



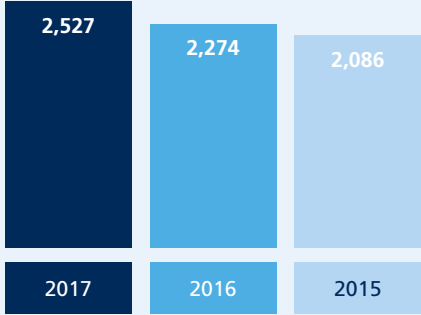
NOVOMATIC AG
Annual Report 2017

NOVOMATIC AG Group

Overview of Key Figures

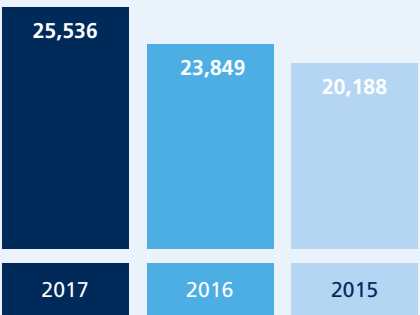
Revenues

in EUR millions



Employees

Headcount at year end



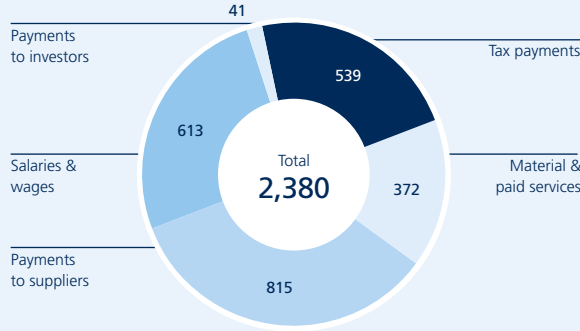
Consolidated Income Statement

EUR m	2017	2016	2015
Revenues	2,527.3	2,274.0	2,086.3
EBITDA	586.8	586.4	616.7
EBITDA margin (EBITDA/revenues) in percent	23.2 %	25.8 %	29.6 %
Earnings before interest and taxes (EBIT)	209.8	265.3	315.4
EBIT margin (EBIT/revenues) in percent	8.3 %	11.7 %	15.1 %
Earnings before taxes	188.3	230.7	308.5
Consolidated annual profit after taxes	86.2	155.7	212.7

The consolidated annual profit after taxes corresponds to the one from business segments to be continued.

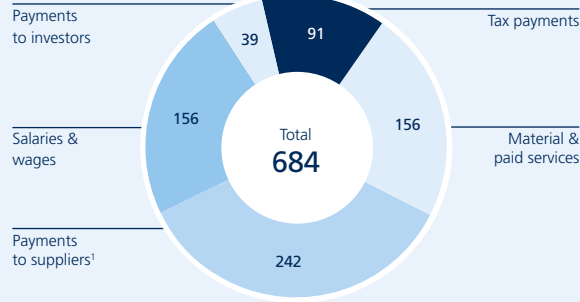
Cash flows, worldwide 2017

in EUR millions



Cash flows, Austria 2017

in EUR millions



¹ This item also includes other non-income related taxes, fees and other duties (e.g. property taxes, vehicle taxes, rental contract fees, etc.).

Consolidated Balance Sheet

EUR m	2017	2016	2015
Balance sheet total	4,099.7	3,685.9	2,983.2
Equity	1,328.9	1,376.2	1,215.3
Equity ratio (equity/balance sheet total) in percent	32.4 %	37.3 %	40.7 %

Source: Consolidated Financial Statement as of 31.12.2016 and 31.12.2017 in accordance with IFRS

Non-financial indicators

Employees	2017	Environment	2017
Total percentage of women	49 %	Energy consumption MWh ⁴	165,948
Training and further education hours per employee	10.5	CO ₂ -emissions in tons ⁵	46,165
Turnover rate ¹	32 %	Water consumption in m ³ ⁶	120,049
Health rate ²	35 %	Waste in tons ⁷	3,160
Accident rate ³	10.3		

¹The staff turnover rate includes all exits (first recorded Group-wide in 2017).

²The health rate is the percentage of employees that did not take any sick leave days in the time period in question (first recorded Group-wide in 2017).

³The accident rate is the Lost Time Injury Frequency Rate (LTIFR), that is the number of accidents requiring notification per million work hours (first recorded Group-wide in 2017).

⁴Energy consumption in MWh includes energy from electricity, natural gas, fuel for transport, heating oil, and self-generated energy (solar panels).

⁵CO₂ emissions are compiled from CO₂ equivalents in direct emissions caused by use of fuel, and indirect emissions caused by energy consumption and air travel.

⁶Water consumption is measured from water used for cleaning, hygiene, and operations.

⁷Waste consists of non-hazardous and hazardous waste.

Organizational Chart

NOVOMATIC Group		
ACE Casino Holding AG (Switzerland, 100 %)	Novo Invest GmbH (Austria, 100 %)	Gryphon Invest AG (Switzerland, 100 %)
Casino Mendrisio (100 %) Casino Locarno (91 %) Casino Bad Ragaz (33.3 %)	NOVOMATIC AG-Konzern	European Data Project s.r.o. (EDP) (Czech Republic, 100 %) production, casino and gaming facility operator
	NOVOMATIC AG (Austria, 89.96 % Novo Invest GmbH und 10.04 % Gryphon Invest AG) holding	
	NOVOMATIC Gaming Industries GmbH (Austria, 100 %) R&D, production, sales	
	ADMIRAL Casinos & Entertainment AG (Austria, 100 %) gaming facility operator	
	ADMIRAL Sportwetten GmbH (Austria, 100 %) sports betting provider	
	Casinos Austria AG (Austria, 17.19 %) casino operator	
	Österreichische Lotterien GmbH (Austria, 23.25 %) lottery operator	
	NOVOMATIC Lottery Solutions GmbH (Austria, 100 %) developer of gaming platforms, electronic lottery solutions and lottery terminals, production, sales	
	Greentube Internet Entertainment Solutions GmbH (Austria, 100 %) production, operation and distribution of online and mobile casino solutions as well as server-based terminal solutions	
	LÖWEN ENTERTAINMENT GmbH (Germany, 100 %) R&D, production, sales	
	Casino Royal GmbH (Germany, 100 %) gaming facility operator	
	EXTRA Games Entertainment GmbH (Germany, 100 %) gaming facility operator	
	Spielbank Berlin Gustav Jaenecke GmbH & Co. KG (Germany, 59.5 %) casino operator	
	NOVOMATIC Italia S.p.A. (Italy, 100 %) sales	
	Allstar S.r.l. (Italy, 100 %) gaming facility operator	
	Astra Games Ltd. (United Kingdom, 100 %) R&D, production, sales	
	Bell-Fruit Group Ltd. (United Kingdom, 100 %) production	
	Gamestec Leisure Ltd. (United Kingdom, 100 %) sales	
	Luxury Leisure Ultd. (United Kingdom, 100 %) gaming facility operator	
	Playnation Ltd. (United Kingdom, 100 %) gaming facility operator	
	Talarius Ltd. (United Kingdom, 100 %) gaming facility operator	
	Alfor SIA (Latvia, 60 %) gaming facility operator	
	NOVOMATIC Netherlands B.V. (Netherlands, 100 %) R&D, production, sales	
	NOVOMATIC Gaming Spain S.A. (Spain, 100 %) production, sales	
	Admiral Operations Spain S.L. (Spain, 100 %) gaming facility operator	
	GiGames S.L. (Spain, 80 %) production, sales	
	NOVOMATIC Americas Holdings Inc. (USA, 100 %) sales	
	NOVOMATIC Technologies Poland S.A. (Poland, 100 %) technology center	

NOVOMATIC Group
The NOVOMATIC Group includes Novo Invest GmbH, the NOVOMATIC AG Group, as well as the two Swiss sister holding companies ACE Casino Holding AG and Gryphon Invest AG, which are owned by Prof. Johann F. Graf.

NOVOMATIC AG Group
The NOVOMATIC AG Group is part of the NOVOMATIC Group and includes the main subsidiaries listed here. In addition to this, the NOVOMATIC AG Group is active in Germany, England, Italy, Spain, as well as other CEE and SEE countries through subsidiaries.

Content

Company Overview

6	NOVOMATIC at a Glance
8	Facts and Figures 2017
10	Highlights 2017
12	Worldwide Activities
14	Growth of the NOVOMATIC Group
16	Foreword by the Founder & Majority Shareholder
18	Foreword by the Board of Directors

20	NOVOMATIC in Detail
22	The World of NOVOMATIC
24	Research & Development
26	Games & Gaming Machines
28	Omni-Channel Gaming Entertainment
30	Operations
32	Sports Betting
34	Lottery
36	Regulatory Environment

38	NOVOMATIC shows Responsibility
40	Corporate Responsibility-Strategy
49	Corporate Responsibility-Management
56	Responsible Entertainment
64	Always Compliant
70	Enjoy Working with Us
82	Going Green
88	Active in the Community
96	Non-financial Audit Report
	Appendix: UN Global Compact COP/GRI Index

Annual Financial Report

98	NOVOMATIC Consolidated Financial Statements
100	Management Report on the Individual and Consolidated Financial Statements
134	Consolidated Financial Statements
138	Notes to the Consolidated Financial Statements
215	Statement by the Board of Directors
216	Auditor's Report
222	NOVOMATIC Individual Financial Statements
224	Balance Sheet
226	Profit and Loss Statement
228	Notes to the Individual Financial Statement
243	Auditor's Report
248	Report of the Supervisory Board
251	Imprint

This English report is a translation of the consolidated financial statements and the individual financial statements of NOVOMATIC AG for 2017, which were prepared in German and audited by the auditing firm Deloitte Audit Wirtschaftsprüfungs GmbH in the original language. The English version has no legally binding effect.

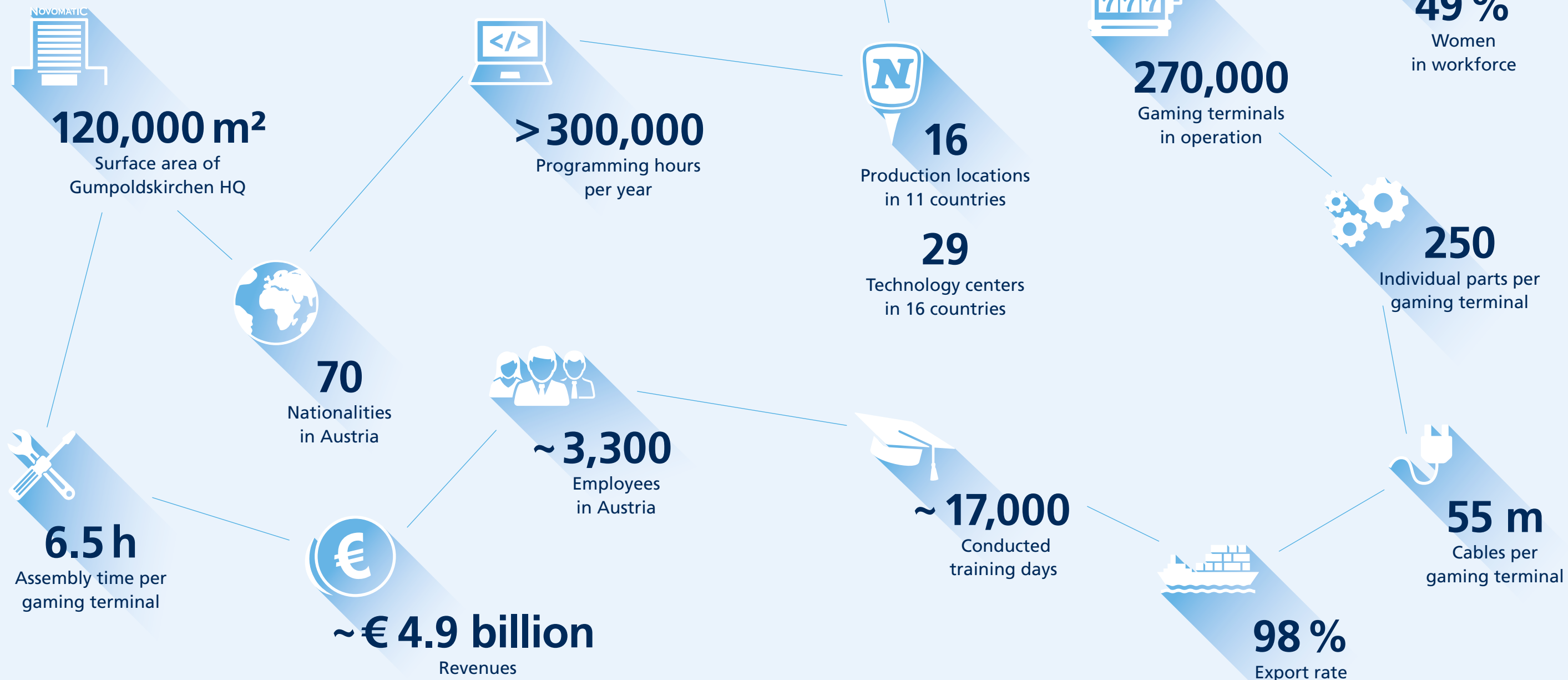


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NOVOMATIC

NOVOMATIC Group Facts and Figures 2017

In its relatively short 37-year history, the NOVOMATIC Group has become one of the top players in the gaming industry and the clear number one in high-tech gaming technology in Europe.



NOVOMATIC Group Highlights 2017

The NOVOMATIC Group looks back at the best financial year in its 37-year history. As a globally operating full-service provider with operations in all important gaming markets, the Group covers all segments of the gaming industry.



February 3

NOVOMATIC opens the first casino in Liechtenstein

With Casino Berlin and the casinos in Mendrisio, Locarno and Bad Ragaz, the NOVOMATIC Group operates the top-selling casinos in the respective regions, both in Germany and Switzerland. The Swiss ACE Casino Holding AG opened the first casino in the Principality of Liechtenstein. The attractive location in Ruggell, where three countries meet, offers a broad range of high-quality entertainment services close to the home market of Austria.



February 9 to 11

New record appearance at ICE Totally Gaming

NOVOMATIC was represented at ICE (International Casino Exhibition) Totally Gaming 2017 with a record number of 25 exhibiting Group companies. NOVOMATIC devised the largest trade show appearance in the history of gaming trade shows, with an exhibition area of more than 4,700 m².



March 31

NOVOMATIC takes over the German Casino Royal Group

NOVOMATIC received permission from the German Federal Cartel Office to purchase the German Casino Royal Group. The Casino Royal Group, combined with the ADMIRAL gaming facilities run by the LÖWEN Group, makes NOVOMATIC the leading operator of slot arcades and AWP machines in Germany.



May 1

The opening of ADMIRAL Arena Prater

On May 1, 2017, in Vienna, ADMIRAL Sportwetten opened Europe's largest sports bar, ADMIRAL Arena Prater. The latest sports betting terminals, as well as 75 screens with a total display area of 130 m² and Europe's largest indoor LED-wall of 42 m², are spread across an area of over 1,300 m².



May 17

Corporate Volunteering Initiative "NOVOTeam"

The first action day for NOVOMATIC's new NOVOTeam volunteer initiative was held on May 17, 2017. Around 30 NOVOMATIC employees took part in three charitable projects. The initiative aims to make a contribution to society by donating time in the immediate vicinity and promoting the social commitment of its employees.



June 1

Stock Exchange Award in the "Bonds" category

The Vienna Stock Exchange awarded NOVOMATIC a prize in the Corporate Bond Prize category for the seven-year company bond (benchmark bond) issued in 2016 with a volume of EUR 500 million.



August 4, September 7

NOVOSafety Day and NOVOHealth Day

On the fourth NOVOSafety Day, an evacuation exercise was carried out with more than 600 people, and a comprehensive range of courses was offered on work and traffic safety, first aid, environmental and fire protection, and self-defense. On the third NOVOHealth Day, more than 250 participants used nearly 20 health services.



October 3

Sixth NOVOMATIC Stakeholder Forum

More than 70 participants attended the Stakeholder Forum, which was presented under the title "Innovation and Corporate Responsibility – Roads to Strategic Success" at the Novomatic Forum in Vienna. Participants discussed relevant development areas with NOVOMATIC experts and executives in a variety of workshops.



October 17

NOVOMATIC supplies Foxwoods Resort Casino

NOVOMATIC continues to expand its presence in the US and has signed a multi-year contract with Foxwoods Resort Casino, the largest casino resort provider in the US. Starting now, NOVOMATIC Americas will provide its premium gaming facilities with a total of 54 electronic live table games.



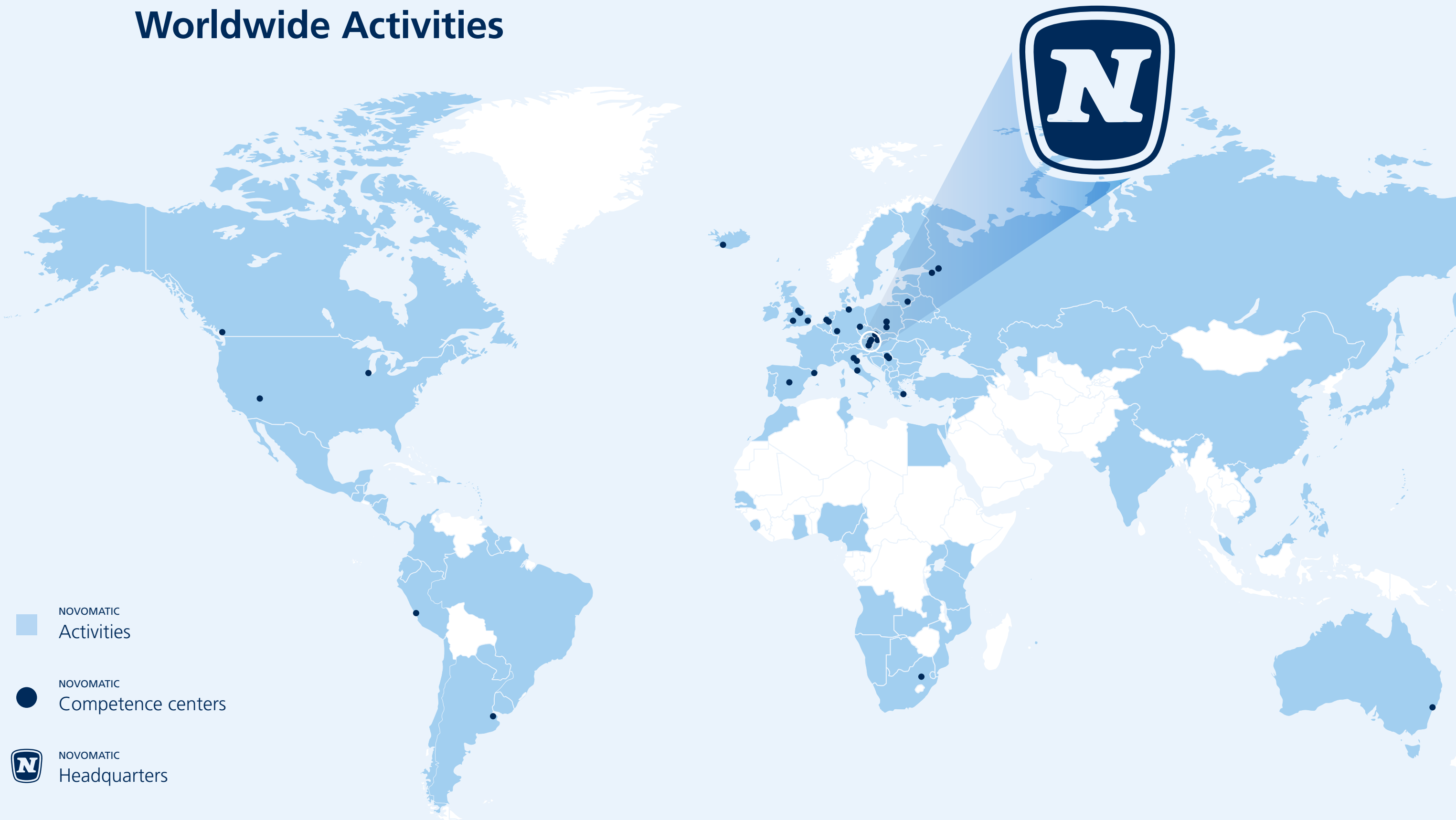
December 15

Authorities give the green light for Ainsworth purchase

Following intense scrutiny by many gaming authorities, from Australia to South America and the US, NOVOMATIC received official permission to purchase 52 percent of Ainsworth Game Technology. Since August, NOVOMATIC has been the exclusive distributor of Ainsworth products in Europe.

NOVOMATIC

Worldwide Activities



Growth of the NOVOMATIC Group

During the past ten years, the NOVOMATIC Group has almost tripled the number of its employees across all continents to almost 30,000.

	1980	
ESTABLISHMENT Founded by Professor Johann F. Graf, Austria		INTERACTIVE REVOLUTION First NOVOMATIC dual screen terminals revolutionize the market
	1985	
	1989	ESTABLISHMENT of the sports betting company ADMIRAL Sportwetten GmbH , Austria
MARKET ENTRY Central, Eastern and Southern Europe	1991	ADMIRAL
	1995	INNOVATION Development of the Coolfire™ casino hardware platform , presentation of the first multiplayer machines, and roulette automation through the development of TouchBet® Roulette
DEVELOPMENT Revolutionary development of the AWP sector: market launch of interactive multi-games and development of the first multiplayer machines	1997	
	2000	ACQUISITION LÖWEN ENTERTAINMENT GmbH , Germany gaming terminal manufacturer
ESTABLISHMENT of ADMIRAL Casinos & Entertainment AG in Switzerland and Advanced Technology Systems International S.A. in Poland	2003	
	2004	INAUGURATION CASINO ADMIRAL PRATER , Austria
ACQUISITION of the majority share in Astra Games Ltd. , United Kingdom	2005	
	2006	
REVOLUTION LÖWEN Entertainment GmbH revolutionizes the German gaming market with the new multi-game concept NOVOLINE	2007	
	2009	ACQUISITION Crown Technologies GmbH , Germany premium gaming terminal manufacturer  ACQUISITION Crown Gaming S.A.C. , Peru
INAUGURATION New NOVOMATIC HQ in Gumpoldskirchen, Austria		

2017

ACQUISITIONS

Ainsworth Game Technology Ltd., Australia
(closing completed on January 5, 2018.)



Casino Royal GmbH, Germany
Basque Gaming S.L., Spain
NOVOMATIC Technologies Poland S.A., Poland
ATT S.A., Poland

MARKET ENTRY

Liechtenstein (Gaming Technology)

INAUGURATION

ADMIRAL Arena Prater, Austria
Grand Casino ADMIRAL Zagreb, Croatia

ACQUISITIONS

Electro System S.p.A., Italy
MG Gaming S.r.l., Italy
Casinos Austria AG, Austria
Lotaria Kombëtare, Albania
OTIUMGI S.L., Spain
Talarius Ltd., United Kingdom

MARKET ENTRY

Tunisia (lottery), France

INAUGURATION

Casino Admiral San Roque, Spain
New headquarters for **Greentube** and
NOVOMATIC Lottery Solutions in Vienna, Austria

BENCHMARK BONDS

Eurobond with a volume of EUR 500 million, Austria

BRAND REINFORCEMENT

Renaming of Austrian Gaming Industries GmbH to NOVOMATIC Gaming Industries GmbH

2016

NIKI LAUDA

becomes the NOVOMATIC brand ambassador

BONDS

Corporate bond with a volume of EUR 200 million, Austria

INAUGURATION

Hotel Casino Flamingo, Macedonia

ESTABLISHMENT

NOVOMATIC Lottery Solutions GmbH, Austria, Iceland

ACQUISITIONS

Luxury Leisure Ultd., United Kingdom, Scotland
GiGames S.L., Spain

Elam Group Electronic Amusement B.V., Netherlands

MARKET ENTRY

Israel, Illinois, Costa Rica, Honduras, Guatemala

2015

ACQUISITIONS

BlueBat Games Inc., Canada
AbZorba LLC, USA
Casino Tornado, Lithuania, 5th casino
Österreichische Lotterien GmbH, Austria
Playnation Ltd., United Kingdom

MARKET ENTRY

Madrid (operations), Catalonia (lottery)

CORPORATE CREDIT RATING

S&P assigns NOVOMATIC AG an investment grade rating of BBB and a stable outlook

PROMISSORY NOTE BONDS

with a volume of EUR 275 million, Austria

2014

2013

BONDS

Corporate bond with a volume of EUR 250 million, Austria

MARKET ENTRY

Netherlands, Romania (with VLTs)
Eurocoin Gaming B.V., **JVH exploitatie**, Netherlands
Betware Holding hf., Iceland
Development and sale of state-of-the-art online and mobile lottery solutions as well as gaming platforms

2012

ACQUISITION

Substantial assets from the **Danoptra Gaming Group** (Bell-Fruit Group and Gamestec Leisure Ltd.), United Kingdom

BONDS

Two corporate bonds with a total volume of EUR 350 million, Austria

MARKET ENTRY

Italy

ONLINE MARKET ENTRY

via acquisition of the **Greentube Group**, Austria

2011

2010

ACQUISITION

Spielbank Berlin, Germany

ACQUISITION

G. Matica, Italy

Foreword by the Founder and Majority Shareholder

Dear Ladies and Gentlemen,

In the 37th year since its establishment, NOVOMATIC again looks back at a very successful financial year. The NOVOMATIC AG Group recorded revenue growth of eleven percent, thus achieving over EUR 2.5 billion. Together with the two Swiss sister holdings, ACE Casino Holding AG and Gryphon Invest AG, the cumulative revenues of the NOVOMATIC Group reached almost EUR 4.9 billion for the first time.

What pleases me personally, in particular, is that the NOVOMATIC AG Group has shown not only record sales in this annual report but also a record number of employees. The number of our employees has once again increased significantly, from 23,849 in the previous year to 25,536.

