benefit | | | | | | | | | | 646 |
| Net profit after tax | | | | | | | | | | 20,598 |

**For the six months ended 31 December 2015**

| In thousands of AUD | NSW | QLD | VIC / TAS | South Aust / N.T | North America | Latin America | Asia | New Zealand | Europe / Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | -------------------- Australia | | | ---------------------- | ------- Americas | ------- | | | | |
| Reportable segment revenue | 27,170 | 11,974 | 9,953 | 1,193 | 42,969 | 36,916 | 2,715 | 7,480 | 1,530 | 141,900 |
| **Result** | | | | | | | | | | |
| Segment result | 8,068 | 4,505 | 5,867 | 533 | 18,011 | 16,754 | 1,162 | 4,401 | 767 | 60,068 |
| Interest revenue not allocated to segments | | | | | | | | | | 185 |
| Interest expense | | | | | | | | | | (267) |
| Foreign currency gain | | | | | | | | | | 9,796 |
| R & D expenses | | | | | | | | | | (13,757) |
| Corporate and administrative expenses | | | | | | | | | | (10,667) |
| Other expenses not allocated to segments | | | | | | | | | | (562) |
| Profit before tax | | | | | | | | | | 44,796 |
| Income tax expense | | | | | | | | | | (11,667) |
| Net profit after tax | | | | | | | | | | 33,129 |

# Notes to the condensed consolidated interim financial statements

## 6. Write-down of inventory

During the six months ended 31 December 2016 the write-down of inventories to net realisable value amounted to $10 thousand (six months ended 31 December 2015: Nil). Write-downs of inventory are included in cost of sales in the condensed consolidated statement of profit or loss and other comprehensive income.

## 7. Impairment of trade receivables

During the six months ended 31 December 2016, the Group recognised impairment losses of $2,903 thousand (six months ended 31 December 2015: $581 thousand), included in other expenses, in the condensed consolidated statement of profit or loss and other comprehensive income.

## 8. Income tax benefit/(expense)

During the six months ended 31 December 2016, the Group recognised a true up after completion of 30 June 2016 tax return in respect of unrealised foreign currency gains resulting in an income tax benefit of $8,602 thousand (income tax expense for six months ended 31 December 2015: $80 thousand) in the condensed consolidated statement of profit or loss and other comprehensive income.

## 9. Property, plant and equipment

### Acquisitions and disposals

During the six months ended 31 December 2016, the Group capitalised assets with a cost of $17,685 thousand (six months ended 31 December 2015: $38,680 thousand). Included in the $17,685 thousand are assets with a cost of $9,810 thousand (six months ended 31 December 2015: $10,890 thousand) associated with gaming products under rental and participation arrangements. In addition $2,796 thousand (six months ended 31 December 2015: $2,178 thousand) gaming product assets were transferred to inventory after being returned or sold to customers.

Other assets with a carrying amount of $6,020 thousand were disposed of during the six months ended 31 December 2016 (six months ended 31 December 2015: $2 thousand) resulting in a net profit on disposal of $141 thousand (six months ended 31 December 2015: $2 thousand gain), which is included in other income in the condensed consolidated statement of profit or loss and other comprehensive income.

## 10. Equity – accounted investee

The Group holds a 40% interest in 616 Digital LLC ("616") resulting in a joint venture arrangement. 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 31 Dec 16** | **Ownership 30 Jun 16** | **Carrying amount 31 Dec 16** | **Carrying amount 30 Jun 16** |
|---|---|---|---|---|
| 616 Digital LLC | 40% | 40% | 4,982 | 4,831 |

# Notes to the condensed consolidated interim financial statements

## 11. Financial instruments

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

| *In thousands of AUD* | | |
|---|---|---|
| **Carrying amounts versus fair values** | **Carrying amount** | **Fair value** |
| **31 December 2016** | | |
| **Non-current financial assets** | | |
| Trade and other receivables | 34,897 | 34,897 |
| **Non-current financial liabilities** | | |
| Loans and borrowings: | | |
| Insurance premium funding | 30 | 30 |
| Secured bank loan | 69,532 | 69,532 |

## 12. Loans and borrowings

The following loans and borrowings (current and non-current) were obtained and repaid during the six months ended 31 December 2016:

| *In thousands of AUD* | Currency | Nominal Interest Rate | Face Value | Carrying Amount | Year of Maturity |
|---|---|---|---|---|---|
| Balance at 1 July 2016 | | | 67,904 | 67,895 | |
| **New/increased loans** | | | | | |
| Insurance premium funding | AUD | 1.96% | 707 | 694 | 2017 |
| Foreign currency movement on existing loan | AUD | LIBOR+0.65% | 1,809 | 1,809 | 2018 |
| **Repayments** | | | | | |
| Insurance premium funding | AUD | 1.96% | (234) | (227) | 2017 |
| Balance at 31 December 2016 | | | 70,186 | 70,171 | |

# Notes to the condensed consolidated interim financial statements

## 13. Related parties

### Transactions with key management personnel

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and share-based payments awards. Key management personnel received total compensation of $2,058 thousand for the six months ended 31 December 2016 (six months ended 31 December 2015: $2,061 thousand).

### Other related party transactions

| | Transaction value Six months ended | | Balance receivable/(payable) | |
|---|---|---|---|---|
| *In thousands of AUD* | 31 Dec 16 | 31 Dec 15 | 31 Dec 16 | 31 Dec 15 |
| **Sale** | | | | |
| *Mr LH Ainsworth* | | | | |
| Company controlled by | | | | |
| director/shareholder – sale of goods | - | 1,455 | - | 985 |
| – sale of PPE | 5,988 | - | - | - |
| **Expenses** | | | | |
| *Mr LH Ainsworth* | | | | |
| Companies controlled by director/shareholder – purchases and other charges | 806 | 815 | (92) | (60) |

## 14. Subsequent events

There has not arisen in the interval between the end of the half year and the date of this report any other 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.

# Ainsworth Game Technology Limited

## Directors' declaration

In the opinion of the directors of Ainsworth Game Technology Limited ("the Company"):

1. the financial statements and notes set out on pages 9 to 18, are in accordance with the Corporations Act 2001 including:

   (a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the six month period ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

Graeme Campbell
*Chairman*

Dated at Sydney this 21st day of February 2017.

## Independent auditor's review report to the members of Ainsworth Game Technology Limited

### Report on the financial report

We have reviewed the accompanying interim financial report of Ainsworth Game Technology Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2016, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the interim period ended on that date, notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

*Responsibility of the Directors for the interim financial report*

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's responsibility for the review of the interim financial report*

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Ainsworth Game Technology Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

## Independent auditor’s review report to the members of Ainsworth Game Technology Limited (continued)

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Ainsworth Game Technology Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group’s financial position as at 31 December 2016 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Tony Nimac

*Partner*

Sydney

21 February 2017

**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 review for the half-year ended 31 December 2016, there have been:

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

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Tony Nimac

Partner

Sydney

21 February 2017