The dynamic economic development of our Group in the 2017 financial year is based, above all, on a significant rise in the number of venues we operate worldwide, which increased from 1,900 to more than 2,100 compared to the same period of the previous year due to our consistent expansion in Europe's four largest gaming markets – the UK, Italy, Germany and Spain. The number of gaming machines operated by our Group has also reached a new high of more than 65,000 operating units. As a result of these activities, sales in the Gaming Operations segment increased to EUR 1,587.2 million, up from EUR 1,326.4 million in 2016.

In addition to new business opportunities, the 2018 fiscal year will bring many challenges. For example, in our most important market of Germany, stricter industry-specific regulations will apply in the future, for which we have already prepared ourselves well. However, the gaming industry, and therefore we at NOVOMATIC, have never shied away from mastering challenging framework conditions. Instead, we have accepted and implemented the most demanding regulatory requirements to the best of our ability in all jurisdictions in which we operate.

I am also especially pleased that, in the 2017 fiscal year, we finally paved the way for the positive conclusion in what is probably the most strictly regulated gaming market in the

world, the US. After obtaining all the formal approval requirements of the various international licensing and regulatory authorities, the acquisition of approximately 52 percent of the Australian gaming technology group Ainsworth Game Technology Ltd., which was signed in the 2016 fiscal year, means that we are one of only a few European companies, and the only group from Austria, with a headquarters in Las Vegas, Nevada. The shareholding of Ainsworth is also of great strategic importance as it gives us access to the important market in North America, where approximately one million gaming machines are in operation. Ainsworth, a market leader in Australia, also has a strong presence in Latin America and Asia.

Thus, there are many good reasons for NOVOMATIC to look to the future confidently from its position as Europe's leading gaming technology group and as one of the top players worldwide. In addition to our innovative strength as a full-service provider to all segments of our industry, our employees remain the most valuable asset. Their knowledge and commitment are what has made the past 37 years of success possible in the first place.

I firmly believe that we will succeed in maintaining and even strengthening the confidence of our customers and guests in our Group and all the attractive products and services it offers. I also believe that the most important decisions in companies continue to be those relating to people. After all, it is our employees who form the basis of our success – each one of the NOVOMATIC family, which has grown to comprise almost 30,000 members.

Prof. Johann F. GRAF

Founder and majority shareholder



Foreword by the Board of Directors

Dear Ladies and Gentlemen,

In the 2017 fiscal year, the NOVOMATIC AG Group was again able to set a record in sales revenues, which reached the highest level in the company's history at EUR 2,527 million, compared to EUR 2,274 million in 2016. This corresponds to growth of more than 11 percent against the previous year, with the area of gaming machine proceeds during the year under review once again performing particularly well. Not only that, several significant acquisitions were finalized; these acquisitions reinforce the position of the NOVOMATIC Group as the leading company in the European market. NOVOMATIC was given the green light from the British gaming authority to purchase the British company Talarius. Thanks to this purchase, we are now the largest gaming facility operator in the Adult Gaming Center segment within the UK. In Germany, the Federal German Cartel Office approved the purchase of the Casino Royal Group. By combining the Casino Royal Group with the ADMIRAL gaming facilities run by the LÖWEN Group, NOVOMATIC has become the leading operator of gaming facilities and AWP machines in Germany.

The company also reached significant milestones in Austria. ADMIRAL Arena Prater – Europe's largest sports bar – opened in Vienna. One notable highlight at the venue is the largest indoor LED wall in Europe, at 42 m². In addition, authorities in Lower Austria and Burgenland issued permission for gaming devices to be set up in those provinces, and for the first time, representatives of NOVOMATIC AG were appointed to the Supervisory Board of Casinos Austria AG and Österreichische Lotterien GmbH. Furthermore, NOVOMATIC AG has a new Chairman of the Supervisory Board. Senator Herbert Lugmayr served as Chairman of the Supervisory Board, playing a key role in the success of the company. In 2017, he handed over the reins to Dr. Bernd Oswald.

Outside of Europe, the main focus for the year under review was the continuing acquisition of more than 52 percent of the shares in Ainsworth Game Technology Ltd. Ainsworth's strong presence in Australia, Asia, and North and South America, will allow NOVOMATIC to strengthen its position within these markets in the future. In the second half of 2017, NOVOMATIC was able to secure a major contract with Foxwoods Resort Casino, the largest casino resort provider in the US. Acquisitions over the last few years have contributed significantly to growth at NOVOMATIC, and the company now has over 300 subsidiaries. In 2017, the first steps were taken to shift the focus to consolidation and integration measures. We are convinced there is potential here and will continue to concentrate on increasing efficiency.

In addition, of course, NOVOMATIC is dedicated to sustainable company development. This strategy takes into account not just economic aspects of business, but also employee issues and environmental protection measures, as well as the interests of our stakeholders. In the Corporate Responsibility section of this report, there is detailed information on our successes and activities within the five strategic corporate responsibility fields of action.

NOVOMATIC employees are a key component of the company's continued success in the future. This is why we invest in our employees in order to increase satisfaction and create the best possible working environments. Many programs carried out in the year under review are proof of NOVOMATIC's positive commitment to employees, such as the 6th NOVOMATIC soccer tournament, the 4th NOVOSafety Day as well as the 3rd NOVOHealth Day.

Dr. Christian Widhalm

Thomas Graf

Peter Stein

Harald Neumann

Ryszard Presch

Harald Neumann
Chairman
Chief Executive Officer

Dr. Christian Widhalm
Deputy Chairman
Chief Investment Officer

Thomas Graf
Chief Technology
Officer

Peter Stein
Chief Financial
Officer

Ryszard Presch
Chief Operating
Officer





The World of NOVOMATIC

The NOVOMATIC Group, the leading full-service provider in the gaming industry, has grown significantly in the last few years thanks to strategic acquisitions. The company now has more than 300 subsidiaries. As a result of this continual development, the future focus of the company will be on improving synergy potentials and continuing to increase efficiency between companies.

“What do you need to be a success on the international stage? A vision – and the passion to work towards that vision”, Niki Lauda, NOVOMATIC brand ambassador and three-time Formula 1 world champion, explains about. Founded in 1980 by the industrialist Prof. Johann F. Graf in Gumpoldskirchen with passion and a clear vision, the NOVOMATIC Group, consisting of NOVOMATIC AG as well as its two Swiss sister holding companies ACE Casino Holding AG and Gryphon Invest AG, can look back upon an unparalleled success story.

37 years after its establishment, NOVOMATIC is not just a globally active Group of companies with around 30,000 employees and locations in more than 50 countries, it is also Europe’s largest gaming technology

group. NOVOMATIC is convinced that the company owes its success in particular to the cooperation and innovative strength of its individual employees.

NOVOMATIC places particular value on research and development. 29 technology centers in 16 countries and 16 production locations in eleven countries play a crucial role in the development of innovative technologies, system solutions and promising products for the online, mobile and social gaming segments. In the last three years alone, the NOVOMATIC AG Group has invested more than EUR 250 million in researching and developing new technologies. Not only that, NOVOMATIC develops more than 230 new game variations and game designs each year.

NOVOMATIC’s competitive advantage comes, on the one hand, from the unique combination of gaming operations and gaming technology, and on the other, from the exceptionally high level of vertical integration of 90 percent. NOVOMATIC operates around 2,100 electronic casinos, casinos and sports betting facilities, and exports innovative gaming equipment, system solutions and services to more than 75 countries. This allows NOVOMATIC to react quickly to market requirements and implement new technologies without delay. Customers and business partners benefit from the unreserved commitment to top quality, perfect processing of the highest grade materials and precision work in the interest of the customer, which are the hallmarks of all NOVOMATIC machines.

The flagship is the producing NOVOMATIC subsidiary NOVOMATIC Gaming Industries GmbH (NGI), which also acts as a holding company for numerous national and international companies, as well as investments in the gaming industry. It is also Europe’s leading producer of gaming terminals, supplying one of the most comprehensive product ranges in the industry. The NGI international sales have elevated the company to one of the largest gaming equipment producers in the world.

NOVOMATIC is the European market leader in the operation of electronic casinos. In the 2017 fiscal year, the NOVOMATIC Group increased the number of operated gaming terminals to around 270,000 units. This includes gaming terminals run on the rental model, as well as the more than 2,100 gaming facilities around the globe that belong to the Group, which includes casinos, sports betting facilities and electronic casinos. The NOVOMATIC Group carries comprehensive international casino expertise and runs casinos in countries such as Germany, the Czech Republic, Spain, Gibraltar, Macedonia, Lithuania and Switzerland. All of these establishments enjoy some of the strongest revenues within their respective regions. In Austria, the subsidiary ADMIRAL Casinos & Entertainment AG (ACE) is responsible for operating 2,234 gaming terminals in a total of 147 electronic casinos (as of: January 2018) in Lower Austria, Upper Austria, Burgenland, Styria and Carinthia. In addition to this, ADMIRAL Sportwetten GmbH – the Austrian market leader for sports betting facilities – operates a total of 250 locations in the domestic market alone.

Once again, NOVOMATIC was able to improve its position in the ranking of companies with the most valuable brands in Austria in the 2017 fiscal year. Within the framework of a brand value study, “eurobrand Austria 2017”, NOVOMATIC came in third, with a brand value of EUR 3.17 billion (up 8.4 % compared to 2016). NOVOMATIC is the only company that has registered yearly increases in this ranking for more than ten

years. A study run by Accenture, an international consulting company, selected NOVOMATIC as one of the 2017 Growth Champions in the category Communication, Electronics and High-tech. This study confirms the above-average profitable growth enjoyed by the NOVOMATIC Group.

As a globally operating full-service provider, NOVOMATIC pursues a strategy of covering all segments of the gaming industry. In addition to continuous product innovation, the Group will focus in the future on even more intensive diversification of its areas of business, as well as increasing synergies between companies. Nevertheless, the gaming technology group will continue to focus on continuous, controlled and sustainable growth. NOVOMATIC will also continue to evaluate potentials for maintaining and expanding its market leadership.

NOVOMATIC’s fundamental policy will always ensure that the Group will only offer its products and gaming facilities in regulated markets and market segments with clear regulatory and legal frameworks. The Group’s core markets in addition to Eastern and South-Eastern Europe where NOVOMATIC maintains a fantastic position due to its early market entry, are focused mainly on Central Europe, including Germany, Spain, Italy, the United Kingdom and the Netherlands.

In the future, the technology group will also focus on expanding its market position, in particular in the USA, Australia, Asia and South America. The acquisition of a majority stake in the Australian company Ainsworth Game Technology Ltd. offers an important lever for the development of these markets. NOVOMATIC received a green light for this acquisition from all independent licensing authorities in December of 2017. The company is particularly proud of successful approval from the Nevada Gaming Control Board in Nevada, which was only given after undergoing intense scrutiny. This is the first time that an Austrian company has been registered in the gaming metropolis of Las Vegas. Moreover, the Ainsworth shares purchase, at over EUR 300 million is the largest investment made in Australia by an Austrian company to date.



Research & Development

Research and development has played an important role in the NOVOMATIC success story. The foundation for this innovation is the company-owned global technology centers and unique ingenuity in the areas of distributed gaming solutions, game content and application software.

Thanks to its 29 technology centers in 16 countries, NOVOMATIC is a pioneer in the development of innovative products and system solutions in the area of gaming.

The Group's development activities focus both on "Distributed Gaming Solutions" as well as on gaming content and application software. The developed software system solutions include management information systems, ticketing and smartcard systems, access systems, video lottery systems, biometric player recognition, links to government regulators, player protection programs, gaming as a service, online and mobile gaming system solutions, jackpot systems such as the linked jackpot "Enchanted Fortunes", as well as multiplayer and community gaming systems. Both modular software architecture and interoperability of the various developments are crucially important to these innovations.

Open platform architecture and development teams specializing in individual market segments guarantee that development activities are suitable for both homogeneous markets and market niches with a high degree of specialization. The open platform infrastructure allows for the integration of third-party providers and their gaming applications in order to satisfy market needs in a better and faster manner.

NOVOMATIC sets industry trends when developing the latest generation of cabinets and models, with industrial design being one of the most important aspects of the process. Innovation in terms of hardware includes new and ergonomic cabinet designs for casino, video lottery and Amusement with Prizes (AWP) gaming markets with control of up to five monitors possible, skill-based roulette terminals with state-of-the-art ball release mechanisms, the new GAMINATOR® Scorpion cabinet, as well as V.I.P. terminals with giant screen technology and dynamic lighting effects based on LED technology.

In terms of data security, increasing emphasis is being placed on physical random number generators that use quantum mechanics.

The industry trend of merging well-known pop-culture subjects such as TV shows and blockbusters with gaming continued throughout 2017. NOVOMATIC has a stake in "branded games" and has licenses for both the Batman-trilogy from Christopher Nolan and the Sherlock Holmes movies by Guy Ritchie. At G2E in Las Vegas, the game "From Dusk Till Dawn" was introduced to the public. The game is based on the blockbuster film of the same name written by Quentin Tarantino and was presented on NOVOMATIC's V.I.P. devices.

Development of the game was supported by internal hardware and software development teams, as well as close partners from Austria, Germany, UK, Iceland, the Netherlands, Spain, Serbia, Russia, Argentina, Canada and Poland, and through exclusive partnerships with developers in Slovenia, Greece, USA and Australia.

Protecting intellectual property in the area of research and development is extremely important. At the end of 2017, NOVOMATIC had about 4,000 registered IP trademark rights. More than 100 registrations are added each year. The Group is constantly developing new products and product variations, resulting in the creation of over 300 new gaming variants per year. With the help of a software development kit (SDK), it is possible to add games developed by third-parties to the portfolio immediately. 22 companies around the globe are now working with this SDK, providing additional enrichment to NOVOMATIC's gaming portfolio.



Games & Gaming Machines

Market-specific developments and synergetic growth throughout the international product portfolio – and a multi-year licensing agreement for a blockbuster title for Omni-channel casino platforms.

and Cash Management, Online, Mobile and Social Gaming offered by Greentube and the subsidiaries of NOVOMATIC Interactive, as well as B2B solutions for sports betting by NOVOMATIC Sports Betting GmbH (NSBS) and the latest lottery products of NOVOMATIC Lottery Solutions GmbH (NLS).

Also – in the run-up to the majority shareholding in the Australian gaming technology company Ainsworth – Ainsworth products were being shown on the NOVOMATIC stand for the first time. The year was generally marked by a concentrated exchange of game assets and know-how between the two companies to tap new potentials for international markets by leveraging synergies from a broadened product portfolio.

In the casino segment, NOVOMATIC further expanded its portfolio of NOVO LINE™ Interactive Curve games for the increasingly popular line of upright single-monitor machines such as the DOMINATOR® Curve, featuring a 40" full HD curve screen, and the NOVOSTAR® V.I.P. Royal, featuring a 65" full HD upright monitor. These so-called "curve" games come with a variety of special game features and stand-alone progressive jackpots as an integral part of the game. The launch of the slot title Book of Ra™ XPAND also marked the premiere of this NOVOMATIC classic in the large "curve" format.

In the Electronic Table Games (ETG) segment, NOVOMATIC introduced the LOTUS ROULETTE™ Pro – an automated Roulette island running on the Impera Line™ HD platform – and successor to the LOTUS ROULETTE™. Creating a standout impression, advancements made to the presentation include new state-of-the-art monitors and LED lighting that give an ultra-modern look and feel. The Roulette wheel has been completely re-engineered and is significantly faster and sets new standards in terms of speed. Another novelty for the ETG segment in 2017 was Simultaneous Betting, a functionality that allows players to play up to three sessions of one game type simultaneously. Both novelties were staged at ICE 2017 for the first time.

The Global Gaming Expo (G2E) 2017 in October marked the launch of the US version of the licensed slot title From Dusk Till Dawn™. Based on a multi-year licensing agreement with Miramax® for the rights to produce casino games based on the popular vampire road movie, NOVOMATIC is able to develop and distribute From Dusk Till Dawn branded games for both land-based and online casino platforms. The slot game delivers an explosive adventure for slot enthusiasts and fans of the film alike. Starring George Clooney, Quentin Tarantino, Salma Hayek, as well as Harvey Keitel, Juliette Lewis and Danny Trejo in footage from the film, players are taken on a journey to Mexico from the comfort of a V.I.P. chair on the luxury NOVOSTAR® V.I.P. III and V.I.P. Lounge™ cabinets.

Also hitting the market for the first time in 2017 was the Enchanted Fortunes Linked Jackpot™ – a linked progressive jackpot system that connects two or more slot games to create a spellbinding jackpot experience with four win levels: Mini, Minor, Major and Grand. The jackpot solution was presented for the first time at G2E 2017 across a bank of DOMINATOR® Curve cabinets. A special set of NOVO LINE™ games such as Asian Fortunes™, Treasure of Tut™ and Goddess Rising™ among others can be linked to contribute to the shared multi-level jackpot.

NOVOMATIC's wholly-owned subsidiary NOVOMATIC Gaming Industries GmbH (NGI) is the central Group unit active in the research and development, manufacture and international distribution of gaming technologies. NGI and its subsidiaries offer one of the most comprehensive product portfolios in the industry, covering all segments. The duality, as a producer as well as operator of gaming technologies, provides the Group with a unique opportunity to test and optimize new developments in company-owned gaming facilities, in a variety of markets. The exchange of know-how and experience from the different various segments, feedback from the operative areas put directly into practice during product

development, as well as ongoing evaluations within the development process itself, guarantee that all products are of the highest quality and ready for market before being offered to international customers.

Traditionally NOVOMATIC premieres the Group's international product innovations on the largest stand at the major international trade show, the International Casino Exhibition (ICE) in February in London. The main focus was on the 360-degree gaming portfolio, comprising the segments Casino Products, AWP/LPM (amusement with prizes / limited payout machines), Casino Management Systems

Omni-Channel Gaming Entertainment

Greentube's omni-channel technology encompasses a comprehensive online, mobile and land-based gaming service, offering a unique customer experience.

Continuous technological developments and innovations have made the digital-interactive segment one of the fastest growing sectors in the gaming industry over the past few years. On the one hand, consumers have access to increasingly powerful mobile devices, opening up new possibilities, yet on the other, providers are facing never before seen development challenges. Greentube Internet Entertainment Solutions GmbH, the NOVOMATIC Interactive Division, is taking on these challenges and working hard to develop and optimize successful solutions.

Greentube is the leading full-service provider and pioneer for the development of state-of-the-art gaming solutions, as well as a major European social casino gaming operator. The business has four main segments: B2B sales of games and platform solutions, B2B sales of networked gaming devices, B2C operation of real-money online casinos in regulated markets and B2C operation of free-to-play casino portals.

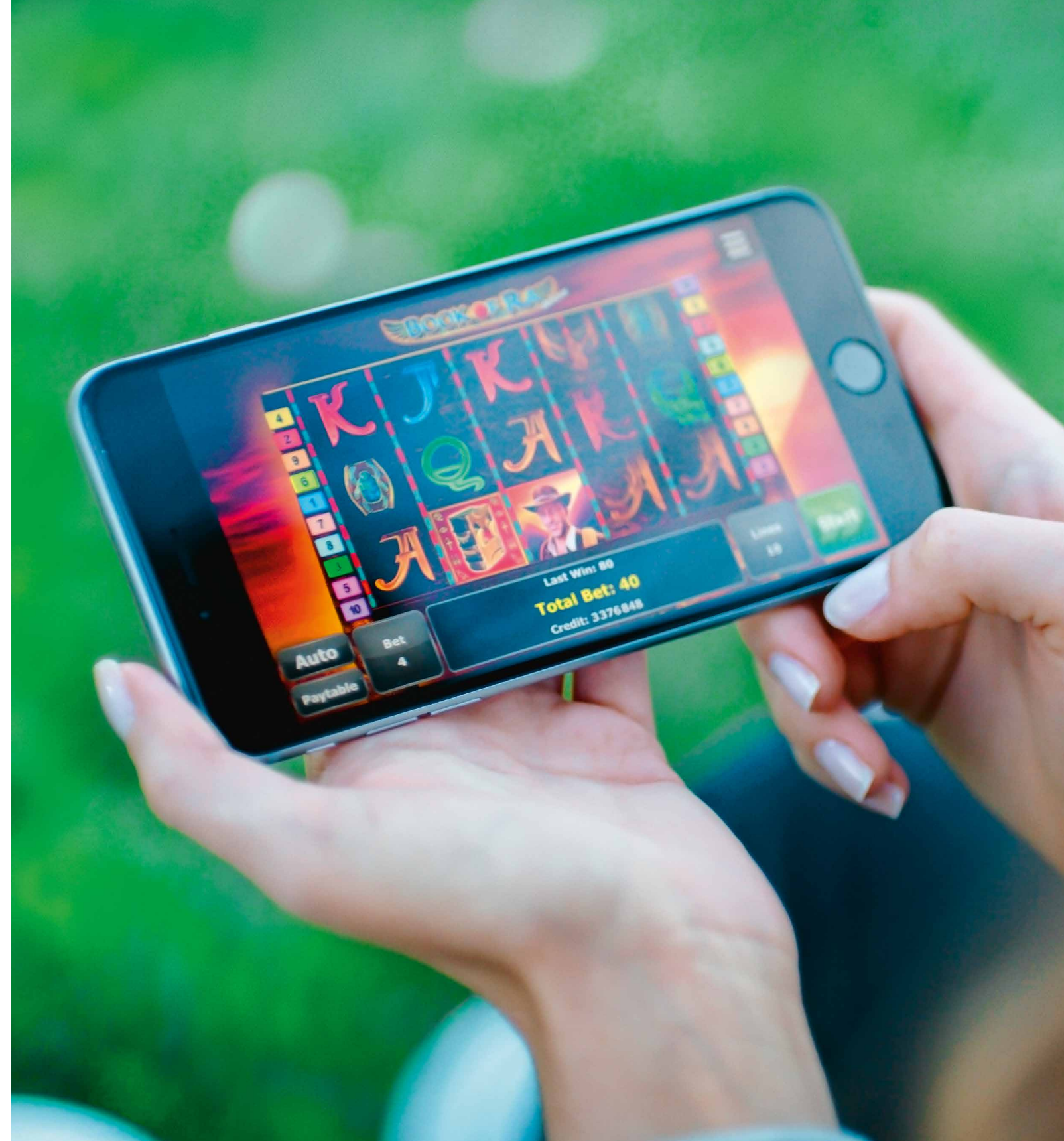
Greentube's portfolio is being expanded on an ongoing basis and is strengthened via new developments from their many subsidiaries, which include Funstage, Cervo Media, Platogo, BlueBat Games, StakeLogic, Greentube Malta, Greentube Slovakia, Greentube Alderney, Greentube Gibraltar, Greentube UK and AbZorba Games. This wealth of resources consolidates the company's position as a market leader.

Furthermore, partner companies such as Eurocoin Interactive, Slot Studios, Octavian and many others continue to upload high-quality games to the Novo Software Development Kit (NSDK) developed by Greentube, which are sold on all channels operated by the company. HTML5 is the technological foundation used to build gaming solutions for all platforms and devices. HTML5 facilitates sharper, clearer images, entertaining animation and excellent sound quality for a superior gaming experience.

Greentube holds licenses in Malta, Alderney and Gibraltar, as well as the United Kingdom, Spain, Italy, Belgium, Romania and the German state of Schleswig-Holstein. In addition, the company is working on market entry to a variety of European countries that will be regulated in the future.

As an internationally active company, Greentube provides solutions in the business area of "real-money gaming" in the B2B and B2C markets. Real-money customers in the B2B area include, for example, GVC, Casumo, Bet365, Unibet, Betsson, Sky Vegas, Optibet and many more. As a real-money provider in the B2C segment, StarVegas focuses on markets in Italy and Spain, Bell Fruit Casino on Great Britain, and Admiral on Romania.

Greentube Pro is one of the pioneers in the area of social casino gaming in the United States and provides casinos, such as Foxwoods in Connecticut, Treasure Island in Minnesota and Mount Airy in Pennsylvania, with the ability to communicate digitally with their customers. Casino visitors can access their favorite games even outside of the casino resort. In turn, the casinos profit from more comprehensive brand recognition and additional marketing opportunities. The online player is fully immersed in the casino's brand and interacts with "his" or "her" casino on a virtual basis. Casinos that have decided to work with Greentube Pro can also access the entirety of Greentube's game portfolio, as well as that from all NOVOMATIC subsidiaries. A series of unique cross-promotion tools, such as the use of special voucher logic, which allows for customer activation both in the digital and physical world, is part of the exclusive competitive advantage provided by the service. The best-known brands in B2C social gaming are GameTwist and Slotpark, as well as apps from the subsidiary company AbZorba, such as Live Blackjack21 and Live Roulette. Additional very successful independent brands in this business area are Pharaoh's Way and Pharaoh's Fire. Greentube uses its omni-channel solution to combine the business areas of



online, mobile and land-based gaming, and provides customers with a comprehensive and congruent gaming portfolio. To do so, all games are provided using a single wallet solution across all possible channels; casino and VLT markets can be served by the server-based Plurius™ system. Plurius enables product launches for desktop, smartphone and tablet channels. The innovative Plurius™ system thereby completes Greentube's omni-channel strategy.



Operations

NOVOMATIC once again expanded its operations in the all-important gaming market in Germany, with the acquisition of Casino Royal GmbH, which has a total of 126 locations.

In the 2017 fiscal year, the NOVOMATIC Group set a new sales record in the area of Gaming Operations. External revenues in the Gaming Operations segment amounted to EUR 1,587.2 million in the year under review. This is a significant increase as compared to last year (EUR 1,326.4 million). This segment includes those locations run by the Group itself, which comprises gaming facilities, casinos, sports betting outlets and bingo halls. It also includes all Group activities in the areas of online and mobile gaming, as well as sports betting, to the extent this relates to the B2C area.

The continually strong revenue growth in the Gaming Operations segment is due largely to a significant increase in the number of gaming facilities run by NOVOMATIC around the world. The number of facility locations has grown considerably as compared to the same period in the previous year, from around 1,900 to just over 2,100. Even the number of Group-operated gaming devices has reached a new high: in comparison to the 2016 fiscal year, the number in the reporting period rose by 5,000 units to a total of around 65,000 units.

In the Austrian home market, NOVOMATIC achieved total revenue of EUR 257.7 million from gaming and betting operations (2016: EUR 230.6 million). The Group also made significant progress in the four largest gaming markets in Europe. In Germany, NOVOMATIC's most important market, the company was able to counter the introduction of stricter framework conditions for the industry with, among many other measures, an acquisition that will strengthen its position as an operator in the German gaming market: by acquiring shares in Casino Royal GmbH, NOVOMATIC has gained a total of 126 additional gaming facility locations. Gaming facilities are significant when it comes to revenue, in particular, in terms of commercial electronic gaming. As part of this segment in the previous year, the successful German operating companies EXTRA Games Entertainment GmbH, BPA Freizeit und Unterhaltungsbetriebe GmbH and Admiral Play GmbH have already, for the most part, rebranded their more than 450 gaming facilities as ADMIRAL slot arcades, integrating them into the international brand architecture of the successful ADMIRAL recreation and entertainment brand.

The same strategy is in use in the United Kingdom. In mid-2016, the Group acquired Talarius, and with it around 160 gaming facilities. Almost half of these facilities have since been converted to ADMIRAL branding. In 2017, Gaming Operations in the UK recorded sales revenues of EUR 149.1 million (2016: EUR 118.4 million).

In Italy, the largest gaming market in Europe (based on the number of slot machines) with a total of 400,000 gaming devices, the Group was able to increase sales in the reporting period via organic and acquisition-based growth to a total of EUR 150.5 million (2016: EUR 111.4 million). In the future, the ADMIRAL brand will play a stronger role in the Italian market. The next step is to switch more than 100 Spanish gaming operations to the ADMIRAL brand during the 2018 fiscal year. Operating sales of the Spanish Group companies more than doubled during the last year, reaching a high of EUR 73.1 million (2016: EUR 35.0 million).

The fiscal year also went well in Central, Eastern and South-Eastern Europe. Sales increased by EUR 33.4 million and reached a total of EUR 330.4 million. This increase was mainly generated in the markets of Latvia, Croatia, Serbia and Macedonia. In October 2017, for example, the Grand Casino ADMIRAL Zagreb was opened in the Croatian capital city. The location covers more than 3,000 square meters and contains over 318 gaming terminals and 20 live gaming tables. In addition to a restaurant, a sports bar with state-of-the-art technology, as well as seminar rooms, the site also offers a four-star hotel with a total of 45 rooms.

At the beginning of August 2017, for the first time in 171 years, a casino opened in the Principality of Liechtenstein. The Casino ADMIRAL Liechtenstein in Ruggell is a great addition to the NOVOMATIC Group's casino range. This also comprises seven casinos in Germany – including Spielbank Berlin, which, in addition to being steeped in tradition, is also Germany's most profitable live casino. NOVOMATIC's flagship properties in the casino segment also include Casino ADMIRAL San Roque in southern Spain, Swiss casinos in Mendrisio, Locarno and Bad Ragaz, the Casino Flamingo in Macedonia, six casinos in Lithuania, and a multitude of locations in the Czech Republic, including Casino ADMIRAL Colosseum in Hatě.



Sports Betting

The newly founded NOVOMATIC Sports Betting Solutions GmbH now coordinates all of the NOVOMATIC Group's sports betting activities within the international B2B segment, offering superior, innovative sports betting solutions.

NOVOMATIC Sports Betting Solutions (NSBS) has been coordinating all international sports betting activities for the NOVOMATIC Group since 2015. NOVOMATIC Sports Betting Solutions GmbH, a NOVOMATIC subsidiary, was founded in the first quarter of 2017. Omni-channel solutions for discerning sports betting providers are offered to the international market from a single source. The solutions include management of an unlimited number of Self-Service Betting Terminals (SSBTs) and checkouts in the terrestrial segment, as well as secure online and mobile sports betting solutions via responsive web design and platform independent applications.

Operators profit from the scalable solutions adjusted for their specific market as well as individual customer requirements, which make their mark through excellent ease of use. In addition, NSBS delivers a powerful module for comprehensive sports betting offered in various currencies and languages with an excellent reporting system, which can be easily and quickly integrated into all common payment systems.

NSBS supports providers with product-specific expertise and first-class consultations for a variety of sports betting requirements. From market observation and analysis to selection and configuration of suitable hardware and software systems, and including operational training and professional 24/7 customer service as well as support for all marketing activities: NSBS is a strong partner for operators.

NOVOMATIC is active in several markets with a variety of brands and sports betting offers matched to the market in question, both as an operator of independent betting facilities and, where allowed, sports betting areas in casinos. These markets include, among others, Austria, Germany, the Czech Republic, Italy, Gibraltar, Romania and Serbia.

ADMIRAL Sportwetten is the market leader in Austria and offers comprehensive betting services. In addition to around 2,600 SSBTs, as well as 280 checkouts in over 250 facilities in Austria and Germany, the customer also, of course, has access to online and mobile portals.

True to its corporate philosophy of "building trust through bookmaking competency, payment security and respectability", ADMIRAL has been a competent provider of sports betting services for 27 years. Soon after opening, ADMIRAL Sportwetten managed to rapidly conquer a share of more than 50 percent in its domestic market, thereby becoming the clear number one within the Austrian sports betting facilities business. The betting specialist offers a unique quality concept: innovative betting offerings, state-of-the-art technology and an inviting café-style ambiance.

Since 2014, ADMIRAL Sportwetten has also offered betting services in Germany. In 2017, the facility network was expanded to include ten locations, and expansion of the sports betting services in the German market will remain a focus in 2018.

NSBS has also outlined an international expansion strategy for 2018. In keeping with this strategy, the innovative betting systems are constantly updated, to adapt them flexibly to the individual regional requirements and to make the betting experience as attractive as possible for customers.

Lottery

NOVOMATIC Lottery Solutions has comprehensive expertise in the field of lottery and presents its innovative products, as well as latest technology solutions, at a multitude of trade shows to an international industry audience.

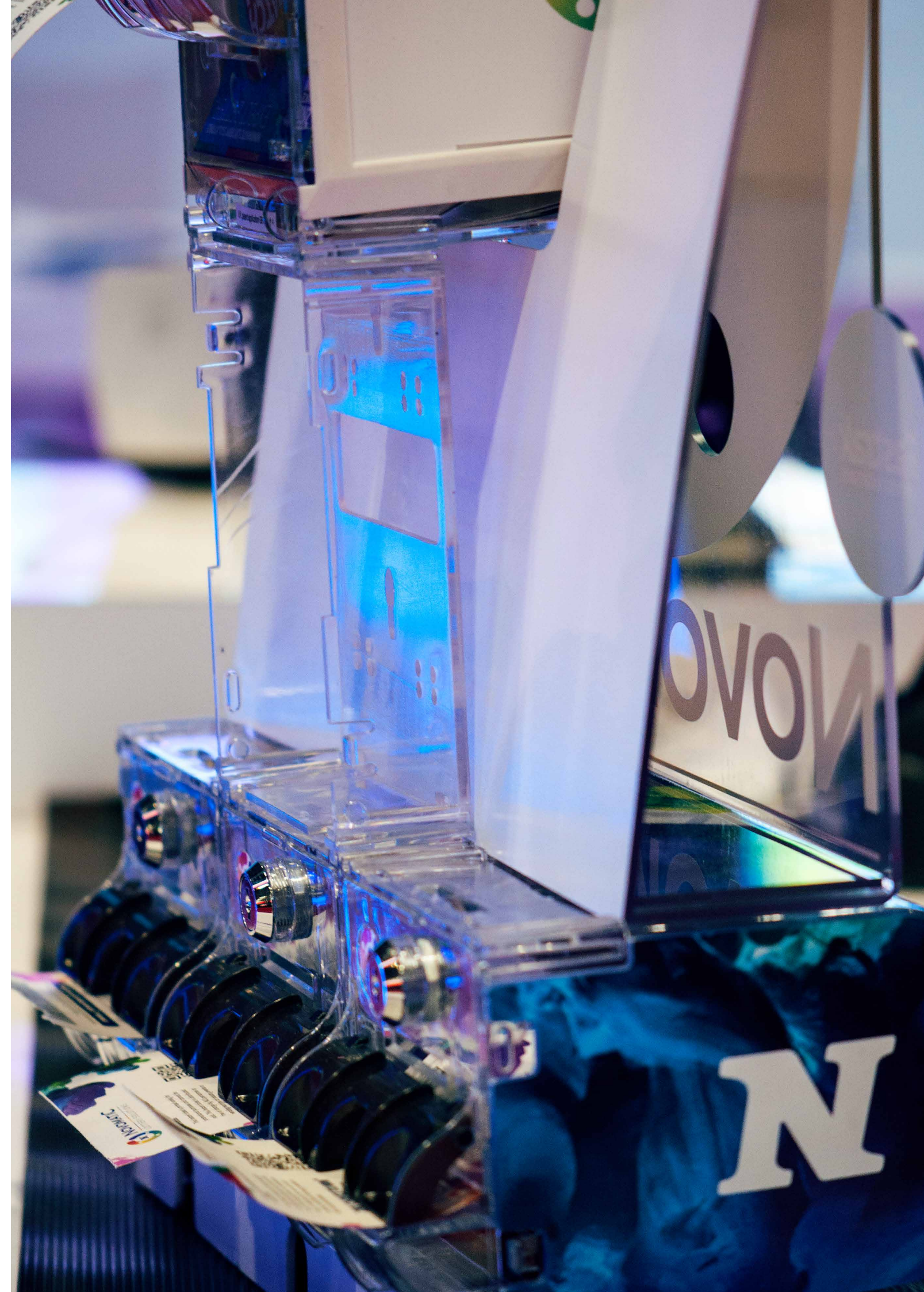
With a 360-degree product portfolio of the latest in gaming technologies, NOVOMATIC always strives to provide know-how in all areas of the gaming industry.

With the establishment of NOVOMATIC Lottery Solutions (NLS) in mid-2014, the Group has combined its lottery competences in one place. NLS is not just a full-service provider for international lottery markets, it also supplies technology, games and services that can be integrated into a whole host of solutions from third-party providers. The NLS system serves all sales channels, such as retail, online and mobile, creating an omni-channel solution. The innovative “bring your own terminal” solution is a line in the sand between NLS and its competition. The objective of NLS’ strategy is to minimize the investment expense for lotteries, in particular, regarding hardware. On request, NLS serves as a full-service provider for the customer, taking over areas such as marketing, logistics and support.

The key to NLS’ innovation is the variability of all products, which can be changed to match customer needs. A particularly important part of the service is a secure, open and flexible lottery platform, which can be easily integrated into third-party products such as bingo, keno, sports betting, instant games and any type of draw-based lottery game, etc. This platform allows customers to select products from their preferred providers in accordance with the ‘best of breed’ principle, in order to establish a complete and successful lottery presence on all sales channels. Access to the platform gives lottery providers a flexible tool for creating products ideally matched to each target group, with significant user-friendly features such as single registration and single wallet, providing a great customer experience.

In the last few years, NLS has become a member and Premium Partner in all of the world’s most important lottery associations: World Lottery Association (WLA), European Lotteries (EL), North American Association of State and Provincial Lotteries (NASPL) and Corporación Iberoamericana De Loterías Y Apuestas De Estado (CIBELAE).

In 2017, NLS made a lasting impression at several important specialty trade shows. Its products were presented at ICE Totally Gaming in London, G2E in Las Vegas, the National Association of State and Provincial Lotteries (NASPL) Conference in Atlanta, and the World Lottery Summit (WLS) in Singapore. NLS presented several important product innovations: the NLS Instant Ticket Vending Machine (ITVM), the in-lane solution POS Embedded and a new scented scratch ticket (Scratch’n’Sniff) that was originally developed for the lottery in Catalonia. At other trade shows, such as the EL Congress in Krakow, NLS was able to leave an equally strong impression with visitors, customers and business partners with its products and solutions.



Regulatory Environment

Ever since the company was founded, NOVOMATIC's top priority has been to only offer products and services in regulated markets with clear regulatory and legal frameworks. This ensures secure and continuous growth on a national and international level.

The entire gaming industry is marked by a dynamic regulatory environment, and providers are constantly required, due to continuous legal changes, in particular in the area of money laundering prevention and protection of players and minors, to further develop their services and products and adjust to suit these changing framework conditions.

Within the single European market, gaming remains the only market segment for which the regulations have still not been harmonized among the Member States. This is why NOVOMATIC supports harmonization of the gaming industry in Europe, in order to create unified and improved framework conditions for market participants. This, however, seems unlikely at this time, particularly due to the recent reserved European Commission attitude towards gaming, as individual Member States are granted even greater discretion to regulate the industry individually. In this context, regulatory approaches of individual Member States such as Denmark, Sweden and the Netherlands can be viewed in a very positive light. These countries are either planning strict regulations with what is in principle free market access to acquire online licenses, or have already implemented them.

The required conditions for NOVOMATIC's business activities are clear legal framework conditions, systematic and coherent gaming legislation as well as transparent licensing processes in accordance with scientific and appropriate market measures. In addition, measures for fighting crime, for example, consistent action against illegal gaming and prevention of money laundering, remain essential factors. Excessive regulation that does not conform with the market, inappropriate taxation or step-by-step tax increases, such as in Italy, can have negative effects. Experience clearly shows that excessive regulation, inappropriate taxation or total bans simply encourage illegal operations; operations which are not monitored and which provide no protection for players and minors.

New international and national tenders in different gaming segments continuously offer new market opportunities to NOVOMATIC. In doing so, it is important for regulated gaming operators that the responsible authorities carry out legally valid and swift tenders for gaming services, in order to ensure legal certainty for the applicants.

After long and complex administrative proceedings in Austria, ADMIRAL Casinos & Entertainment AG finally received a fully legal state license to operate electronic casinos in the Austrian states of Lower Austria, Burgenland, Carinthia, Styria and Upper Austria. This will secure the company's operation in its home country of Austria over the long term. From the perspective the protection of players and minors, and also for the legal interests of market participants, it is therefore necessary that licensing procedures are carried out quickly and in accordance with the law. Moreover, there is still no decision from the Austrian Federal Ministry of Finance as to whether and to what extent the three revoked and legally available casino concessions will be tendered.

On July 1, 2017, after a basic transition period of five years, the much-criticized First State Treaty amending the State Treaty on Gaming (Glücksspieländerungsstaatsvertrag, GlüÄndStV) came into effect in Germany, dealing primarily with the establishment of distance regulations between gaming facilities and youth facilities. It also contains a ban on multiple concessions and therefore limits one location to a maximum of twelve gaming devices. Even though, in some cases, the application of regulatory hardship provisions allowed for a smooth transition with regards to implementation of the new regulation scheme, predictions still show that the current legal situation will have an even stronger influence on investment in German gaming operations, which is already hesitant and subdued.



The legally required technical changes to gaming devices, to be introduced by autumn 2018, will also play a role. NOVOMATIC, as a manufacturer of gaming devices, now has to invest more in order to provide an attractive offer to gaming operators. In general, these changes also present a danger that gaming participants will move to unregulated markets or take advantage of illegal offers. NOVOMATIC, therefore, predicts that 2018 will also see a significant market reduction in the gaming facilities industry. While higher machine utilization may have a certain compensatory effect, if gaming facilities need to be downsized or closed, this will have an adverse impact on revenues from the rental of gaming devices.

NOVOMATIC is continuing to expand in the USA and is therefore dealing with the strictest regulatory framework con-

ditions as well as the high standards of American gaming authorities. NOVOMATIC has been licensed in numerous US states, such as Illinois and Iowa, for many years. The acquisition of a majority stake in Ainsworth Game Technology Ltd. will take place on January 5, 2018. This will lead to successful approval of additional licenses in the USA, for example in Nevada, as well as in Australia and Canada. This is proof that NOVOMATIC continues to dedicate time and effort to its international growth strategy, with a particular focus on the American and Australian markets.

Due to its market leadership in multiple countries, antitrust law remains a relevant regulatory area for NOVOMATIC. In compliance with these laws, NOVOMATIC notifies relevant competition authorities of any transactions, if legally required to do so.



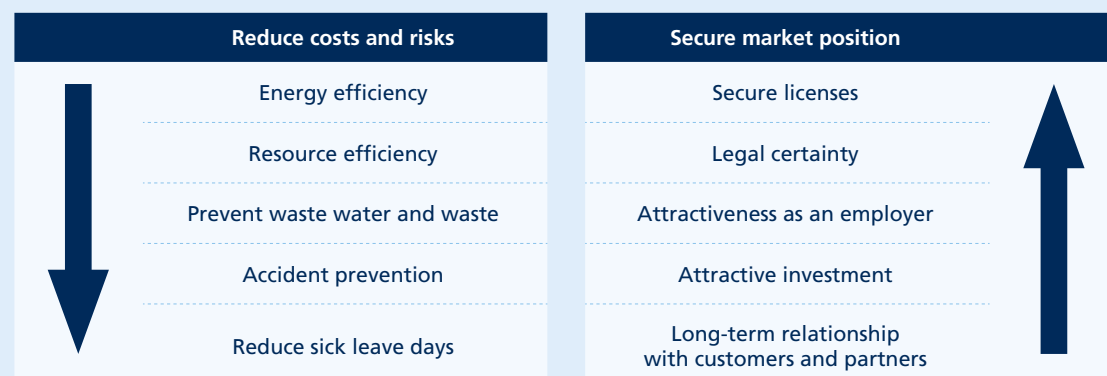
Corporate Responsibility-Strategy

Corporate responsibility is not just something stakeholders and investors require, it is also an essential part of NOVOMATIC's self-conception.

Accepting responsibility for the social and ecological effects of NOVOMATIC's products and businesses is not something that is nice to have, but rather the foundation of social acceptance. Without this foundation, the company is at risk of losing licenses, becoming less attractive as an employer and as an investment, and suffering a loss of reputation. The era in which corporate responsibility (CR) was simply a series of empty promises encompassing individual measures is long past. This is because society and its interested parties such as authorities, politics, investors, interest groups, the media, employees, and business partners are no longer satisfied with statements of intent. To be viewed as a truly responsible company today, the company must exhibit measurable developments and positive changes with regard to the significant ecological, social, and civic fields of action that fall under company responsibility.

NOVOMATIC is always working to expand Corporate Responsibility duties, structures, and processes across the Group. This provides control of CR development and relevant information on the Group level. The focus of these measures is the long-term CR strategy and strategic pillars, as well as on material issues, which are updated every two years. In 2017, Group recording of significant, measurable Key Performance Indicators (KPIs) was renewed in each CR field of action. The KPIs are intended to transparently record positive development on relevant CR issues for both management and external stakeholders. In this way, CR performance is clearly measurable and transparent, similar to financial performance. In 2018, the company plans to improve the degree of coverage and quality of the indicators, and set goals. Over the long term, the plan is to create a joint CR standard for all major subsidiaries.

Corporate Responsibility as a value driver at NOVOMATIC



The added value provided by corporate responsibility can be measured concretely as an indicator of corporate success. This can be done, for example, by obtaining and securing licenses, attaining legal certainty, lowering costs through efficient use of resources or preventing accidents and illness, recruiting the best talents on the market, and of course creating long-term relationships with the company's customers, business partners, and other stakeholders.

This report describes the management, measures taken, and results of corporate responsibility carried out by NOVOMATIC.

Business Activities and Corporate Responsibility

NOVOMATIC used a structured process throughout 2017 to determine the strategic fields of action for corporate responsibility. To do this, Corporate Responsibility representatives from the largest subsidiaries by revenue (the CR Team) examined and discussed the previous corporate responsibility strategic pillars. The representatives redefined the content of the strategic pillars by identifying and evaluating the positive output and negative societal, economic, and social effects along the company's value creation chain. The goal is to maintain or increase positive outputs, such as creating jobs, paying local taxes, and training employees. Negative effects, such as the misuse of products, CO₂ emissions, waste, resource consumption, and work-place accidents are to be minimized.

The company also requires a great deal of input for carrying out its business. This includes primary products, resources, energy, trained employees, and intellectual property rights. In addition to these inputs, the support from various stakeholders is growing in importance for the company, as society expects more and more from companies. Without this support, the company loses its so-called "license to operate". If the company loses stakeholder trust, costs may rise due to stricter regulations, or the company may even have its licenses taken away.

The following overview integrates the company value creation elements, inputs and outputs, stakeholders, and impact.

Identifying and evaluating Impact

The ecological, social, and corporate impacts caused by NOVOMATIC's business activities and listed here as an example were comprehensively evaluated in 2017. The evaluation process was done in accordance with the impact evaluation requirements from the Global Reporting Initiative (GRI) standards.

 Global Reporting Initiative: www.globalreporting.org

The company carried out a dozen structured interviews with experts in the areas of player protection, gaming addiction prevention, corporate responsibility, and sustainability. Then, in order to identify the relevance and the scale of the impact, the company carried out a detailed industry analysis in cooperation with eight peer-group companies. The result is an evaluation of the company's positive and negative impact in the main CR fields of action.

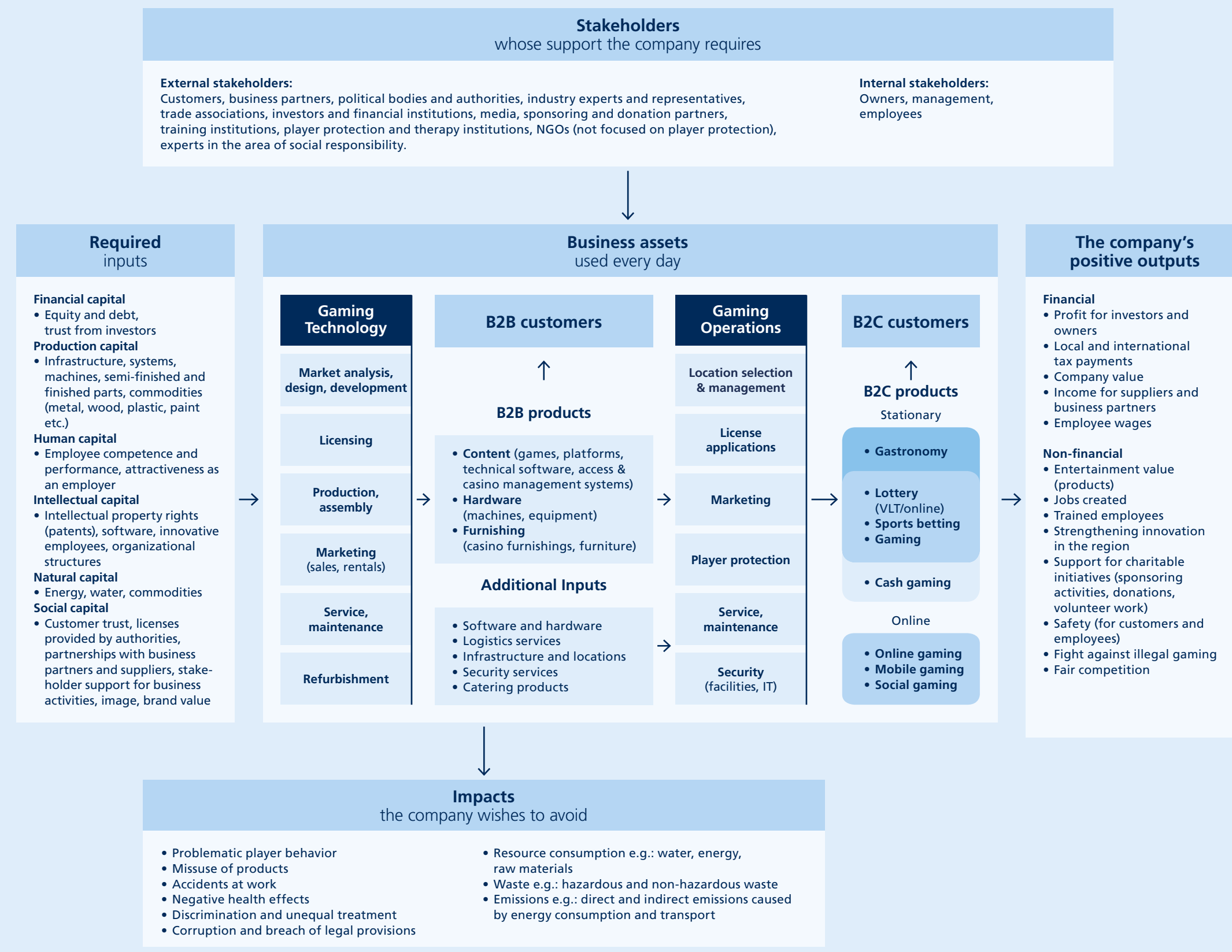
This evaluation was used to create the materiality matrix that will be introduced in the next chapter.

Strategic CR Fields of Action

The central tenet of development within the strategic fields of action "Responsible Entertainment", "Always Compliant", "Enjoy Working With Us", "Going Green", and "Active in the Community" is the conviction that success can only be achieved by accepting responsibility ("Winning Responsibly"). The underlying vision is to become the most innovative and most responsible provider of "Responsible Entertainment" in the world. Implementation is achieved via measures taken as part of the five strategic pillars. Company values "do – enjoy – respect" are taken into account for all activities. This foundation is the bedrock for stakeholder trust in and support of the company.

The non-financial key figures rolled out across the Group for the first time in 2017 allow for the structured control and communication of CR development.

NOVOMATIC's Business Model



NOVOMATIC's Corporate Responsibility Strategic House



NOVOMATIC's Corporate Responsibility strategic house, pictured above, combines the company's self-conception and the five strategic fields of action.

As part of revising NOVOMATIC's strategic CR fields of action, the international CR team set Group-wide principles for each field of action. These include company approaches to avoid negative effects and encourage positive results. They therefore serve as a guideline for individual measures within the strategic fields of action, and are each listed at the beginning of the chapters in this report. To expand on this, the team identified important indicators for developing performance in each strategic field of action. In the coming year, the plan is to determine strategic goals based on these performance indicators.

The existing strategic fields of action were confirmed by this process. These fields of action define the strategic scope of all CR activities. Concrete issues and measures within these fields of action are determined via a materiality process which the company carries out regularly. The fields of action and corresponding action principles are:

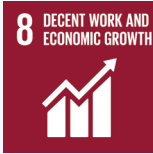
Fields of action: a summary		
Strategic fields of action	Action principles	Control indicators
Responsible Entertainment 	“The company offers responsible entertainment and ensures that its products and services are used safely and responsibly.” “The company ensures that its employees are well trained in player protection and pay close attention to identifying problematic behavior and act accordingly.” “The company prevents the use of its products by minors and vulnerable groups.”	- Degree of implementation for Responsible Entertainment (RE) measures - Compliance with RE measures and the Code of Conduct - RE certifications
Always Compliant 	“NOVOMATIC always fulfills all legal requirements and acts in accordance with the standards laid out in the Group Code of Conduct.” “The company makes every effort to recognize and prevent any and all fraudulent and criminal behavior within the company.” “The company respects the data protection rights of our customers and stakeholders.”	- Compliance with legal requirements - Compliance with the Code of Conduct and Group guidelines
Enjoy Working with Us 	“The company supports employee development and offers training and continued education opportunities.” “The company considers its employees an important source of innovation and wants to offer a good work-life balance for everyone.” “The company values the diversity of its staff and stakeholders and treats all of them equally.” “The company strives to create safe and healthy working conditions in order to avoid accidents and illness.”	- Total percentage of women - Turnover - Health rate - Accident rate - Training and further education hours per employee
Going Green 	“The company minimizes its environmental footprint through the efficient handling of resources and energy, as well as by reducing the waste and emissions that it produces.” “The company strives to make positive contributions to environmental protection using production and operational measures.”	- Energy consumption in MWh - CO₂ emissions in tons - Water consumption in m³ - Waste in tons
Active in the Community 	“By supporting selected initiatives, the company wants to contribute to sustainable social development.” “The company acts like an active and responsible citizen within society and invests in the communities in which it is active.” “The company strives to make an impact through sponsorship activities, donations, and volunteer activities.”	Social effect of sponsoring activities, donations, and volunteer work

✓ GRI 103-1, 103-2

Contribution to the United Nations Sustainable Development Goals

As an employer with around 30,000 employees, and as an international company active in production and technological innovation, the NOVOMATIC Group strives to support the Sustainable Development Goals (SDGs) introduced by the United Nations in 2016.

NOVOMATIC contributes positively to the following SDGs

SDG Goal	Context	NOVOMATIC contribution
	Support permanent, broadly effective and sustainable economic growth, productive full-time and humane work for all.	- Creation of around 30,000 jobs in 45 countries. - Increased focus on employee health and occupational safety. - Measures to maintain and improve diversity and prevention of discrimination against employees and customers.
	Create a robust infrastructure, promote broadly effective and sustainable industrialization and support innovation.	- One of the world leaders within its industry when it comes to technological innovation and ownership of intellectual capital rights. - Support for innovation and development of skills in the area of digital transformation through cooperation and sponsoring activities.

📘 United Nations Sustainable Development Goals: <https://sustainabledevelopment.un.org>

Implementation of United Nations Global Compact Principles

NOVOMATIC is committed to the ten United Nations Global Compact (UNGC) principles. UNGC is the largest global initiative for the implementation of corporate responsibility and sustainability. This report serves as a communication on progress.

United Nations Global Compact Principles

Human Rights:

- Businesses should support and respect the protection of internationally proclaimed human rights.
- Businesses should make sure that they are not complicit in human rights abuses.

Labor:

- Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- Businesses should uphold the elimination of all forms of forced and compulsory labor.
- Businesses should act in support of the effective abolition of child labor.
- Businesses should act in support of the elimination of discrimination in respect of employment and occupation.

Environment:

- Businesses should support a precautionary approach to environmental challenges.
- Businesses should undertake initiatives to promote greater environmental responsibility.
- Businesses should encourage the development and diffusion of environmentally friendly technologies.

Corruption Prevention:

- Businesses should work against corruption in all its forms, including extortion and bribery.

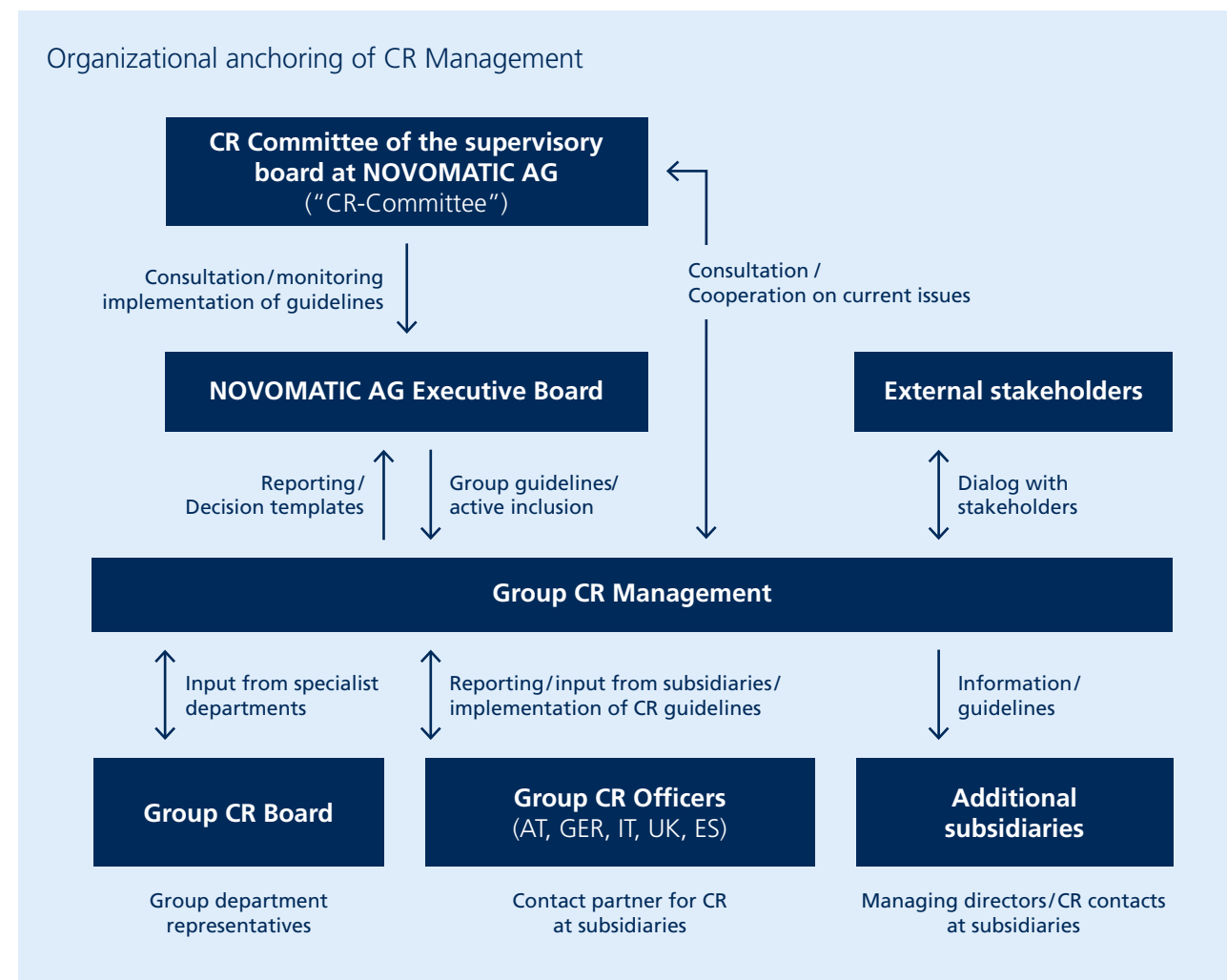
📘 United Nations Global Compact: www.unglobalcompact.org

Anchoring within the Organization

The Group Corporate Responsibility & Sustainability Department is responsible for the strategic, structural, and impact-oriented management of Corporate Responsibility at NOVOMATIC. This department reports directly to the NOVOMATIC AG Executive Board. Coordination and conversation on strategic CR challenges, opportunities, and risks take place on a regular basis, both with the management of the company, and with NOVOMATIC AG's Corporate Responsibility Committee. The CR Committee is made up of members from the Supervisory board. Their job is, in cooperation with Group CR Management, to identify strategic CR issues, risks, and opportunities, and to present corresponding action proposals to the Managing Directors. This is a special committee that emphasizes how anchored CR is within NOVOMATIC. The Committee meets around three times a year, and when needed.

In addition, the Corporate Responsibility Board holds quarterly meetings to foster continued development and conversations on subjects related to CR. The CR Board is made up of representatives from the most important Group functions, Austrian operative units, and internal experts on relevant CR subjects. The Board shares CR relevant information and presents and discusses suggestions on implementation. This ensures a high level of integration in all operative and supporting business units.

This CR governance structure ensures that CR aspects are anchored in all strategic and operative procedures. Therefore, the company exhibits clear coordination in regards to the economic, ecological, and social impact of the business.



For the international coordination, control, and measurement of development in the CR fields of action, Group CR Management expanded organizational structures in 2017 to include subsidiaries in the United Kingdom and Spain. Each CR Officer within a subsidiary delivers CR relevant information to the headquarter, implements measures and projects, ensures guidelines are met, and maintains a dialog with local stakeholders. They engage regularly in CR team calls, international meetings, and a continuous bilateral exchange of information. The roles and responsibilities of all CR organization levels have been updated and communicated to the managing directors of the relevant subsidiaries. In addition, a comprehensive set of non-financial performance indicators was defined for the strategic fields of action, in order to ensure that development of Group CR performance can be measured. In 2018, the company plans to improve the degree of coverage and quality of the indicators and set goals. The ultimate goal is to create a joint CR standard for all major subsidiaries. ✓ GRI 102-18

Corporate Responsibility Committee Members



Mrs. Martina Flitsch
Acting Chairwoman of the Supervisory Board

"NOVOMATIC is clearly positioned as a provider of responsible and safe gaming. This guarantees both support from the company's stakeholders and continuous licensing approval."



Mrs. Martina Kurz
Member of the Supervisory Board

"I believe that corporate culture is an important foundation for the success of the company. After all, the goal is to keep the best employees with the company and encourage the best job applicants to apply."



Mrs. Barbara Feldmann
Member of the Supervisory Board

"NOVOMATIC is a global gaming technology group that guarantees the highest quality and fair gaming conditions. The company provides its customers with perfect entertainment in a trustworthy and controlled environment."

How to read this report

Corporate responsibility contents are reported each year. The last CR report was released on April 27, 2017. Unless otherwise stated, all information and data refer to the 2017 fiscal year from January 1 to December 31, 2017. Figures are taken from the cut-off date of December 31, 2017.

✓ GRI 102-50, 51, 52

Unless otherwise stated, the following companies, known as core companies, are included in the report:

Country	Gaming Technology	Gaming Operations
Austria	NOVOMATIC Gaming Industries GmbH, NOVOMATIC AG (Headquarter), NOVOMATIC Lottery Solutions GmbH	ADMIRAL Casinos & Entertainment AG, ADMIRAL Sportwetten GmbH, HTM Hotel und Tourismus Management GmbH, Greentube Internet Entertainment Solutions GmbH, Funstage GmbH
Germany	LÖWEN Entertainment GmbH (Bingen), Crown Technologies GmbH	EXTRA Games Entertainment GmbH, Spielbank Berlin Gustav Jaenecke GmbH & Co. KG (Berlin)
Italy	NOVOMATIC Italia S.p.A. NOVOMATIC Italia Services S.r.l.	Allstar S.r.l., Admiral Gaming Network S.r.l.
United Kingdom	Astra Games Ltd., Gamestec Leisure Ltd.	Luxury Leisure Ultd.
Spain	NOVOMATIC Gaming Spain S.A. (Technology)	NOVOMATIC Gaming Spain S.A. (Operations)
Malta	Greentube Malta Ltd.	

All key figures in the “Enjoy Working with Us” chapter, with the exception of the accident rate, also include the following companies:
Germany: BPA Freizeit- und Unterhaltungsbetriebe GmbH, Admiral Play GmbH
Italy: Admiral Games S.r.l., Electro System S.p.A., Allstar S.r.l., Admiral Entertainment S.r.l., Admiral Sport S.r.l., Casino Delle Alpi S.r.l., Novarmatic S.r.l., ALP S.r.l., Capecod Gaming S.r.l., Fec S.p.A.

This scope includes all Group companies with a share of most of NOVOMATIC AG’s total revenue. In the future, the Group plans to integrate even more subsidiaries into their CR reporting.  GRI 102-45, 49

The information and data in this report is based on definitions from the Global Reporting Initiative (GRI) standards in accordance with the core option. This report complies with the yearly communication on progress required by the principles of the United Nations Global Compact.  GRI 102-54



The report also provides information required by the Austrian Law on the Improvement of Sustainability and Diversity (Nachhaltigkeits- und Diversitätsverbesserungsgesetz, NaDiVeG) with regard to reporting significant non-financial concerns.

You can find an exact listing of the degree of fulfillment and referenced GRI indicators, UN Global Compact principles, and compliance with NaDiVeG requirements in the integrated GRI, UNGC, and NaDiVeG Index. This is not included in the print version of the report.

In order to improve readability, some terminology is used only in its masculine form. Statements referring to people apply to both men and women.
You can find the report and integrated index online under: www.novomatic.com/en/cr

Implementation of requirements from the Austrian Law on the Improvement of Sustainability and Diversity, following the GRI standards, as well as the correctness of selected information in the report was checked by the certified public accounting firm Deloitte Audit Wirtschaftsprüfungs GmbH. The audit certificate can be found at the end of this report.

Corporate Responsibility- Management

The guiding principle of NOVOMATIC’s Corporate Responsibility activities is to keep those issues and questions in focus that are important to the stakeholders. Only continuous and transparent development within the five CR fields of action can lead to stakeholder trust.

Over the past year, NOVOMATIC has worked on continuing to develop its CR management in a variety of aspects. The focus was on expanding the CR organizational structure, the relevant roles and responsibilities within the company, the development of a Group-wide CR strategy, introduction of a Group-wide CR key indicator system, as well as increased stakeholder dialog. These measures are the foundation for the structured development, control, and performance measurement to be performed this year. One of the main focuses for 2018 will be the issue of gaming addiction prevention and player protection.

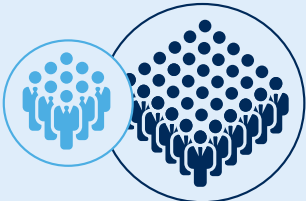
Stakeholder Dialog

Transparent and open dialog with all company stakeholders is a central element of NOVOMATIC’s CR activities, lending credence to its actions. NOVOMATIC’s stakeholders include all legal entities and natural persons on which the company’s corporate activities have an effect, or that can influence NOVOMATIC in some way.

The goal is to understand the requirements, expectations, and development perspectives of NOVOMATIC’s stakeholders with regard to the company’s CR activities. For this reason, the company maintains a dialog with all these stakeholder groups. This supports a balance between the company’s stakeholders’ requirements and its corporate goals.

This balance allows for proper evaluation of the relevance of significant CR issues from a stakeholder perspective and helps identify potential areas of improvement. In turn, the company is able to set CR management priorities that reflect the needs of both the stakeholders and the company. The company is aware that not all stakeholders share its perspective, and that there are some critical elements. Transparency in regards to CR measures and results, as well as open and constructive dialog, is essential to credible stakeholder communication.

Overview of NOVOMATIC stakeholders



-  **Internal stakeholders:** owners, company management, employees
-  **External stakeholders:** customers, business partners, politics and authorities, industry experts and representatives, trade associations, investors and financial institutions, media, sponsoring and donation partners, training institutions, player protection and therapy institutions, NGOs (not focused on player protection), experts in the area of social responsibility.



NOVOMATIC Stakeholder Forum “Innovation and Corporate Responsibility – Paths to Strategic Success” October 3, 2017, Vienna
Left to right: Mr. Philipp Gaggl, (NOVOMATIC Gaming Industries GmbH), Mr. Georg Grassl (Henkel CEE),
Dr. Gabriela Maria Straka, EMBA (Brau Union Österreich AG), Mr. Matthias Reisinger (Impact Hub Vienna)

The following measures were introduced in 2017:

- Analysis of relevant stakeholder groups
- Compilation of contacts from organizations, companies, and private persons that could be included in the process as representatives of various stakeholder groups
- Bilateral exchange of information with selected stakeholders regarding corporate responsibility expectations for NOVOMATIC
- Conducting the 6th NOVOMATIC Stakeholder Forum in Vienna with 80 participants
- Anonymous online stakeholder survey with 120 answers
- Structured interviews with a dozen selected experts from the field of player protection and gaming addiction prevention

The results of this process were then used to identify and evaluate the most significant Corporate Responsibility fields of action. These fields of action are included in the materiality matrix.

NOVOMATIC communicates with their stakeholders across a variety of channels, for example direct conversation, working groups, workshops and events, through reports, via the website and social media. This CR report serves as a summary of the CR approach as well as the goals, measures, and results of these activities for all stakeholders.  GRI 102-42, 43

The following summary is a list of different types of information, dialog, and direct cooperation with the company's stakeholders:

Information	Dialogs	Participation
Creating transparency, Providing information	Open exchange, listen and learn	Active participation, Project realization
CR-Website: www.novomatic.com/en/cr	NOVOMATIC Stakeholder Forum	Research partnerships in the areas of addiction prevention and player protection
Annual CR reporting: in accordance with GRI standards, communication on progress UN Global Compact, in accordance with EU guidelines on non-financial reporting	NOVOMATIC Responsible Gaming Symposium	Sponsoring activities in the area of science and research, social affairs, addiction prevention, as well as long-term financial support for addiction therapy institutions
Regular reporting to supervisory authorities	CR as part of NOVOMATIC Welcome Days	Active exchange and cooperation with local CR specific platforms, interest groups, events, and workshops
Intranet news for employees	Personal talks with relevant stakeholders and specialists	Internal CR Board meetings for ongoing coordination within the NOVOMATIC Group
	Participation in international expert conferences	Employee satisfaction surveys
		NOVOMATIC has been an active member of the Social Responsibility Committee within the industry association EUROMAT since 2016

Some of NOVOMATIC’s subsidiaries have an advisory board for the managing directors comprised of representatives from politics, business, player protection, and other experts. Every company converses directly with its stakeholders and carries out bilateral conversations, workshops, or events aimed at stakeholder dialog on a local level. The results of these measures are then used in the Group stakeholder process.

NOVOMATIC views membership in interest and industry groups, as well as in organizations with agendas focusing on sustainability or corporate responsibility, as an important part of dialog with relevant stakeholders. This also allows the company to take on an active role within society.

The following memberships reflect NOVOMATIC's broad experience on a variety of issues, such as protection of players and minors, both within and outside of the industry, and allow the company to share its expertise with other corporations.

NOVOMATIC companies	Interest groups
Group-wide	United Nations Global Compact (UNGC)
	World Lotteries Association
	European State Lotteries
	European Lotteries Association
	EUROMAT European Gaming and Amusement Federation
	NASPL The North American Association of State and Provincial Lotteries
	CIBELAE Corporación Iberoamericana de Loterías y Apuestas de Estado
	GSA Gaming Standard Association
Local	Relevant corporate responsibility, compliance, and player protection organizations and platforms, e.g. the Austrian CSR platform respACT, CSR Manager Network Italy
	Relevant chambers of commerce and corporate associations e.g. Federation of Austrian Industries, Austrian Economic Chamber, local machine manufacturing associations, British Amusement Catering Trade Association (BACTA),

Over the next year, the company intends to strengthen transparent and constructive dialog with its stakeholders. In doing so, it is important that it shines a light even on sensitive issues and criticism, familiarizes itself with stakeholder expectations and requirements, and comes together to find solutions.

✓ GRI 102-53

The Corporate Responsibility department would be pleased to receive any feedback or suggestions you may have.

Group Corporate Responsibility
Tel.: +43 2252 606 0
E-mail: cr@novomatic.com

Focus on what is important

The five strategic areas of action, "Responsible Entertainment", "Enjoy Working with Us", "Always Compliant", "Going Green", and "Active in the Community", create the strategic pillars of the company's corporate responsibility activities. Each of these pillars offers a multitude of fields of action in which NOVOMATIC can implement measures designed to increase awareness and development of corporate responsibility. Every two years, the company carries out a process in which all economic, social, and environmental issues are identified that are considered material in terms of corporate responsibility and therefore require action. In doing so, the company follows the international materiality assessment from the Global Reporting Initiative (GRI) and orients itself on good practice in its industry.

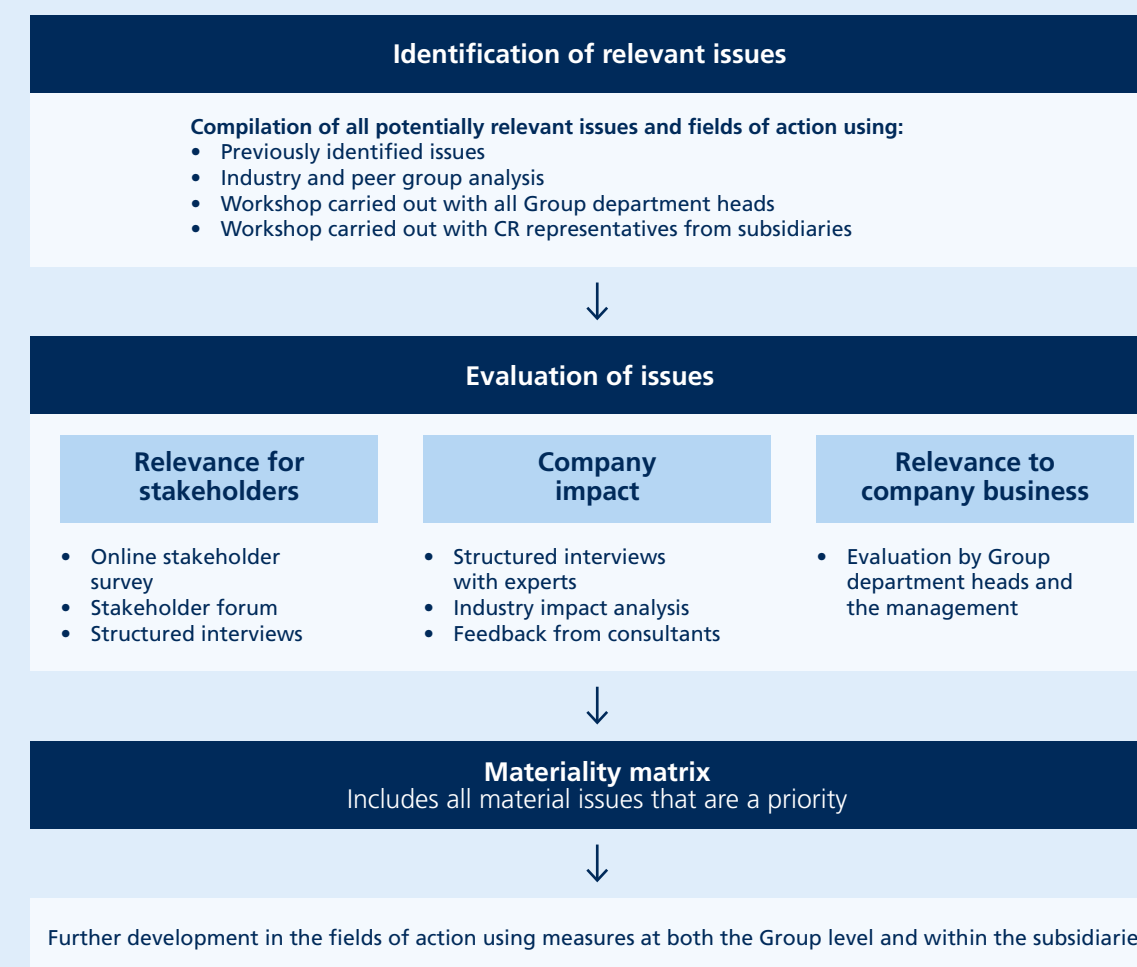
📄 GRI Standards: www.globalreporting.org

The Materiality Assessment

In 2017, the company implemented a comprehensive process for identifying and evaluating material corporate responsibility issues. This included the following steps, among others:

- Identification of relevant issues
- Evaluation of the issues in accordance with their relevance for the stakeholders, effect of the company on these issues, and the relevance of the issues for NOVOMATIC's business activities
- Materiality matrix with all central issues

Process of defining issues for the materiality matrix and measures

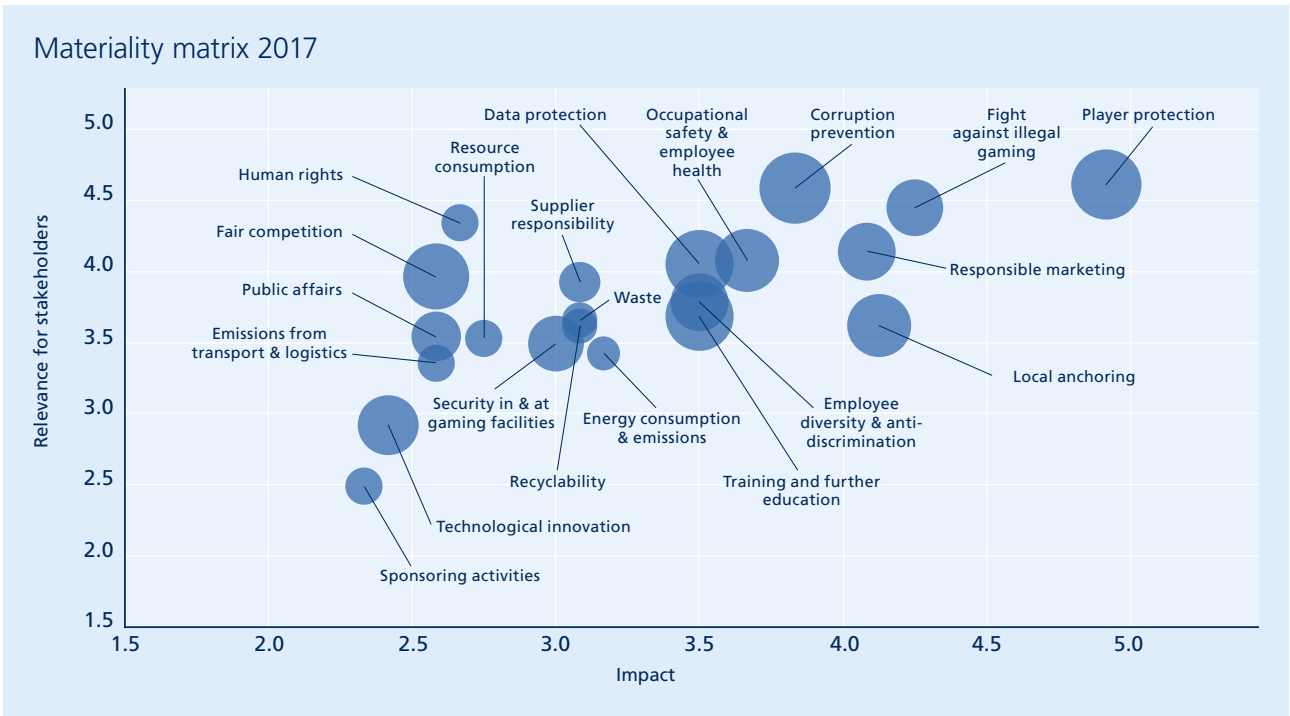


The following image of the materiality matrix shows those issues that are relevant from the point of view of external stakeholders, on which NOVOMATIC's business activities have an impact, and that are important for NOVOMATIC's success. All subjects presented are actively addressed within the framework of CR Management. The next update to the materiality matrix is planned for 2019.

The Y axis shows the relevance of the CR subjects deemed material by NOVOMATIC's external stakeholders (e.g. authorities, partners, customers, interested parties, opinion leaders, experts etc.) The X axis shows the degree of positive or negative impact that business activities have on each issue. The size of the circle shows the relevance of the issue for NOVOMATIC's success. The evaluation goes from 0 - not relevant/no impact to 5 - very relevant/very large impact.

The higher the relevance for the company's stakeholders and the impact of business activities, the higher it prioritizes the structured further development and improvement of its CR performance in these areas. The image should be read from the top right to the bottom left.

For the first time, the matrix below includes an evaluation of the impact of those business activities defined by the GRI standards and the EU Guidelines on Non-Financial Reporting. The size of the circle represents relevance to the business,



For years now, NOVOMATIC has oriented itself in terms of Group CR Management on the latest standards and guidelines, such as the principles of the UN Global Compact, the standards from the Global Reporting Initiative, and lately also the global objectives of the Sustainable Development Goals.

CR relevant principles, standards, systems, and certifications applied within the Group		
Tool	Context	In use from
United Nations Global Compact (UNGC) Principles	Corporate initiative founded in 2000 by UN General Secretary Kofi Annan, currently has more than 9,000 members. Illustrates ten principles for responsible trading. Within the framework of this report, NOVOMATIC publishes a UNGC Communication of Progress (COP).	May 2014
United Nations Sustainable Development Goals (UN SDGs)	17 measurable goals with regard to sustainability, which, starting in 2016 as a successor of the Millennium Development Goals (MDGs), apply to all countries across the globe and provide guidance to corporations. NOVOMATIC uses these SDGs as a strategic guide and provides information within the framework of this report.	2015
Global Reporting Initiative Standards (GRI)	Worldwide de facto standards (GRI Standards) for Corporate Responsibility and Sustainability reporting. Specifies, in a type of "dictionary function", the aspects and detailed indicators in the categories "economic", "ecological", "work practices", "human rights", "society", and "product responsibility", in order to provide a basis for comparison beyond company borders. This year's report is again oriented on GRI standards.	2011
Quality Management standard ISO 9001	ISO 9001 is also an ISO standard for managing numerous quality aspects and provides a basis of evaluation for quality performance. NOVOMATIC has been implementing to a varying degree ISO 9001 in many of their subsidiaries since 2005.	2005 Level of certification: 65 %
Environmental management standards ISO 14001	The standard, published by the International Standardization Organization (ISO), helps with management and performance evaluation in regards to ecological aspects such as environmental protection, use of resources, waste, waste water and so on. NOVOMATIC has been implementing to a varying degree ISO 14001 in many of their subsidiaries since 2014.	2014 Level of certification: 25 %
Health and safety management standard OHSAS 180001 / ISO 45001	NOVOMATIC aims at gaining Level 1 certification in accordance with the OHSAS 18001 (Occupational Health and Safety Assessment Series) standard in Austria for the first time in 2017. Certification in accordance with the new ISO 45001 standards is subsequently planned for NOVOMATIC in Austria in 2018. NOVOMATIC has been implementing to a varying degree ISO 18001 in many of their subsidiaries since 2014.	2014 Level of certification: 15 %
Information security standard ISO 27001	This ISO standard specifies the requirements for an information security management system within an organization. It also provides requirements for evaluation and handling of information security risks. NOVOMATIC has been implementing to a varying degree ISO 27001 in many of their subsidiaries since 2009.	2009 Level of certification: 35 %

In addition to these management tools that are oriented on legal requirements and local customs, there are many higher standards and additional tools used across the entire NOVOMATIC Group.



Activity Summary



Commitment on Responsibility

- “We offer responsible entertainment and ensure that our products and services are used safely and responsibly.”
- “We ensure that our employees are well trained in player protection and pay close attention to identifying problematic behavior and act accordingly.”
- “We prevent the use of our products by minors and vulnerable groups.”



2017 Highlights

- Proactive stakeholder dialog on player protection using workshops and questionnaires
- Introduction of the fingerprint access system at ADMIRAL Casinos & Entertainment AG (Austria)
- Introduction of the facial recognition access system CLEVER ENTRY at LÖWEN Entertainment GmbH (Germany)
- Participation of NOVOMATIC UK and Luxury Leisure in the Responsible Gambling Week (United Kingdom)
- “World Lottery Association” certification in regards to Responsible Gaming for NOVOMATIC Lottery Solutions GmbH (NLS) (Iceland, Serbia, Austria)
- Revamping of the Responsible Gaming Task Force at Greentube Internet Entertainment Solutions GmbH (Austria, Malta)



Next Steps

- Exchange of good practice examples with regard to player protection and gaming addiction prevention between subsidiaries
- Update of the Responsible Entertainment-Code applicable across the Group
- Evaluation of future player protection certifications
- Improvements to the measurability of player protection measures
- Selection of informative key figures regarding player protection for Group reporting

Responsible Entertainment

Enjoyment of the game and responsible use are not contradictions. Responsible Entertainment is a core issue when it comes to NOVOMATIC’s “license to operate” and the foundation for all current and future business success.

The figures and graphics presented in this chapter apply, unless otherwise indicated, to all major companies (core companies) belonging to the NOVOMATIC AG Group. A summary can be found on page 48 of this report.

At NOVOMATIC, Responsible Entertainment covers measures for gaming addiction prevention in the gaming segment but also includes measures in the sports betting, lottery and online gaming segments. The company takes the requirements and expectations of authorities, customers, business partners and other stakeholders very seriously. Responsible Entertainment is a key element in the implementation of business activities at NOVOMATIC.

The provision of gaming services is strictly regulated and monitored by the government in many countries. The requirements are defined very differently across Europe, and even within individual countries. The concrete definition of responsible gaming measures primarily depends on the legal framework of the individual markets in which NOVOMATIC is active. The company welcomes clear, legal regulations and is only active in regulated gaming markets.

NOVOMATIC ensures the best possible player protection using its technical expertise, many years of international experience, and by working together with experts and institutions in the field. The company is proactively engaged in responsible entertainment in all areas, from casinos and slot arcades to sports betting and online gaming.

Where permitted, and if it makes sense to do so, the company implements player protection measures above and beyond those legally required. One example is the realization of access controls at the Austrian electronic casinos of ADMIRAL Casinos & Entertainment AG (ACE). This implementation goes above and beyond Austria’s legal requirements, representing the exemplary protection of players and minors.

A player’s individual responsibility is, in addition to technical player protection measures, a significant element for healthy and enjoyable gaming experiences. In addition to an explanation of the dangers of excessive use and self-limiting strategies, primary and secondary preventative measures were set in order to recognize and prevent problematic gaming early.

In 2017, the responsibilities and roles in the area of Responsible Entertainment were clearly defined for both NOVOMATIC AG and its subsidiaries. Group Corporate Responsibility & Sustainability collects all information on the global requirements and activities concerning this issue. Company-wide goals, requirements and information offerings are determined. Good Practice exchanges between the subsidiaries are ensured, and active dialog with external stakeholders is regularly. The top priority is ongoing company improvement when it comes to player protection, which will allow NOVOMATIC to apply for and receive licenses.

In 2017, the risks regarding Responsible Entertainment were updated and re-evaluated. The risks listed include violations of legal requirements and internal company regulations with regard to player protection, as well as damage to the corporate image or even license loss. The company has taken various measures to minimize these risks as much as possible. Internal Audit & Risk Management monitors compliance with external and internal guidelines.

Responsible Entertainment Measures: a Summary

This summary shows the implementation of Responsible Entertainment measures in the most important game-operating subsidiaries within the NOVOMATIC AG Group.

Responsible Entertainment-measures	AT				D		IT	GB	ESP	MLT	CRO	ALB	RO	SRB & MKD
	ADMIRAL Casinos & Entertainment AG	ADMIRAL Sportwetten GmbH	Greentube Internet Entertainment Solutions GmbH & Funstage GmbH	NOVOMATIC Lottery Solutions GmbH	EXTRA Games Entertainment GmbH	Spielbank Berlin Gustav Jaenecke GmbH & Co. KG	Admiral Gaming Network S.r.l.	Luxury Leisure Ultd.	NOVOMATIC Gaming Spain S.A. (Operations)	Greentube Malta Ltd.	INTERIGRE d.o.o.	Astra Albania Sh.A. & ADRIATIK GAME	NOVOMATIC Romania	Novo Investment Serbia, HTL Makedonija, NOVO RS
Employee training	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Protection of minors	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Information offering	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Contacts	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Cooperation with therapy & counseling institutions	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Support for research institutes	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Helpline	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Access control system	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Access restrictions	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Technical prevention measures	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Active Responsible Entertainment communication	●	●	●	●	●	●	●	●	●	●	●	●	●	●
● Currently not implemented ● In planning for future ● Implemented ● Employee training: Training with a focus on player protection and gaming addiction prevention for employees who have customer contact. ● Protection of minors: To prevent minors from using NOVOMATIC products (the relevant local laws apply, e.g. no entry for anyone under the age of 18). ● Information offering: Availability of information that increases customer awareness and understanding regarding the sensitive issue of gaming addiction (e.g. self-check, information brochures, etc.). These measures are designed to support informed and responsible gaming. ● Contact: Provision of contacts to the management of the facility or to responsible gaming experts. ● Support for research institutes: Sponsorship of or other partnerships with research-, therapy- and counseling-institutions, in order to improve gaming addiction prevention and player protection measures. ● Counseling hotline: Telephone hotline staffed by gaming addiction experts, among others, available to all customers seeking help. ● Access control system: System, for collecting specific information in regard to player protection before the gaming device is used. ● Access restrictions: Implemented measures on product use restrictions for certain groups of people (e.g. vulnerable groups, minors). ● Technical prevention measures: Measures to prevent problematic gaming (some but not all symptoms of gaming addiction are present). ● Responsible entertainment dialog: Measures for proactively entering into dialog with customers and other stakeholders regarding gaming addiction prevention and player protection.														

NOVOMATIC created the Responsible Gaming Code as a guideline for the various operational units in order to provide orientation. This Code is used in internal training sessions on the topic of player protection, and is provided to every new employee. It is available both to the public and on the NOVOMATIC intranet (NOVONET) in German, English and Italian.

Principles of the NOVOMATIC Responsible Gaming Code

1. Prevention is the best player protection.
2. We protect children and young adults.
3. We communicate responsibly.
4. We strengthen our customers' sense of responsibility.
5. We employ competent staff members.
6. We value informed customers.
7. We make controlled gaming possible.
8. We guarantee fair playing conditions.
9. We work with experienced partners.
10. We assume responsibility in regulated online gaming markets.

Responsible Entertainment: www.novomatic.com/en/cr

As in other corporate responsibility-fields of action, the focus last year was on a structured recording of all implemented player protection measures and the tools used to implement them. In addition, the existing player protection certifications, as well as player protection related sponsorship activities and cooperations, were surveyed again. As part of the stakeholder dialog NOVOMATIC conducted an in-depth analysis of responsible entertainment with all significant stakeholders.

At the NOVOMATIC Stakeholder-Forum 2017, participating stakeholders had the chance to discuss the subject with player protection experts from NOVOMATIC in a workshop designed specifically for them. A comprehensive analysis of the perspectives of stakeholders on the topic of Corporate Responsibility was carried out using an anonymous online-survey. As an extension of this survey, the company held expert interviews with player protection institutions in order to receive specific feedback on Responsible Entertainment services and development areas.

NOVOMATIC also lobbied for a proactive approach to the issue of responsibility within the core business in various trade associations. Last year, together with the members of The European Gaming and Amusement Federation (EUROMAT),

NOVOMATIC developed principles of social responsibility within the industry. These principles will be introduced in 2018, and the association will develop recommendations for implementation.

European Gaming and Amusement Federation: <https://euomat.org>

The information, feedback, knowledge and communicated expectations from these activities create the foundation for targeted and effective implementation of NOVOMATIC's Responsible Entertainment policy. Structured further development, exchange of good practice principles and identification of effective player protection measures and tools are the main focus of the Corporate Responsibility program in 2018. GRI 103-2, 417-1

The following sections describe the highlights of the company's activities over the last year. These are just a few examples of the numerous measures taken across the entire NOVOMATIC AG Group.

Player Protection & Gaming Addiction Prevention

Player protection and gaming addiction prevention are central fields of action for Corporate Responsibility-Management. They include all measures used for recognizing and preventing problematic gaming, and offering relevant help if required. This applies not just to gaming in electronic casinos but also to the areas of sports betting, lottery and online gaming. The structured recording of measures implemented in the Group in respect of these issues, which began in 2017, is the foundation for effective player protection within the company.

Experts in the field of gaming addiction prevention give good grades to NOVOMATIC in Austria. The company is seen as a model in terms of implementation of legal requirements and measures for protecting customers. However, there are also recommendations for further development. The measures planned in 2018 include, among other things, improved exchange of good practice examples for effective player protection measures between subsidiaries, revision of the Responsible Entertainment-Policy as a guideline for all subsidiaries, as well as increased cooperation and communication with experts at the Group level.

A recurring theme is the question of whether player protection and profit contradict each other. However, surveyed player protection experts and NOVOMATIC do not believe



Entry system of ADMIRAL Casinos & Entertainment AG

this to be the case. Customers that enjoy gaming, and are able to and want to use NOVOMATIC products over the long term, are the basis for successful business. Every customer who has a problematic relationship to gaming, and finally has to give it up due to addiction or other issues, is no longer a customer. Effective and, most importantly, sustainably designed player protection is, therefore, both important for the customer and to safeguard NOVOMATIC's future success.

✓ GRI 416-1

Responsible Gaming

Responsibility begins with technical player protection. The headquarter of NOVOMATIC Gaming Industries GmbH (NGI) is located in Gumpoldskirchen (Austria) and is the global headquarter for the research & development and production of gaming devices. One NOVOMATIC innovation in the area of responsible entertainment is the NOVOMATIC Biometric System (NBS). This biometric access system allows authentication of customer identity on the terminal itself using a fingerprint, facial recognition, palm vein or retinal scanners. These measures mean that the customer can use every gaming device without a customer card or password. Payout machines and catering offers can also be operated and paid for via this system. The advantage for player protection is the unique allocation of biometric data to a registered guest. This efficiently prevents minors, vulnerable groups or banned persons from gaming. Unique recognition is also a more effective measure for preventing money laundering. Every existing casino system can be equipped with NBS.

There are many methods available for operators of electronic casinos to prevent gaming addiction. In Austria, ADMIRAL Casinos & Entertainment AG (ACE) operates state-licensed gaming locations with gaming terminals in all five provinces in which gaming is legal (Lower Austria, Upper Austria,

Burgenland, Styria and Carinthia). The legal framework conditions for gaming are considered some of the strictest in the world in Austria and internationally. This provides for multiple options for protecting gaming participants. ACE's player protection methods are therefore considered best practice methods within the NOVOMATIC Group when it comes to responsible entertainment.

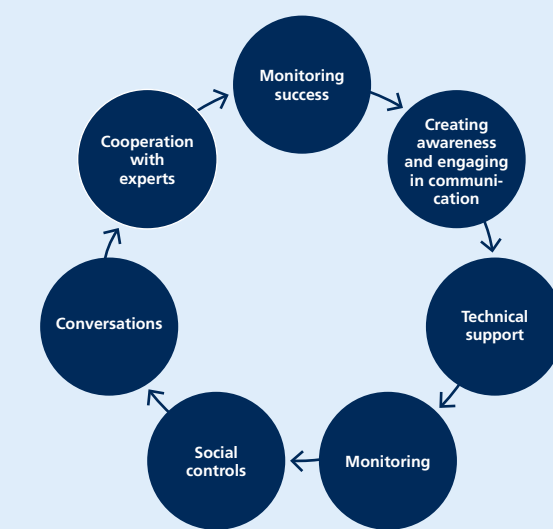
📄 ADMIRAL Casinos & Entertainment AG Responsible Entertainment:
www.admiral.ag/en/responsibility/responsible-gaming

The ACE player protection and prevention program consists of the following elements:

- Creating awareness and engaging in communication**
 At the beginning of the process, the focus is on creating awareness and direct communication between the employee responsible for player protection (branch employee, branch manager, Guest Relations Department) and the guest. NOVOMATIC regularly hosts comprehensive training sessions on player protection and early recognition of problematic gaming behavior. When registering for the first time, customers are proactively provided information on gaming responsibly when they are presented with the folder "Entertainment with Responsibility".
- Technical support**
 A structured and sustainable player protection system is possible thanks to mandatory registration and personalized gaming participation represented by the ADMIRAL Card. Registration prevents minors from taking part in the games. For all other customers, the card allows restrictive measures to be put in place, such as a gaming ban, a limit on the number of visits and loss limitation.
- Monitoring**
 Recording the intensity of gaming participation helps to identify potentially problematic gaming behavior.

- Social monitoring**
 Branch employees are trained to recognize warning signs that may point to potentially problematic gaming behavior.
- Conversation**
 In order to promote responsible gaming behavior, personal conversations with the guest are essential. In about one-third of conversations with guests, a limit is subsequently agreed with the guest (e.g. restriction on the number of visits or loss limitation).
- Cooperation with experts**
 The design and continued development of training programs, as well as implementation of employee training, and the continuous improvement process in general with regard to the ACE player protection program all takes place in close cooperation with external player protection experts.
- Monitoring success**
 All processes are continually checked for optimization potential. This process makes use of both internal and external monitoring systems.

Elements of player protection and prevention programs at ADMIRAL Casinos & Entertainment AG



ACE also introduced new technical measures for improving player protection in 2017. The ADMIRAL Card system, in use since 2012, was expanded to include an innovative biometric system. Together with ADMIRAL Casinos & Entertainment AG, NOVOMATIC Gaming Industries GmbH and Octavian SPb Limited Partnership from Russia, the "Integration Fingerprint" project, which began in 2016, was successfully implemented in Upper Austria. This technology allows for both quick and

uncomplicated guest check-in and gaming terminal activation. As fingerprints are unique, the new fingerprint system provides even better security when it comes to gaming participation, and is extremely effective when it comes to the protection of minors. The potential roll-out of the system in additional provinces is planned for 2018.

LÖWEN Entertainment GmbH in Germany developed the "CLEVER ENTRY" access system in 2012. Test operations of a new module using biometric facial recognition began at the end of 2017 in the ADMIRAL slot arcade in Bingen. The module is based on the NOVOMATIC Biometric System. CLEVER ENTRY involves the use of a gaming guest card; the card contains all the guest's personal data and biometric features. With help from a camera and a card reader, the image on the card is used to clearly identify the guest. Personal data on the card is compared with a list of banned players. This ensures that neither minors nor banned players can access the slot arcades. The system is now in use in all ADMIRAL slot arcades in Germany.

NOVOMATIC UK and its subsidiary Luxury Leisure Ultd. took part in the industry-wide Responsible Gambling Week in October 2017. Around 50 percent of window space in all Luxury Leisure Ultd. electronic casinos was used for responsible gaming messages. The goal of these messages was to familiarize customers with the importance of responsible gaming. Not only that, all employees and branch managers were prepared to provide customers with similar messages.

Responsible Sports Betting

NOVOMATIC's subsidiary ADMIRAL Sportwetten GmbH (ASW) runs over 250 facilities in Austria and is thus the betting provider with the most locations in the country. ASW also offers comprehensive online betting services to its customers.

In addition to information brochures, such as the customer folder "Responsible Entertainment – tips for responsible handling of sports betting", ASW provides contact to support- and therapy-facilities. The ASW customer card and associated bonuses support guaranteed player protection.

The Responsible Betting Code, developed in 2016, serves as a guideline on responsible betting for employees. It contains several principles that employees must abide by. All employees receive the Code when they are hired, and it is also the subject of employee training.

Last year, ASW carried out a variety of measures for implementing the Responsible Betting Code. The introduction

of fingerprint technology, the expanded ADMIRAL Card requirements, and a renewal of processes and forms for self-suspension are just a few examples. One important step was the cooperation with the Anton-Proksch-Institute, one of the leading addiction clinics in Europe. Experts from the institute ran addiction prevention training sessions for ASW employees and provided support with the optimization of betting and player protection measures.

Each facility has a specially trained prevention representative responsible for holding informative talks with customers once problematic betting behavior is recognized. The goal of these talks is to raise awareness of the problem and inspire motivation to change. The customer is also helped toward finding external assistance and addiction prevention institutions.

In the future, the plan is to develop a system that will introduce the option of a betting limit for registered customers. This idea is based on results from prevention talks and is intended to produce long-term positive changes in behavior.

 ADMIRAL Sportwetten GmbH Responsible Betting:
www.admiral.ag/en/responsibility/responsible-betting

Responsible Online Gaming and Lottery Games

Online gaming is a growing market around the world. However, in addition to new gaming options, it also presents challenges for the prevention of problematic gaming behavior. At the same time, technical possibilities open new paths to player protection.

One example of this is the player protection measures introduced by Greentube Internet Entertainment Solutions GmbH, which is based in Austria and Malta. These measures use a technical system to identify problematic player behavior during online gaming over a period of time. Employees trained in gaming addiction prevention use this information to carry out a detailed check of the player's profile, from the point of view of gaming addiction prevention as well as for preventing money laundering. In the event of behavior deemed truly problematic, the customer is contacted by experts in order for additional measures to be taken. As a developer of online gaming solutions, Greentube also equips its products with technical player protection solutions, such as time limits, betting limits and self-suspension options.

The Austrian subsidiary Funstage Spielewebseiten Betriebs-ges.m.b.H is an online gaming provider. In the previous year, the Responsible Gaming Task Force was redesigned. The aim

here is to improve the process of identifying and processing problematic gaming behavior. The task force employees are specially trained for the job, and every case is evaluated by two people. In 2018, the plan is to train these experts as Gaming Addiction Prevention Officers as part of NOVOMATIC training sessions.

 Greentube Responsible Gaming:
www.greentube.com/responsible-gaming

NOVOMATIC is active in lottery sales through the subsidiary NOVOMATIC Lottery Solutions GmbH (NLS). Responsible entertainment has been an important issue in the lottery sector for some time, which is why relevant certifications have been developed over the past few years. At the end of last year, NLS received the coveted Responsible Gaming Certification from the World Lottery Association (WLA). British Standards Institution Group, an external auditor, confirmed that the criteria had been met. To do this, all NLS products and services were analysed and found to be satisfactory with regard to player protection. The certification will be renewed in 2020 when the current certificate expires.

 World Lottery Association Responsible Gaming Standard:
www.world-lotteries.org/services/responsible-gaming/framework



NLS receives WLA Responsible Gaming certification

Responsible Marketing

Responsible marketing for the products and services of NOVOMATIC and its subsidiaries is another important aspect of Responsible Entertainment. The basics of responsible marketing are described in the Group's Responsible Gaming Code. They include the following points:

- Gaming and betting are not an alternative to employment.
- No false hopes and unrealistic expectations of profit are created.
- No marketing activities are directed at minors, vulnerable groups or banned persons.
- No sponsoring activities or donations are made vis-à-vis institutions that primarily have children and minors as their target groups.
- Responsible Entertainment messages are included in marketing wherever possible.

ACE is one example of the implementation of these principles. The Austrian NOVOMATIC subsidiary ensures, when designing and advertising events, promotions and other marketing measures, that no vulnerable target groups, in particular minors, are addressed. For example, no advertisements that appeal to minors are made in the media. In addition, every advertisement contains the player protection logo, information on the minimum player age, notes on playing responsibly and contact information for a free counseling hotline.

In 2017, the company designed an advertisement specifically based on the issue of responsibility. This does not focus on reaching new target groups, but rather is solely aimed at communicating the importance of responsible handling of gaming services, using the slogan "Your Luck, Our Responsibility".  GRI 417-1



ADMIRAL Casinos & Entertainment AG advertisement on the subject of responsibility

Security at Gaming Facilities

ADMIRAL Casinos & Entertainment AG runs a hotline staffed with 17 employees, 24 hours a day, 365 days a year. This is one of the main components of the ACE security system, ensuring that guests are well taken care of and that gaming facilities are secure. The advantage of this combination is, in particular, the timely and solution-oriented help for branch employees in all security-related matters from their contact partner. ADMIRAL service center employees are supported by video monitoring in all entrances and gaming areas within the gaming facilities. The video-based system is monitored from the ADMIRAL service center, and serves in particular to prevent criminal activity and to ensure the safety of all guests on site.



Activity Summary



Commitment on Responsibility

- “NOVOMATIC always fulfills all legal requirements and acts in accordance with the standards laid out in the Group Code of Conduct.”
- “The company makes every effort to recognize and prevent any and all fraudulent and criminal behavior within the company.”
- “The company respects the data protection rights of its customers and stakeholders.”



2017 Highlights

- Establishment of the Data Protection Advisory Board on a Group level for coordinating implementation of the EU General Data Protection Regulation
- Approval of Group data protection guidelines
- Support for subsidiaries as they implement the EU General Data Protection Regulation
- Expansion of the Group-wide Legal Compliance Organization
- First NOVOMATIC Compliance-Manager Days
- National compliance manager certification from the University of Las Vegas
- Preparation of relevant compliance information for compliance managers at subsidiaries
- Increased cooperation between Group Internal Audit & Risk Management and Group Corporate Responsibility
- Monitoring implementation of gaming addiction prevention in all Austrian ADMIRAL branches



Next Steps

- Further Group-wide support measures for the subsidiaries to implement the duties from the EU General Data Protection Regulation
- Design and implementation of a Group-wide e-learning program for compliance and data protection
- Further development of the “Know Your Customer” due diligence measures
- Increase in cooperation between the Group risk officers and central risk management
- Systematic expansion of targeted player protection and gaming addiction prevention strategies in key Group operating companies

Always Compliant

Goals of the Compliance Management and Audit & Risk Management departments are the fulfillment of all legal requirements, as well as the implementation of ethical and responsible business practices.

The company practices social responsibility with regards to its core business, for example through player protection and gambling addiction prevention measures, responsible advertising, efforts to reduce the company's ecological footprint, and the guarantee of a healthy and secure work environment. In doing so, the company must fulfill legal requirements and framework conditions. In aid of this, the company identifies all significant financial and non-financial risks at an early stage, evaluates them, and minimizes them using suitable measures. The Group Legal, Group Legal Compliance, and Group Internal Audit & Risk Management departments are responsible for providing legal certainty.



“Audit & Risk Management ensures that financial and non-financial business risks are recognized and dealt with appropriately. This has a long-term and sustainable effect on the success of the company.”

Mr. Martin Schwarzbartl
Group Internal Audit & Risk Management

Group Legal & Group Legal Compliance

The Group Legal Team (Group Legal Department) is the legal point of contact for all Group specialist departments and therefore a service provider for legal questions of all types. The focus here is on the review and preparation of contracts, as well as providing comprehensive legal support for projects. This applies in particular to the areas of mergers and acquisitions, finance and capital measures, as well as business development. In addition, Group Legal is responsible for industrial property rights. This covers legal tasks connected with technical (patents, utility models) and non-technical (brands, registered designs) property rights.

Group Legal Compliance is responsible for monitoring activities related to compliance with legal regulations, including those on data protection and money laundering prevention, as well as the design of compliance-relevant Group policies. The team translates legal requirements into Group policies (e.g. Group Anti-Corruption Guideline), creates guidelines for daily conduct and establishes processes and responsibilities to be implemented.

All major company subsidiaries have appointed compliance officers for each country or region. The relevant duties for

local compliance managers are defined in a separate Group guideline and are binding. They relate, among others, to consultations with local Group subsidiaries on questions of compliance, monitoring local laws, training employees (in particular with regard to preventing corruption), implementing Group regulations, and reporting to Group Legal Compliance. Employee conduct that conforms with rules and is also in line with company values cannot be ensured by a single department alone. It is the responsibility of every individual employee and of the management.

The NOVOMATIC Compliance Management System (CMS) is in place to guarantee compliance with legal regulations and company values. This is set in the Code of Conduct with the goal of raising awareness amongst management and employees. Binding Group regulations are created to solidify the Code of Conduct, taking into account the legal framework and a risk-based approach. These goals are supported by in-person training sessions and creation of e-learning modules. The compliance manager has prescribed reporting duties to encourage compliance with Group standards. The CMS is based on the seven basic elements

according to the German auditing standard for compliance management-systems.

 IDW PS 980: www.idw.de/the-idw

One of the company's tools for identifying violations of legal requirements or the internal Code of Conduct is the company's whistleblowing hotline. Any employee may, if necessary, call to report a violation of the Code of Conduct or the law. In doing so, they may choose to remain anonymous. The reports are dealt with by the Compliance Committee, who determine the next steps to be taken. If necessary, recommendations are made to the Executive Board.

Every employee receives all relevant and important guidelines and documents when they begin their employment. This includes, for example, the Code of Conduct, the Responsible Entertainment Codex, or the Safety Guidelines for their work location. The significance of each issue for an employee's specific role is emphasized during the NOVOWelcome Days with lectures from various departments. This means that employees have the chance to meet their contact partners in person.  GRI 102-16

Audit & Risk Management

Audit & Risk Management is responsible for identifying and evaluating both financial and non-financial company risks. The team performs due diligence with regard to ecological, social, and financial concerns.

The goal of risk management is to identify and analyze risks early on, and implement active control measures. In addition, they are responsible for raising risk awareness within the Group, and also increasing transparency. Risk management does more than just take the financial risks presented in the Annual Report notes into consideration. It also considers non-financial aspects, such as securing licenses with player protection. The Group company and business segment executives are responsible for continuous observation of the risk and opportunity situation, and the active management thereof. Risk officers have the task of defining measures for managing risks and taking advantage of opportunities, and promoting their implementation. New risks and opportunities are documented and re-evaluated at regular intervals. Central risk management supports the individual areas in a consulting function and ensures the continuous updating and further development of the risk management system.

In 2017, the company introduced a process for defining and re-evaluating ecological and social risks. Firstly, at a Group

level, experts from the departments met with risk management to define the relevant issues: environment, energy, waste and resource management, work safety and health management, as well as player protection and gaming addiction prevention. Corporate Responsibility (CR) officers from the subsidiaries then expanded upon these non-financial risks. Finally, the risks were transferred to the corporate responsibility risk matrix. This was then used by the subsidiaries to evaluate the probability of the risk occurring, and the potential for damage. The end result is the first risk matrix created for all significant corporate responsibility issues. These evaluations are taken into consideration in regards to the total risk at the Group level. It seems that the risks compiled so far with regard to player protection are particularly significant. The level of detail was adjusted for risks in connection with employee safety and environmental concerns.

Corporate Responsibility Risks

The following risks are evaluated in the corporate responsibility risk matrix. It only includes topics pertaining to corporate social responsibility.

- Loss of license
- Lawsuits brought forward by customers
- Loss of image
- Occupational safety and health violations
- Violation of employee rights
- Fire damage
- Pollution
- Violations of sponsoring and donation principles

Other non-financial issues are included in the total risk matrix as an expansion.

Based on the risk evaluation, measures were introduced for reducing occurrences. Subsidiaries are responsible for defining and carrying out controls with regard to process risks.

Group regulations (e.g.: Group Policies, Code of Conduct, Responsible Entertainment Code, etc.) are reviewed through audits carried out by the Group auditing department. These audits help identify improvements that must be made in a timely manner, or that a re-evaluation of risks is required. Based on the risk-oriented audit plan, the focus of Group-wide auditing activities in 2018 will be on Responsible Entertainment activities. The knowledge gained as part of previous

player protection and gaming addiction prevention audits will serve as the basis for measures designed to standardize player protection and gaming addiction prevention activities.

Additional information on Group risk management and the most important risks can be found in the chapter "Risk management" of the Management Report.  GRI 103-2

The following sections describe the highlights of the company's activities over the last year. These are just a few examples of the numerous measures taken across the entire NOVOMATIC AG Group.

Corruption Prevention

NOVOMATIC is dedicated to acting with integrity in all business and social activities. An Anti-Corruption Group Guideline, designed by the Compliance Committee and approved by the Executive Board at NOVOMATIC AG, sets strict and binding regulations for all Group companies and their employees. This Group guideline must be implemented as binding in all Group companies majority owned by NOVOMATIC AG. The goal of this guideline is to set out specific conduct obligations and value limits for certain business activities and to avoid suspicion of corruption right from the start. The document was revised in 2017, with the result that awarding monetary or in-kind donations to political parties is now governed by strict conditions relating to transparency and documentation. Not only that, exceeding certain thresholds requires a recommendation from the Compliance Committee and approval from the Executive Board.

In the last year, the company continued to communicate and implement regulations in aid of preventing money laundering. A specific guideline describes the minimum requirements for payment processes in terms of payment transactions and accounting. For this reason, the guideline contains concrete specifications on accepting and providing payment. For example, the company has standardized the basic principles of payment transactions and value limits for cash transactions in the B2B segment.

As part of the Legal Compliance Manager Days, held for the first time in 2017, compliance managers from the Group were trained in relevant compliance issues from the Code of Conduct (CoC), such as anti-corruption. Newly hired employees also receive basic training as part of the NOVOWelcome Days. Special compliance training sessions are also part of the NOVOMATIC training catalog every year, which is also available for ADMIRAL Casinos & Entertainment AG (ACE) and ADMIRAL Sportwetten GmbH (ASW).  GRI 205-2

Data Protection

In the past year, the company introduced organizational measures to prepare for and implement the regulations contained in the EU General Data Protection Regulation (GDPR).

At a Group level, the company established the Data Protection Advisory Board. The Board is made up of the Chief Executive Officer and Chief Financial Officer of NOVOMATIC AG. It is responsible for setting the key goals and strategies for the Group-wide implementation of requirements under the GDPR. Preparation for new GDPR requirements was also one of the core tasks for Group Legal Compliance in 2017. The Group guideline "Data protection" provided early specifications for minimum standards. In particular, these include organizational and reporting measures for affected Group companies.

2017 also saw the introduction of the Data Protection Committee, which consists of the Chief Information Officer, Chief Information Security Officer, and Data Protection Officer. This Committee is responsible for developing recommendations for supporting local implementation processes within the NOVOMATIC AG Group. These guidelines and process descriptions are related, for example, to fulfillment of individual rights, information requirements for the company in question, technical requirements for software systems, contract templates for order processing, or dealing with and reporting potential data protection violations. Additional support measures will be introduced in 2018. In particular, the company is working on developing a Group-wide data protection e-learning program in order to provide verifiable training to relevant employees.

ADMIRAL Casinos & Entertainment AG, the Austrian gaming facility operator, has been awarded the European Privacy Seal (EuroPriSe). This data protection seal of quality awards exemplary conformity of the IT infrastructure to data protection standards.

Since its establishment, the company has had an information security management system (ISMS) in place, certified in accordance with the international ISO standard ISO/IEC 27001. This standard, which includes 114 individual aspects, describes the requirements for official certification. Among other things, it defines structural and personal safety measures, as well as compliance guidelines and measures to ensure operational and network security.  GRI 418-1

 ADMIRAL Casinos & Entertainment AG Seal of Quality: www.admiral.ag/en/certificates

Avoiding Product Missuse & fraudulent Competition

One challenge of the gaming segment is that media reporting often blurs the lines between illegal and legal gaming services. This means that negative effects of illegal gaming are often incorrectly ascribed to operators of legal gaming. NOVOMATIC clearly and firmly distances itself from any and all illegal and unlicensed gaming services. The company believes that gaming is a delicate service that requires clear legal framework conditions. At the same time, it is important to prevent excessive regulation, as this could lead to gaming participants moving their business to barely controlled or even illegal gaming offers.

Last year, the long-term operation of gaming terminals in electronic casinos run by ADMIRAL Casinos & Entertainment AG was secured in Lower Austria. The strict legal framework conditions in Lower Austria serve as a shining example for the protection of players and minors, and for gaming addiction prevention. Almost all player protection specialists view the introduction of a regulated, legal, yet also attractive gaming service, equipped with measures to prevent gaming addiction, as being the right path. One reason for this is that it provides market competition for illegal gaming, which is carried out with no regard for the protection of players and minors.

NOVOMATIC, as a responsible company, is doing its part in the fight against illegal gaming, such as by means of “private enforcement”. This refers to enforcement under private law of requirements based on the laws against unfair competition and the Markenschutzgesetz (Law on Protection of Trade Marks). The goal is to prevent unfair market practices and abusive use of NOVOMATIC products and services.

The question as to whether the Austrian Gaming Act is in line with EU law was clarified in 2017 due to consistent jurisprudence from all supreme courts in Austria. This ruling provides the basis for enforcement of regulations connected to unfair competition and brand protection. To this point, more than 350 claims of unfair competition against illegal gaming operators have been lodged and successfully completed. The number of illegal operators has thus significantly decreased. These claims provide support for authorities in implementing current law; not only that, NOVOMATIC thereby makes a major contribution to protection of players and minors.

Supplier Responsibility

Products from suppliers are an essential part of the production process. The risks associated with supplier products are therefore also NOVOMATIC’s risks.

In order to minimize the risk of a business partner’s misconduct within the supply chain, NOVOMATIC requires all suppliers to commit to compliance with the law and to reject corruption. These duties of disclosure are contained in the conditions of purchase which all suppliers are required to sign.

Business partners from around the globe deliver supplies to NOVOMATIC’s headquarters in Gumpoldskirchen. The largest suppliers by revenue, that together make up around 75 percent of the total purchasing volume at the company’s headquarters, were subjected to close analysis over the past few years. The vast majority of these suppliers do not carry any economic, ecological, or social risk. This is due to the fact that the large majority of suppliers are subject to European law, which requires that minimum standards be met in the areas of environmental protection, employment law, and safety. For NGI, the supplier self-assessment collects information on the level of certification for quality management norm ISO 9001 and the environmental management norm ISO 14001. In the future, the company plans to adjust the information requirements of suppliers.

Even the company’s foreign Group subsidiaries require concrete information from their suppliers. For example, suppliers for the German LÖWEN-Group have to fill out a supplier self-assessment. This assessment covers many aspects of environmental protection, energy efficiency, CO₂ emissions, chemicals used, occupational safety, and quality management. Additionally, they compile information on the level of certification for environmental and quality standards.

In 2017, NOVOMATIC Italia companies introduced information on the level of certification in accordance with ISO 14001, as an addition to information on the ISO 9001 quality standard.  GRI 204-1, 308-1, 414-1, 102-9

Human Rights

NOVOMATIC is committed to complying with all legal regulations. The company therefore supports compliance with international norms for the protection of human rights within its scope of business. NOVOMATIC is a member of the worldwide company platform United Nations Global Compact (UNGC), and supports Principles 1 and 2 for implementing international human rights standards and preventing human rights violations within its sphere of activity.

 United Nations Global Compact Principles:
www.unglobalcompact.org/what-is-gc/mission/principles

In accordance with the OECD guidelines for multinational companies, NOVOMATIC supports:

- Compliance with the United Nations Charter of Human Rights.
- Implementation of international human rights, without contradicting applicable national laws.
- Implementation of work and social standards set out by the International Labor Organization (ILO).
- Reduction of any negative effects on human rights as much as possible within the company’s activities, and campaigning for improvements.
- Addressing misconduct in the area of human rights within its business relationships, and using its influence to improve the situation.
- Clear commitment to maintaining human rights from the Managing Directors.
- Human rights due diligence by including human rights in the materiality process and risk management assessments.
- Implementation of due diligence, for example by checking for any potential violations of local laws, international norms, or internal regulations from the Internal Audit and Risk Management department.

 OECD Guidelines for Multinational Companies:
www.oecd.org/corporate/mne

Due to a high level of vertical integration of more than 90 percent, only a small percentage of production is carried out by external suppliers. The majority of suppliers have company headquarters and production locations within the European Union. The company can therefore state with confidence that the supply chain is not subject to increased human rights violation risks. This was confirmed in 2015 by means of an analysis of ecological, social, and economic risks in the supply chain. The company’s whistleblowing hotline also serves as a tool for reporting any human rights violations.

An additional tool for ensuring that human rights are upheld, particularly with regard to equality, is the Equal Opportunities point of contact introduced in 2017. The point of contact serves to implement the Group guidelines on equal opportunities introduced in 2017.  GRI 412-1

Fair Competition & Lobbying

The NOVOMATIC Code of Conduct clearly states the company’s commitment to fair competition. The NOVOMATIC AG Group will not make any agreements with their competition that could lead to distortion of competition, market-sharing, or price fixing.

NOVOMATIC pledges conscientious and transparent dealing with all national authorities. Active participation, such as the provision of expertise as part of legal decision-making processes, is carried out solely in compliance with all legal requirements. This particularly applies to commitments to transparency. The persons responsible for lobbying on behalf of the company are registered with the Austrian Lobbying and Interest Group Register.

When providing information to stakeholders, the company engages in a fact-based dialog. This particularly applies to the sensitive issue of player protection. This fact-based discussion, which relies on scientific knowledge, is the foundation for continued effective development and implementation of player protection measures.  GRI 206-1



Activity Summary



Commitment on Responsibility

- “The company supports employee development and offers training and continued education opportunities.”
- “The company considers its employees an important source of innovation and wants to offer a good work-life balance for everyone.”
- “The company values the diversity of the staff and stakeholders and treats all of them equally.”
- “The company strives to create safe and healthy working conditions in order to avoid accidents and illness.”



2017 Highlights

- Awarded the status TOP Company & OPEN Company by kununu
- Listed as a TOP 100 Employer by Trendence
- Bronze seal of quality as best recruiter
- Implementation of the new Equal Opportunities Policy
- First apprentice get-together at the headquarter (Austria)
- Seal of Quality in Corporate Health Promotion (Austria)
- Attained OHSAS 18001 certification (Austria)
- Publication of the integrated management policy (Austria)
- Expansion of the health management (Austria)



Next Steps

- Exchange of Good Practice methods on health management, work safety, and employee innovation within the Group
- Start of the NOVOMATIC Coding University
- Start of the Professional MBA course “Leisure, Entertainment & Gaming Business Management” at the Danube University Krems (Austria)
- Improvement of effectiveness of health management (Austria)
- Initial implementation of the internal network platform “Moms & Dad” to allow mothers and fathers to connect during parental leave (Austria)
- Cooperation with a renowned Upper Austrian industry company in the area of robotics training for apprentices

Enjoy Working with Us

Employees are the foundation of NOVOMATIC’s success. Innovation can only be achieved, and customer satisfaction can only be increased, when the company’s employees are motivated and work in a safe environment.

The figures and graphics presented in this chapter apply, unless otherwise indicated, to all major companies (core companies) belonging to the NOVOMATIC AG Group. A summary can be found on page 48 of this report.

Summary of Major Indicators

	2016	2017	Goal
Total percentage of women	49 %	49 %	Maintain balance
Turnover rate	–	32 %	Reduction
Health rate	–	35 %	Increase
Accident rate (accidents per million work hours)	–	10.3	Reduction
Training and further education hours per employee	–	10.51	Maintain balance

The headcount is represented including those on parental leave.
The staff turnover rate includes all exits (first recorded Group-wide in 2017).
The health rate is the percentage of employees that did not take any sick leave days in the time period in question (first recorded Group-wide in 2017).
The accident rate is the Lost Time Injury Frequency Rate (LTIFR), that is the number of accidents requiring notification per million work hours (first recorded Group-wide in 2017).

NOVOMATIC’s employees are the company’s most valuable capital. It is only thanks to their skills, commitment, and satisfaction that NOVOMATIC has been writing success stories for over 37 years. As one of the leading manufacturing and service companies in the gaming technology industry, NOVOMATIC is always on the lookout for talented people who want to innovate and shape the future. NOVOMATIC offers employees a creative, secure working environment, exciting tasks, and the potential to further develop their knowledge and skills.

The NOVOMATIC Group already has around 30,000 employees across the globe. Of these employees, around 3,300 are employed in the Austrian home market, 1,200 of those at the company headquarter in Gumpoldskirchen. Almost half of those work in the segments manufacture, as well as research and development.

NOVOMATIC offers a broad range of professions:

- Research and development in the gaming equipment or game design areas
- Production of gaming machines and gaming equipment at now 16 locations in eleven countries around the world
- Service in casinos and electronic casinos, as well as in licensed betting offices
- Business operations in the areas of human resources, controlling and finance, purchase, compliance, legal, and more
- IT in the areas of IT security, company networking, data centers, and business applications

 Information on NOVOMATIC as an employer:
www.novomatic.com/careers



Participants of the NOVOMATIC Volunteering-Day



Dr. Klaus Niede
Global Human Resources Director

"Increasing digitalization, demographic changes, and re-requirements that are changing at an ever greater rate provide new challenges to companies and their management. Work conditions that suit an employee's stage of life, extensive qualification measures, but also of course the general attitude towards the people within the company are essential. Now and in the future, employees are the key to satisfied customers, and therefore to the company's success. To quote Richard Branson: 'Employees come first. If you take care of your employees, they will take care of the clients.'"

All employee-related activities are planned and implemented by the Human Resource departments in the subsidiaries of the NOVOMATIC AG Group. To ensure coordination and information offerings across the Group, the Group HR department is always in contact with Group subsidiaries. The NOVOMATIC Human Resource Circle meets once a year in Austria; all HR officers from the subsidiaries attend. At the

Circle, new NOVOMATIC Group guidelines are explained, focus issues are discussed, and new HR projects are introduced.

Employee issues are also included in the Group-CR risk evaluation, carried out for the first time in 2017. The recorded risks include avoiding violating legal regulations and internal Group guidelines (e.g. Code of Conduct) with regard to occupational safety, health protection, and compliance with employee rights (e.g. equal opportunities). The company has taken various measures to minimize risks in these areas as much as possible. Internal Audit & Risk Management monitors compliance with external and internal guidelines.

Employees are offered the best possible framework conditions for a healthy, secure, and motivating work environment. This includes a multitude of activities in terms of education and training, health, occupational safety, work-life balance, equal opportunities, and diversity. Regardless of their type of employment, all employees have access to the same company offers and social services.

The company is proud to be an attractive employer. This is underlined by the following awards and certificates.

Overview of Awards

Award		Description	Received since
	best recruiter Bronze seal of quality www.bestrecruiters.at	NOVOMATIC was rated among the top 10 recruiters in Austria in 2017, receiving the Bronze seal of quality. It improved its rank as compared to last year, both within the industry and overall.	2016 Bronze in 2017
	kununu Awards TOP Company & OPEN Company www.kununu.com/at/novomatic	In 2017, NOVOMATIC applied to kununu, the largest employer evaluation platform within the German speaking world NOVOMATIC received the awards TOP Company and OPEN Company.	2017
	trendence Graduate Barometer TOP 100 Employers Austria 2017 www.trendence.com	The independent consulting and market research company “trendence” rated NOVOMATIC as one of the 100 most attractive employers in Austria. This confirms that the company strategy to attract the best specialists and managers on the market is a success.	2017
	Leading Companies in Austria www.leitbetriebe.at	NOVOMATIC received a “Leading companies Austria” award, meaning it is one of the 1,000 most exemplary companies in the country. The award recognizes, in particular, performance in the areas of sustainable management, a strong market and customer orientation, as well as consideration of employees, the environment, and society.	2015
	auditberufundfamilie Auditberufundfamilie Certificate www.familieundberuf.at	In November 2015, NOVOMATIC was awarded the auditberufundfamilie (job and family) certificate for the first time. This state-certified seal of quality recognizes companies that are family friendly. It is presented by the Austrian Federal Ministry for Families and Youth.	2015
	Corporate health management network (BGF) Seal of Quality in Corporate Health Promotion www.netzwerk-bgf.at	In 2017, together with the Austrian subsidiaries, NOVOMATIC received the Seal of Quality in Corporate Health Promotion awarded by the Austrian Network. This seal is awarded to those companies that fulfill specific quality criteria when it comes to promoting health.	2017
	NESTOR^{GOLD} www.sozialministerium.at	In 2016, the company received the NESTOR^{GOLD} certification awarded by the Austrian Ministry for Social Affairs. Companies who receive this award have exhibited special care when it comes to creating a workplace that is appropriate for aging and inter-generational employees.	2016

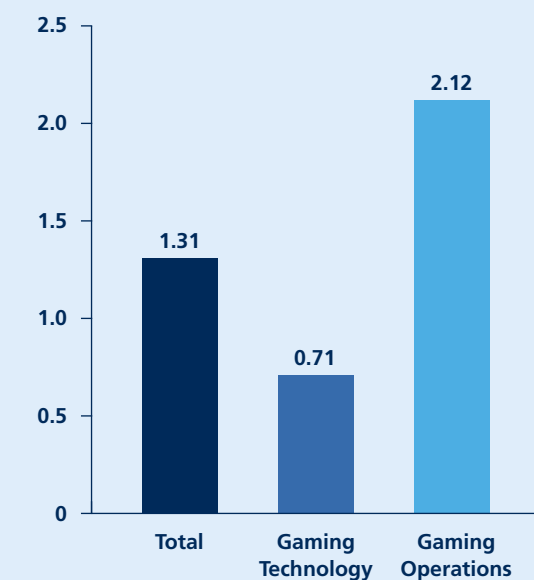
✓ GRI 103-2

The following sections describe activity highlights from the last year, as an example of the many opportunities provided by the NOVOMATIC-Group.

Training & Further Education

NOVOMATIC is continually developing its hardware and software systems. Its high levels of innovation and excellent specialists have driven NOVOMATIC to become one of the leading gaming technology companies in the world. Therefore, the company's highest priority is education and training for employees. There is a Learning and Development Team that deals with training challenges and services across all departments and business segments. In the future, acquiring skills for the digital transformation or Industry 4.0 will be a new aspect to consider for NOVOMATIC staff. The new human resource management software "NOVOPeople Net", which supports application management and is intended to create a Group job market, was rolled out across NOVOMATIC AG in 2017.

Training and further education hours per employee 2017



This is the average number of training days (eight hours in length) per employee.

✓ GRI 404-1

Attracting the best Candidates

In the fight for talent on the job market, NOVOMATIC intends to attract the best candidates for its vacant positions. For example, the company sends representatives to JOBmania, the largest training and job fair in Lower Austria and Burgenland, every year. The visitors, including students, their parents, and even teachers, can stop by the NOVOMATIC booth to find out

more about apprenticeships offered by the company. This job fair is a highlight for NOVOMATIC apprentices, as they are the ones who represent the company at the booth.



Job Fair booth at JOBmania
Apprentice Mr. Patrick Seiler NOVOMATIC Gaming Industries GmbH

Apprentice Support

As a leading Austrian company, NOVOMATIC is committed to training apprentices within the company. These courses help develop an apprentice's expertise as well as their personality. For example, an outdoor event is organized for apprentices each year. The focus changes each year. One goal of this event is to introduce apprentices to new issues, such as diversity and equal opportunities at work.

Last year, apprentices and trainees from the LÖWEN-Group and its subsidiaries took part, for the first time, in an Apprentice Get Together at the NOVOMATIC headquarter in Gumpoldskirchen. Apprentices with various specialties, such as machine technicians, administrative assistants, electricians, industrial clerks, mechatronics engineers, locksmiths, and carpenters met during the event. The goal was to encourage networking throughout the company in order to foster identification with the Group and get to know international colleagues.

The Apprentice Project 2017 was another example of supporting talented apprentices. For this event, apprentices from various NOVOMATIC Gaming Industries GmbH (NGI) departments work together on a joint project, such as development and construction of football tables. Cooperation between the trainers and apprentices was a complete success. The tables are now being used in the new ADMIRAL Arena at the Wiener Prater in Vienna.



Apprentice Get Together
(among others): Mr. Patrick Cilif, Mrs. Denise Eisenberger, Mr. Manfred Burger, and apprentices

NOVOAcademy

Each year, the NOVOAcademy publishes a training catalog for employees at NOVOMATIC AG and NOVOMATIC Gaming Industries GmbH. The contents are selected by the NOVOMATIC Learning & Development Board, which is made up of members from various departments. This exchange is important for increasing training opportunities and offering tailored development measures. An internal evaluation of qualification measures showed that employees are happy to accept offers for training personal and language-based competencies. Other training options available encompass IT, management, and methods. These topics are important and necessary when considering increasing digitalization at work. All employees have access to these training courses.

NOVOMATIC subsidiaries also offer various training sessions and apprenticeships. The LÖWEN-Group supports employees by providing specialist training, personal and team coaching, and department-specific training courses. These options can be selected from a comprehensive training catalog. NOVOMATIC Italia supports its management team with the Le@n training program. The program offers courses on specialty subjects such as compliance, finance, change management, team building, etc. All employees also receive

online training. NOVOMATIC UK supports selected employees as they study while working.

Programs for High Potentials and Trainees

The support for high potential employees, which began in 2016, was continued over the last year. Employees with particular potential in terms of professional development receive the opportunity to take part in the NOVOTalent program. This two-year program includes the following: personal development, basic seminars such as conflict management, project management, business administration/controlling – plus a specialization selected by the employee in question.

The Casino Arcade Management Trainee Program, introduced in 2016, is showing great promise. Eight trainees were selected from 372 applicants and have been taking part in an 18-month training program that started at the beginning of 2017.

The LÖWEN-Group is committed to its employees' development potential. For example, the fourth internal employee development program started in the summer of 2017 with a three-day opening event. This two-year program offers tailored training sessions and individual coaching for each

participant, in order to support their professional development. ✓ GRI 404-2

Family friendly Workplaces

NOVOMATIC is committed to its headquarter in Gumpoldskirchen, Austria. The majority of company sales take place in the core markets in Germany, Italy, the United Kingdom, Spain, and South-East Europe. The company takes great care to continue to expand its appeal as an employer, and to ensure that jobs are secure in Austria and all other locations.

NOVOEcho Employee Satisfaction Survey

“Your echo is heard!” was the motto for the employee satisfaction survey carried out by NAG and NGI in 2017. The total satisfaction of participating employees and managers was around 70 percent. This represents a significant improvement over the results in 2015 with regard to communication and information provided by the management to employees. Management attended a seminar focused on the detailed survey results. This included moderated workshops for developing measures at a team level to improve the less than satisfactory areas, and to increase potential overall.

Career and Family

NOVOMATIC supports all the employees in Austria as they maintain the balance between work and family, which is why the company is particularly proud to have offered subsidized holiday care for children aged three to ten for the second time in 2017. Children had access to a variety of sports and other fun activities, such as soccer, floor and equipment-based gymnastics, tennis, or dance. NOVOMATIC also subsidized 3,000 holiday care options for employees’ children across Austria.

In June 2017, children of employees at NOVOMATIC Italia were invited to spend a day with their parents in the office. The family day provided a new perspective on their parents’ working environment. While children took part in a special entertainment program with games and fun, the adult guests were able to tour the various departments, providing a glimpse of what work at NOVOMATIC Italia is like.

NOVOHelp Hotline

Since end of 2015, the NGI has been able to offer external counseling for employees in difficult situations, under the name NOVOHelp. The goal is to offer employees in challenging situations, whether private or professional, support –

as quickly and simply as possible. The helpline is also designed to further support compatibility of family and career, and to maintain the performance, productivity, and health of employees and management.

Occupational Health & Safety

A company is only as successful as the people who run it. And they need a healthy and safe workplace. This is why NOVOMATIC goes above and beyond the legal requirements in this regard. In 2017, the company defined and recorded significant indicators for occupational health and safety within the Group for the first time. Examples of good practice in these areas were shared with subsidiaries by Corporate Responsibility Management.

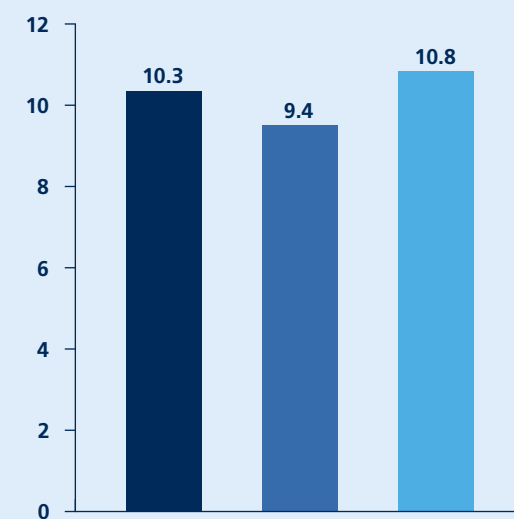
Integrated Management

At the Gumpoldskirchen headquarter, the company was able to expand the integrated management system (IMS) further. The system includes environmental, safety, and quality management. This further integrates quality management in accordance with ISO 9001, environmental management in accordance with ISO 14001, and health and safety management in accordance with BS OHSAS 18001. An integrated management policy was defined for the location in 2017. It describes the goals and action principles within the three topic areas. It is therefore a guideline for all employees and replaces the previous environmental and quality policies.

Occupational Safety

Occupational safety management at Gumpoldskirchen was further developed last year via implementation of the occupational health and safety standard BS OHSAS 18001. The company completed a level 1 audit and a certification audit, resulting in certification being granted by Quality Austria, an auditing company. In the future, the goal is to achieve certification in accordance with the new ISO 45001 standard.

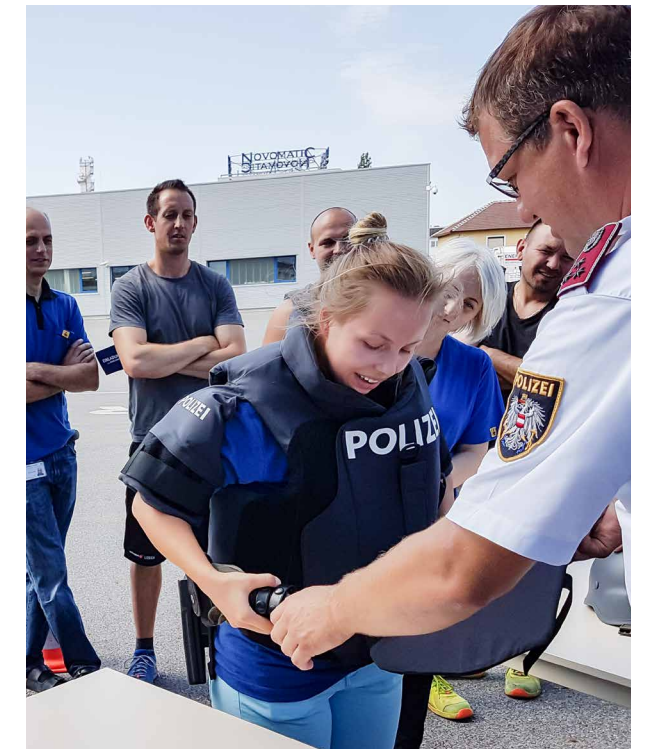
Accident Rate LTIFR 2017



This is the Lost Time Injury Frequency Rate (LTIFR), compiled from the work accidents requiring notification within subsidiaries divided by the number of hours worked multiplied by a factor of one million (recorded for the first time in 2017).

✓ GRI 403-2

The fourth NOVOSafety Day took place in Gumpoldskirchen on August 4, 2017. Both employees and management were able to refresh their knowledge and gain practical experience at a variety of information stations. The subjects were occupational safety, first aid, road safety, environmental and fire protection, and self-defense. Various public safety organizations, and organizations promoting occupational safety, had booths on site. The day began with an evacuation drill, in which 633 employees were evacuated in under 15 minutes. A new record was set compared to last year, with 150 active participants visiting the various safety booths.



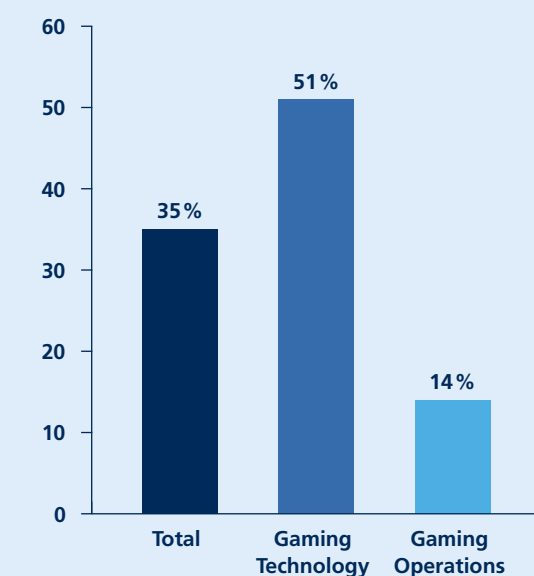
NOVOSafety Day

Health Management

Support from employees and management is essential to successfully implementing health measures at work. For this reason, NGI completely revamped its health management in 2017. The new NOVOHealth health management consists of a core team of employees from the Production, Human Resources, Health and Safety, Environmental Protection, and Group Operations departments, as well as the company physician and an occupational therapist. This group regularly discusses current health-related topics and issues during their health circles. In addition, a steering committee was created to make strategic decisions and report to management. Based on the needs of the employees, the themes selected for 2017 and 2018 are ergonomics, nutrition, and organizational development.

NOVOHEALTH

Health rate 2017



The health rate is the percentage of employees that did not take any sick leave days during the time period in question (recorded for the first time in 2017).

The third NOVOHealth Day took place on September 7, 2017 at the Gumpoldskirchen headquarters. The focus, in particular, was on needs and ideas related to manufacturing. Initially, the NOVOHealth Team met in an interdisciplinary health circle to discuss the program across departments. Just about 20 stations were set up, in which employees could learn to lift and carry safely, learn useful nutritional facts, have their eyes and hearing tested, take a blood test, and learn about the dangers of smoking. Additional highlights included a cooking show featuring vegetarian super-foods, tasting stations, a shiatsu workshop, and a chance to play soccer and basketball. In total, around 250 people took part in this year's NOVOHealth Day.

NOVOMATIC's health and safety efforts have been rewarded with the Seal of Quality in Corporate Health Promotion (BGF). The same award was presented to NOVOMATIC for the first time in 2017.



NOVOHealth Day



Award of the Seal of Quality in Corporate Health Promotion (from left to right) Chairman Mr. Gerhard Hutter, Dr. Monika Poeckh-Racek, Mrs. Denise Eisenberger, Mr. Jan Pazourek, Mr. Maurice Androsch

In order to maintain and improve employee health, and strengthen team spirit, NOVOMATIC Gaming Spain S.A. hosted company runs in Madrid, Seville, and Barcelona in 2017. NOVOSummer was another important company event. This event saw employees from the Madrid-based subsidiaries invited to a company BBQ. Everyone involved benefited from networking between companies and team building within departments at the event.

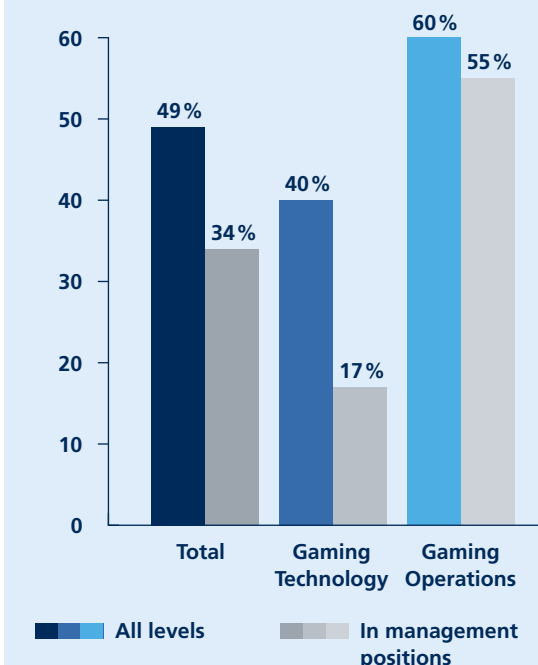
The LÖWEN-Group began its health management plan in 2015. It includes a team founded within the company that focuses on supporting measures for maintaining health. Last year, the company introduced a professional counseling service for employees in difficult situations, similar to the NOVOHelp counseling service.

NOVOMATIC Italia hosted the second NOVOMATIC Olympic Games, a clear win for employee health. More than 500 employees took part. They played soccer, volleyball, foosball, bowling, and other sports.

Employee Diversity & Anti-discrimination

Respectful social interaction, as well as equality between men and women, has gained a great deal of attention recently, in particular as part of the worldwide #metoo movement. For years, the NOVOMATIC Code of Conduct has clearly stated that discrimination towards employees or customers has no place within the company. Every employee at NOVOMATIC has access to the same working conditions and rights within the company, independent of their gender, ethnicity, age, disability, religion, political beliefs, and sexual orientation.

Women in the workplace in 2017



Represents the percentage of women working in management positions (recorded for the first time in 2017).

✓ GRI 405-1

Equality

In recognition of the particular importance of equality, and in order to prevent discrimination, last year the Group introduced the Equal Opportunities Policy. The goal of this guideline is to guarantee that no-one is forced to accept unequal treatment, discrimination, or lack of opportunity caused by their gender, age, ethnicity, nationality, disability, or sexual orientation.

The issue of equal opportunities and the new guidelines were discussed extensively as part of the annual meeting of Group Human Resources officers. The guideline, and the subject of equal opportunities in general, are always covered at the NOVOMATIC Welcome Days, the event attended by all new employees.

The team responsible for implementation of the guideline is led by the Director of Group Human Resources. In the event that employees experience discrimination, or notice that a co-worker is subjected to discrimination, they are able to inform the company via an e-mail address set up specifically for that purpose. Quite apart from that, any violation of the law, of the Code of Conduct, or of human rights in general can be reported at the whistleblowing e-mail hotline.

Equal Opportunities E-Mail:
equalopportunities@novomatic.com

Equal Opportunities Policy contents

- Responsibilities for implementing the policy
- Legal requirements
- Equal opportunities when selecting and hiring
- Monitoring policy implementation
- Dealing with complaints

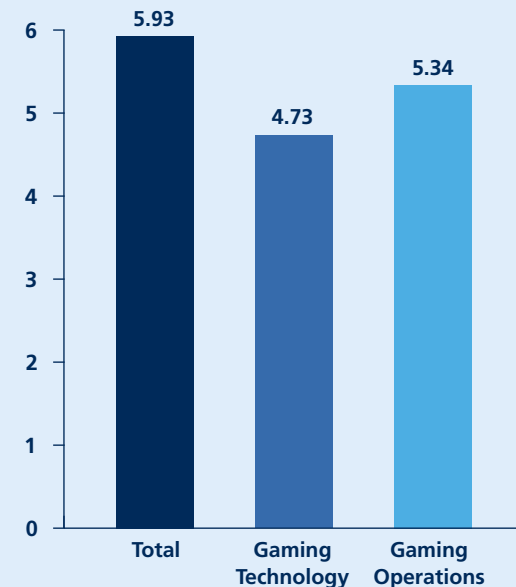
Employer of Young and Old

Diversity at NOVOMATIC is not limited to geographical and cultural diversity, but also includes cooperation across the generations. From 2016 onwards, the NAG and NGI in Austria have been the proud recipients of the NESTOR^{GOLD} seal of quality. This award recognizes activities designed to create a workplace that is suitable for all employees, regardless of age. The measures for receiving and maintaining the certificate include, among other things, NOVOTalk, a guideline for performance reviews, tailored e-learning education and training measures, allowing students to carry out mandatory internships at NOVOMATIC, introducing a partial retirement model, creating the NOVOSilver Family pensioners network, and more.

Last year, the NOVOSilver Family added a new dimension. The pensioners network is designed to help maintain contact with retired employees via regular meetings and activities. In addition to an excursion to the newly opened ADMIRAL Arena Prater sports bar in Vienna, the group also visited the Hotel ADMIRAL Kurpark in Baden, Austria. In 2018, the plan is to implement the project "NOVOSilver Pool". The project allows retired employees to lend their expertise to the company, and thus remain in contact with their former co-workers.

Many company subsidiaries offer transition phases between full-time employment and retirement. In most cases, this is done by gradually reducing the number of working hours.

Tenure in years 2017



This is the average number of years working with the company per employee.



5. NOVOSilver Family meeting
NOVOSilver Family Coordinator Mrs. Christine Neiss
with participating pensioners

Innovation

In addition to its high quality products and services, a great deal of NOVOMATIC's success is based on employee innovation. As one of the top international gaming technology companies, it is crucial that NOVOMATIC not only recognizes trends early on, but also triggers and drives new trends in order to maintain a strategic position within the market. The large majority of company innovation is produced within the research and development department. Ownership of more than 4,400 intellectual property rights is proof that the company is extremely innovative.

Digital Transformation

NOVOMATIC is committed to partnerships in the areas of technology and innovation. One such project, with multiple points of contact, is "Enterprise 4.0". For this project, eleven leading companies from Austrian industry work together with universities and colleges on specific digital transformation use cases. As part of this project, NGI worked together with a student team from the Vienna University of Economics and Business and the St. Pölten University of Applied Science. Members of the project developed a prototype app for supporting service work based on digital data. This project improves and digitalizes maintenance processes. The project introduced the issues of digitalization to employees and allowed them to gain new knowledge and skills.

The second Enterprise 4.0 conference was hosted by NOVOMATIC at the Novomatic Forum in 2017. The core message was simple: digitalization requires new skills and therefore creates new job profiles. Each Enterprise 4.0 company had an information booth to display their impressive new technologies. NOVOMATIC presented its innovative product technologies as well as a few new features, including those which will be used to inspire applicants at career fairs. A highlight are the virtual reality glasses that offer an exclusive glimpse into the world of NOVOMATIC by providing a virtual tour of the company headquarters.

Virtual Tour:
www.novomatic.com/360Tour/NOVOMATIC-Headquarter

Enterprise 4.0: www.ecoplus.at/interessiert-an/cluster-koooperationen/mechatronik-cluster/projekt-enterprise-40

Supporting Innovation

NOVOMATIC Lotteries Solutions GmbH (NLS), a NOVOMATIC subsidiary, is dedicated to supporting employee innovation. Its "Heavy Mental – Passion for Innovation" program is in its eighth year. The program allows all employees located in Iceland, Serbia, Spain, and Austria to develop new ideas for products and services. Teams made up of members from various different departments work together over 24 hours to come up with a new idea. The title of the program in 2017 was "Passion for Innovation". The results and ideas influence product road maps and improve processes. The event is also a great way to network and get to know new employees.



Career fair: Virtual reality glasses for taking a tour of the NOVOMATIC headquarter.



Logo Heavy Mental Program NLS



Activity Summary



Commitment on Responsibility

- “The company minimizes its environmental footprint through efficient handling of resources and energy, as well as by reducing the waste and emissions that it produces.”
- “The company strives to make positive contributions to environmental protection using production and operational measures.”



2017 Highlights

- Development and introduction of new environmental indicators within the Group
- Recording of ISO 14001 environmental management certification within the Group
- First electric car in the LÖWEN-Group fleet (Germany)
- Move into the Crown Technologies service center, which has a net zero carbon footprint (Germany)
- Use of solar energy on parking spaces at NOVOMATIC Gaming Spain S.A. (Spain)



Next Steps

- Exchange of good practice examples for environmental protection between subsidiaries
- Development of Group-wide environmental protection goals
- Improvement of data quality for recorded environmental indicators
- Modernization of lighting in Spielbank Berlin gaming facilities (Germany)
- Switch to more environmentally friendly leasing vehicles at NOVOMATIC Italia (Italy)
- Installation of a photovoltaic system at the Gran Casino Aljarafe in Sevilla (Spain)

Going Green

When manufacturing products and in the operation, NOVOMATIC is responsible for making efficient use of resources as well as minimizing emissions and waste.

The figures and graphics presented in this chapter apply, if no indication is given otherwise, for all major companies (core companies) belonging to the NOVOMATIC AG Group. You can find a summary of the companies on page 48 of this report.

Summary of Key Indicators

	Total	Gaming Technology	Gaming Operations	Goal
Energy consumption in MWh	165,948	58,963	106,985	Reduction
CO ₂ emissions in tons	46,166	15,161	31,004	Reduction
Water consumption in m ³	120,049	41,251	78,798	Reduction
Waste in tons	3,160	2,982	178	Reduction

Energy consumption in MWh includes energy from electricity, natural gas, fuel for transport, heating oil, and self-generated energy (photovoltaics).
CO₂ emissions are compiled from CO₂ equivalents in direct emissions caused by use of fuel, and indirect emissions caused by energy consumption and air travel.
Water consumption is measured from water used for cleaning, hygiene, and operations.
Waste consists of non-hazardous and hazardous waste.

NOVOMATIC is one of the world's largest gaming technology producers. Each year, more than 60,000 gaming terminals are produced. At the Austrian production location in Gumpoldskirchen, almost all relevant manufacturing steps are carried out in-house. An internal joinery, printing shop, metal working shop, plastics manufacture, circuit board assembly, as well as internal assembly and shipping logistics allow for vertical integration of more than 90 percent, unique within the industry.

During manufacture, NOVOMATIC makes use of a variety of resources from raw materials and primary products to electrical parts and technological components. Logistics is run in part using company-owned trucks, and NOVOMATIC's service technicians make use of company-owned cars. The company uses resources such as electricity, water, heat, and vehicle fuel to run production and logistics. Waste and waste water have the largest environmental effect in terms of production, as well as direct and indirect greenhouse gas

emissions caused by energy consumption and the burning of fuels.

 Information on the company's gaming-products:
www.novomatic.com/en/products/gaming/games

 Information on media technology solutions:
www.novomatic-mt.com

In addition to the production of high-tech gaming equipment, NOVOMATIC also operates electronic casinos, land based casinos, and sports betting facilities, and offers comprehensive solutions in the areas of lottery, sports betting, and online, mobile, and social gaming. Globally, NOVOMATIC runs more than 2,100 gaming facilities in more than 50 countries. These includes, among others, the casinos in Spain, Macedonia, Croatia, as well as Spielbank Berlin, the casino with the largest turnover in Germany. In terms of gaming operations, the largest environmental effect comes from

electricity consumption used to run gaming and betting terminals, lighting, heating, and air conditioning. Compared to production, water consumption and waste play a much smaller role. The use of vehicles by service technicians has more impact, as this leads to emissions from fuel consumption.

 Information on lottery system solutions:
www.novomaticls.com

 Information on interactive gaming products:
www.greentube.com

 Information on sports betting solutions:
www.novomatic-sbs.com

NOVOMATIC is aware of its ecological footprint, and the associated responsibility to ensure an efficient use of resources and a reduction in emissions. Implementation of environmental management and measures for reducing the ecological footprint are carried out in every Group company based on local requirements. For example, Group companies engaged in manufacturing have environmental officers that define necessary measures for operational environmental protection. Several companies are certified in accordance with the environmental management norm ISO 14001. As part of this certification, and as part of requirements from the European Energy Efficiency Directive, concrete goals are set and implementation is checked by external authorities. In the subsidiaries responsible for gaming operations, environmental management is sometimes carried out by property management. This is because most buildings containing gaming operations are not owned by NOVOMATIC or its subsidiaries.

Degree of certification in accordance with environmental management standard ISO 14001

	Gaming Technology	Gaming Operations
ISO 14001 certification	33 %	13 %
The certification was granted in 2017 or earlier.		

In order to record the extent of the ecological footprint and the measures implemented against it, NOVOMATIC recorded environmental key figures in its newly created CR Indicator system in 2017. The core companies recorded the data for the first time last year using a new online data tool. Good practice examples on new and successful environmental measures are increasingly shared between the companies. In the future, the company intends to define Group-wide goals for various environmental concerns.

Starting in 2017, Group CR Risk Management also includes environmental risks. These risks encompass, for example, risk of fire damage, violation of statutory environmental regulations, as well as environmental damage caused, for example, by emissions, pollution, and waste. Measures in these areas are designed to minimize these risks as much as possible. The Group Internal Audit & Risk Management Department monitors compliance with external and internal guidelines.

The following sections describe the highlights of the company's activities over the last year. These are just a few examples of the numerous measures taken across the entire NOVOMATIC Group.  GRI 103-2

Energy & Emissions

Reduction of energy consumption and the associated CO₂ emissions is increasingly important in light of climate change. The gaming industry is not subject to the same challenges as more energy intensive industries, but there is still a great deal of energy consumed by manufacturing and in particular by gaming operations. NOVOMATIC is determined to continue to reduce this CO₂ footprint in the future.

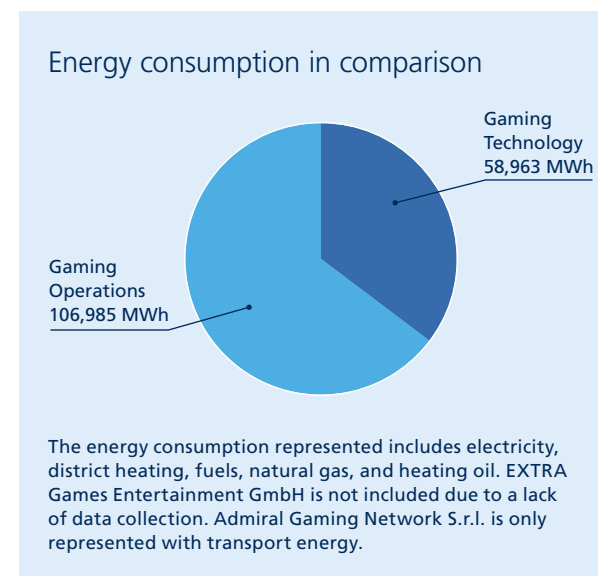
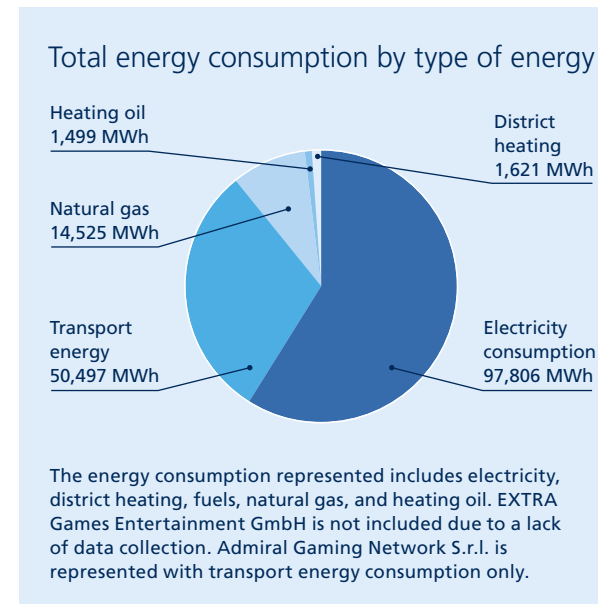
Energy Consumption

During production of gaming devices, energy is required in the form of electricity for running machines, lighting, heating, air conditioning, and use of district heating. The majority of NOVOMATIC's electricity consumption, however, comes from gaming facilities which run gaming and betting terminals, as well as other electronic devices. A smaller amount of energy is used for lighting, heating, and air conditioning of the space.

Emissions

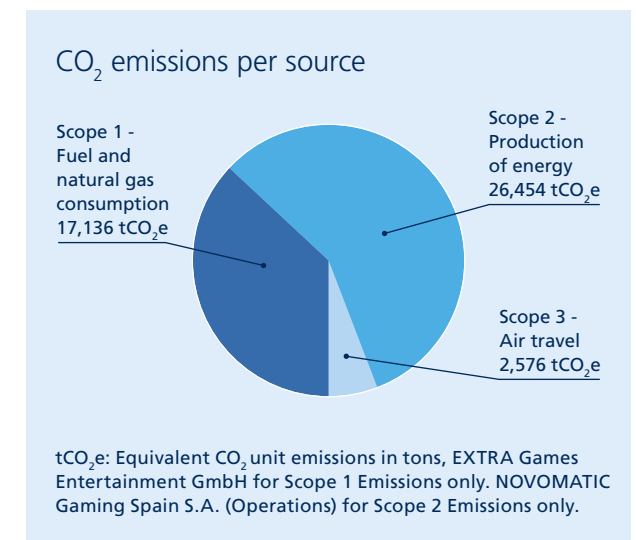
NOVOMATIC is responsible for directly produced CO₂ emissions caused by fuel consumption (Scope 1 Emissions). Consumption of electricity and district heating is responsible for indirect CO₂ emissions from energy providers (Scope 2 Emissions). A small portion of the emissions is caused by air travel required for business (Scope 3 Emissions). In 2017, the total CO₂ footprint came to around 46,000 tons of CO₂ equivalent. The large majority of this was caused by emissions from electricity consumption in gaming facilities and emissions from the vehicle fleet.

The following graph shows the CO₂ emissions caused by the company, comparing production locations with gaming facilities.

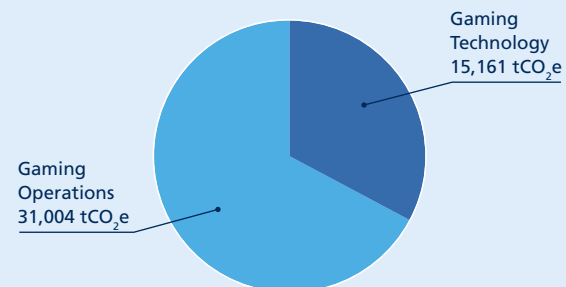


NOVOMATIC does not just use electricity and heat for business, they also use fuel. This includes the gas and diesel used for the vehicle fleet as well as heating oil used in a few facilities.

Some subsidiaries have a vehicle fleet consisting of several hundred vehicles required for technical maintenance work. The core companies use around 51,000 MWh energy for vehicle fleet fuel, 14,500 MWh for natural gas, and a very low amount for heating oil.



CO₂ emission in comparison



tCO₂e: Equivalent CO₂ unit emissions in tons
EXTRA Games Entertainment GmbH for Scope 1 Emissions only. NOVOMATIC Gaming Spain S.A. (Operations) for Scope 2 Emissions only.

The goal for 2018 is to identify potential methods for reducing emissions and exchange good practice examples for doing so between the company's subsidiaries.

The German subsidiary Crown Technologies GmbH moved, together with their 90 employees, into a new service center in Bingen at the end of 2017. The service center has a net zero carbon footprint. This is achieved via a heating and cooling system with heat recovery, using geothermal energy, and compensating for energy consumption with a photovoltaic system containing around 230 modules. Combined with the photovoltaic system already in place at the Bingen location, the company is able to reduce CO₂ emissions by around 83 tons per year.

The LÖWEN-Group in Germany received a certificate in accordance with the energy management norm ISO 50001:2011. To reduce vehicle fleet emissions, electric mobility was introduced at the Bingen location. The location now has a charging station for electric vehicles and has purchased an electric car for the fleet. This will introduce employees to electric mobility and provide an initial experience with the new technology. ✓ GRI 302-1, 305-1, 305-2, 305-3



Introducing Electric Mobility to the LÖWEN-Group

Resource Conservation

In terms of NOVOMATIC business activities, it is production of gaming technology, in particular, that consumes various resources. This includes plastics, metals, electronic components, screens, cables, paints and varnish, up to and including timber products and various primary products. Due to high levels of vertical integration and the use of numerous different commodities, materials, and primary products in production, the conservation of resources is more than just about complying with local environmental laws, but is in fact a significant cost factor across all measures.

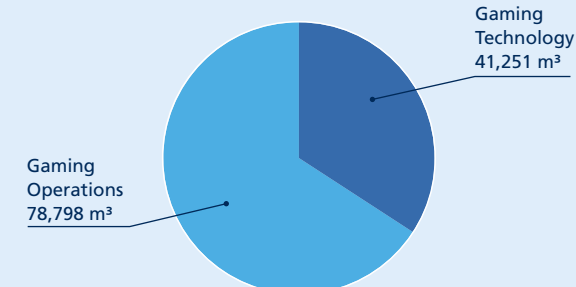
Resource management is strictly regulated in all production locations and adjusted to match local requirements and conditions. Certification in accordance with the ISO 14001 norm guarantees continuing development of resource conservation. Some of the company's locations have been certified according to this standard. NOVOMATIC Italia and NOVOMATIC Gaming Industries GmbH in Austria were certified in 2017 in accordance with the new ISO 14001:2015 standard.

Water

Water is used as a resource both for production and during operations for cleaning and sanitary applications. In 2017, NOVOMATIC expanded records of water consumption to include all core companies. Last year, this amounted to more than 120,000 m³ of water. Results show that the largest portion of water is consumed as part of gaming operations.

✓ GRI 303-1

Water consumption in comparison

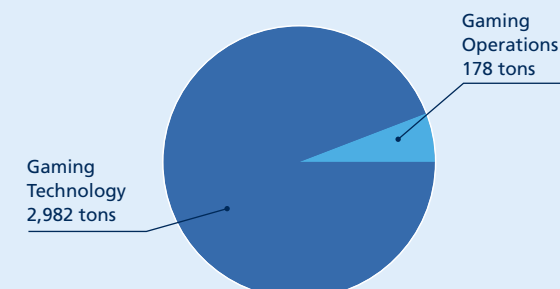


m³: One cubic meter of water is equivalent to 1,000 liters
EXTRA Games Entertainment GmbH, Gamestec Leisure Ltd., NOVOMATIC Gaming Spain S.A. (Operations), HTM Hotel und Tourismus Management GmbH, Crown Technologies GmbH not included due to missing data.

Waste

Production, in particular, produces hazardous and non-hazardous waste. The total Group waste for last year was around 3,100 tons. The goal is to use resources as efficiently as possible to minimize the production of waste. Waste that cannot be avoided is separated into various categories, collected, and recycled. Waste that can be recycled includes, among other materials, polystyrene, perspex, cartons, scrap metal, cables, circuit boards, electronic components, used glass, and toner. In addition to environmental protection, reduction of waste results in fewer costs for waste removal.

Waste in comparison



The values listed include non-hazardous and hazardous waste. Greentube Malta Ltd., EXTRA Games Entertainment GmbH, Luxury Leisure Ultd., Astra Games Ltd., NOVOMATIC Gaming Spain S.A. (Operations), NOVOMATIC Gaming Spain S.A. (Technology), HTM Hotel und Tourismus Management GmbH, NOVOMATIC Lottery Solutions GmbH not included, as data collection was not possible.

In 2017, at NOVOMATIC's Gumpoldskirchen location, more than EUR 70,000 in removal costs were saved by separating materials. ✓ GRI 306-2

End of Product Life

NOVOMATIC does not create single-use products. In the event of technical improvements, or when required by new statutory regulations, some of NOVOMATIC's machines are updated to meet the latest technical standards. This is known as refurbishment. After an in-depth technical inspection, various components, from monitors to circuit boards, can be switched out in working machines. Even without a specific customer request, functioning components from old machines are removed and refurbished. This means that prepared components are always available. Furthermore, depending on customer requirements, entire used devices can be repaired.

Due to requirements that change from year to year based on customer requests and country-specific regulations, it is not possible to determine an exact refurbishment rate. When it makes sense to do so, and is requested by the customer, NOVOMATIC it's their best to ensure high recyclability for their products.

Last year, 10,000 gaming devices were refurbished at NOVOMATIC Gaming Industries GmbH (NGI) in Gumpoldskirchen. As such, reuseability as compared to the total production numbers was 38 percent for the year. This includes exchange of a total of 4,000 bill validators, 2,000 monitors, and 1,000 ticket printers.

The LÖWEN-Group in Germany was able to reach a refurbishment rate of 40 percent as compared to new production in 2017.

Crown Technologies GmbH, also German, has a rate of over 25 percent. More than 6,000 monitors and 11,000 CPU modules were replaced.

At NOVOMATIC Gaming Spain S.A., the percentage of recyclable devices as compared to production as a whole is approximately 18 percent.

All other devices that cannot be used for refurbishment are properly disposed of as waste by either NOVOMATIC or the customer. ✓ GRI 303-3



Activity Summary



Commitment on Responsibility

- “By supporting selected initiatives, the company wants to contribute to sustainable social development.”
- “The company is an active and responsible citizen within society, and invests in the communities in which it operates.”
- “The company strives to make an impact through sponsoring activities, donations, and volunteering activities.”



2017 Highlights

- Launch of a new NOVOTeam corporate volunteering initiative (Austria)
- Sponsorship of the newly opened Weltmuseum in Vienna (Austria)
- Host of the Vienna Economic Forum at the Novomatic Forum (Austria)
- Cooperation with and sponsorship of the Diversitycamp 2017 (Austria)
- Large donation to the “Licht ins Dunkel” initiative (Austria)
- Partnership for youth development with the Vienna State Opera and the Ballet Academy (Austria)
- Provision of rooms for numerous events at the Novomatic Forum (Austria)
- Sponsorship of the “Prom of Sports” hosted by Deutsche Sportshilfe (Germany)
- Sponsorship of the International Stadium Festival ISTAF, Berlin (Germany)



Next Steps

- Holding of the second Corporate Volunteering Day in Austria
- Expansion of the “NOVOTeam” initiative to include other subsidiaries
- Creation of sponsorship and donation guidelines for the NOVOMATIC AG Group
- Increased exchange of knowledge and experience between countries in this area

Active in the Community

NOVOMATIC is an active and responsible participant in the community. The company strives to contribute positively through sponsoring activities, donations and volunteering work



Mr. Stefan Krenn, LL.M.
General Secretary of NOVOMATIC AG

“As a leading European company, NOVOMATIC has a great deal of social responsibility, which is why the company supports selected sporting, cultural, social, and educational institutions and projects. By doing so, the company wants to contribute to positive social development and bring added value to the community in which we live and work.”

NOVOMATIC fulfills its social responsibility when it comes to its core business. This includes, among other things, player protection, responsible advertising, measures for reducing its environmental footprint, and ensuring a healthy and safe working environment. Beyond that, however, the company is committed to contributing positively to society and charitable initiatives. This is accomplished by getting involved in sponsoring activities, making donations, and performing volunteer work. In order to create a close relationship between the company's volunteering, sponsoring, and donation activities and its company values, strategic CR orientation, and the needs of external stakeholders, the company has revised its sponsoring activities and focus of donations for 2018. In doing so, the company considered feedback from the stakeholder dialog as well as an evaluation of existing sponsoring and donation projects. The new direction honors the company's strategic orientation and the principles of its new corporate responsibility strategy.

The new focus, and the award criteria for sponsoring activities and donations, provide a clear framework for making deci-

sions and taking action. In this way, external stakeholders have access to a transparent guide regarding funding of initiatives, donation requests, or cooperation on volunteer projects. The activities concerned are coordinated jointly between Group Marketing and Group Corporate Responsibility & Sustainability.

The following sections describe the highlights of the company's activities over the last year. These are just a few examples of the numerous activities pursued across the entire NOVOMATIC AG Group.

Sponsoring Activities & Partnerships

At NOVOMATIC, sponsoring activities are a material aspect of engaging in valuable partnerships with initiatives and partners worthy of support.

In all its sponsoring activities, NOVOMATIC puts its focus squarely on long-term relationships with sponsoring partners and transparency in terms of implementation. This ensures that the positive effect of the support is sustainable.

In Austria, the Novomatic Forum has particular significance here, offering space for events, workshops, and cultural entertainment. Many cooperation partners receive support by being able to use the Novomatic Forum facilities. Once again in the 2017 fiscal year, the Art Nouveau building in front of the Secession building served, for example, as the stage for the Diversitycamp, a renowned Austrian event dedicated to exploring issues of diversity and equal opportunities.

Novomatic Forum: www.novomaticforum.com

Diversity Camp: www.diversitycamp.at

“Sponsoring activities relate to the planning, implementation, and monitoring of all activities connected to the provision of funds, equipment, services, or expertise by companies and institutions to support individuals and/or organizations in the areas of sport, culture, social issues, environment, and/or media in accordance with contractual regulations for services provided by the sponsor and those provided by the sponsored party in order to achieve combined marketing and corporate communication goals.”

 Gabler Wirtschaftslexikon:
www.wirtschaftslexikon.gabler.de

Sponsoring focus

- Prevention & player protection
- Strengthening the economy
- Sports & competition
- Arts & culture

Criteria for selecting who to sponsor

- International and regional connection
- Promotion of education and talent
- Long-term cooperation before short-term activism

As NOVOMATIC is always receiving requests, the company adheres strictly to these main focal areas. Each request is treated equally, and extensively checked to see if it is a worthy cause before an answer is sent.  GRI 103-2

Below are a few examples of the result of these activities.

Prevention & Player Protection

Player protection is also an important aspect when it comes to sponsoring activities. With long-term partnerships, the NOVOMATIC Group supports new scientific knowledge and improvements to treatment offers. This is made possible, for example, by working together with addiction prevention centers and research institutes. In these cases, the company supports treatment of those with addictive behavior, and the development of effective addiction prevention measures.

NOVOMATIC is actively engaged in the international discussion regarding player protection and gaming addiction prevention. This happens largely through partnerships with research institutes, addiction prevention and treatment facilities. One example is the long-standing cooperation of the Austrian subsidiary ADMIRAL Casinos & Entertainment AG (ACE) with the Anton Proksch Institut, one of the leading addiction clinics in Europe. Working closely together, the partners offer a five-day training program on gaming addiction prevention for employees each year. The focus is on recognizing problematic behavior and conducting discussions to inform customers. It covers the topics of guest communication, “Train the Trainer”, gaming addiction prevention, data protection, and legal basics in detail.

Another measure is active company participation in industry events and exchanges on improving player protection measures. NOVOMATIC is a member of the European Association for the Study of Gambling (EASG). The conference held by the EASG, the European Conference on Gambling Studies and Policy Issues, has been supported by NOVOMATIC for years. Company representatives are active participants in the discussion at this global conference on player protection.

 European Association for the Study of Gambling (EASG):
www.easg.org

Strengthening the Economy

As an internationally active company and a flagship Austrian enterprise, NOVOMATIC is committed to an open exchange between industry and the economy, which is why the company has long supported the Vienna Economic Forum (VEF). The VEF strengthens economic cooperation, in particular in the central, south, and south-east regions of Europe. It creates a strong network for economics and politics. The VEF event, “Vienna Future Dialog”, took place in Vienna on November 6, 2017, for the 14th time. High-ranking international representatives from the world of economics and politics came together in the Novomatic Forum to discuss specific projects for regional economic development. They also discussed the role of economic cooperation in an era of global digitalization. Harald Neumann, NOVOMATIC CEO and long-time member of the VEF Executive Board, became vice-president of the Forum in February of 2017.

 Vienna Economic Forum:
www.vienna-economic-forum.com



Prom of Sports 2017



Vienna Economic Forum 2017

Sports & Competition

Competition, and dealing with risks, are an important part of the gaming industry. NOVOMATIC's history, in particular, offers firm proof that consistency, endurance, and determination are incredibly important. These traits are reflected in the sporting and competitive initiatives and partnerships that NOVOMATIC supports. For many years, therefore, the company has partnered with Austrian sports federations and clubs, both in competitive and recreational sport.

One long-term traditional partnership is that between NOVOMATIC and the Deutsche Sporthilfe. Once again, in 2017, NOVOMATIC supported the Prom of Sports, which took place on February 3 in Wiesbaden, Germany, under the motto “50 Years of Future”. Each year, around 1,800 invited guests

from the world of sports, economics, politics, culture and media meet at this prestigious event.

 Prom of Sports: www.sporthilfe.de/events/ball-des-sports

Another yearly highlight is the company's support for the International Stadium Festival Berlin (ISTAF). This is the oldest and most-watched track-and-field event in the world. Together with Spielbank Berlin, NOVOMATIC has been providing support for the event for almost ten years. Even the founding of Spielbank Berlin itself was closely connected to sports. Gustav Jaenecke, one of Germany's most successful ice-hockey players to date, founded the casino in what was then West Berlin in 1975. On August 27, 2017, more than 40,000 track-and-field fans gathered in Berlin's Olympic Stadium for the 76th ISTAF, where they were treated to incredible sporting performances, such as a world record women's 600-meter run. The company also supports the ISTAF indoor event.

 ISTAF 2017: www.istaf.de



International Stadium Festival Berlin 2017

NOVOMATIC supports many other sporting partners, including Wolfgang Schattauer, the Austrian hand cyclist, and the Vienna Night Run. The company also actively supports employee participation in sporting events, as part of health protection measures, for example participation in the Wings for Life World Run, the Austrian Women's Run, the Vienna City Marathon, and other regional running events.

The company's subsidiary ADMIRAL Sportwetten GmbH (ASW) is the main partner for the Austrian women's national soccer team and the national basketball league (OEBV). ASW is also the official betting and premium partner for the spusu Handball Liga Austria and the Austrian Handball Association.

LÖWEN Entertainment GmbH (LÖWEN Entertainment), together with ADMIRAL, became the main sponsor of the Rhein-Neckar Löwen, the current German handball champions, in 2016. In accordance with the motto "Fair Play in Sport and Game" the Rhein-Neckar Löwen and LÖWEN Entertainment have enjoyed a great deal of success together. NOVOMATIC Italia supported the Rimini marathon in the previous fiscal year. With 10,000 participants, it is the largest running event in the city. Event participation was particularly

exciting for company employees who achieved personal bests during the run. The event was carried out fully under the NOVOMATIC Italia brand for the first time.

Art & Culture

When supporting art and culture, NOVOMATIC focuses on support for regional anchoring and international networking.

The reopening of the Weltmuseum in Vienna was one of Austria's cultural highlights last year. This museum is part of the Art History Museum and is a place that uniquely connects people from all cultures with one another. NOVOMATIC and the Weltmuseum Vienna unify internationality and diversity in particular, which is why NOVOMATIC entered into a long-term partnership with the museum. This began with the ceremonial inauguration in the fall of 2017, which opened the collection of the Weltmuseum to the public after three years of renovation work. Not only that, NOVOMATIC will be the "Museomanie" hall gallery-partner for 15 years.

 Weltmuseum: www.weltmuseumwien.at/en



Rimini-Marathon



Weltmuseum Wien

The company also supports many projects at a regional level. One long-term cultural partnership, the Lower Austrian Cultural Prize, goes back to 2009. In November 2017, together with NOVOMATIC, the prize honored a project by jazz lover Hannes Fröhlich.

 Lower Austrian Cultural Prize: www.noel.gv.at/noe/Kunst-Kultur/Kulturpreise.html

NOVOMATIC is proud of its long-term partnerships, which include a cooperation with the Vienna State Opera for youth development within the framework of a scholarship program, support for the Ballet Academy as well as a reading partnership with the initiative "Eine Stadt ein Buch" (One city one book) in Vienna. Other artistic and cultural collaborations exist with, for example, regional cultural initiatives such as the Lower Austrian Tonkünstler orchestra, the Haydn Region in Lower Austria, the Bühne Baden theater, the Tschauner Bühne theater in Vienna, the Werner Berg Museum in Carinthia, the Roman City of Carnuntum, and the Association for Promoting Journalism in Lower Austria.

At a national level, NOVOMATIC was one of the main sponsors for the exhibition in the Austrian Pavilion at the 57th Venice Biennale. The Walter Koschatzky art prize was also promoted at the national level.

NOVOMATIC Gaming Spain S.A. took over the sponsorship of the Spanish Responsible Gaming-Forum. The Spanish ADMIRAL Casinos S.A. supported a blind runner in preparation for the International Association of Athletics Federations (IAAF) World Championship in London.

 IAAF World Championship: www.iaaf.org

Last year, Spielbank Berlin supported the Classic Open Air, a festival rich in tradition held at Gendarmenmarkt square each

year in Berlin, and was also involved in the Opera gala benefiting the Deutsche AIDS-Stiftung (German AIDS Foundation).

Donations & Volunteering

NOVOMATIC also fulfills its social commitment by getting involved with charitable causes through frequent donations. The company ensures that all donations and grants are used as intended, and that the funds it donates have the greatest possible impact. Compared with sponsoring activities, donations at NOVOMATIC make up a smaller percentage of the money spent, but often represent crucial support for the recipients.

"Donations are voluntary contributions provided without any services in return, but usually made with specific purpose in mind. The person or company donating has no economic expectations vis-à-vis the person or charity receiving the donation. There is no exchange of services between the person or company donating and the recipient of the donation."

 Gabler Wirtschaftslexikon: www.wirtschaftslexikon.gabler.de

Donation focus

- Urgent help
- Help for self help
- Regionality

Criteria for selecting where to donate

- Certification with a donation seal of quality
- Transparency concerning the use of funds
- Long-term nature and scope of the effect

As NOVOMATIC receives many requests for support, the company focuses on these issues and criteria. Each request is treated equally and examined to determine whether a donation is warranted.  GRI 103-2

Below is a list of some examples of the company's activities.

Donations

NOVOMATIC and its subsidiaries make numerous donations each year. As a general rule, the donations go towards local organizations or current issues.

Each year, NOVOMATIC provides significant support for the Austrian initiative “Licht ins Dunkel”. This is one of the most well-known Austrian fundraising campaigns, which provides quick and unbureaucratic help for families in need. Other donations were made last year to the Austrian disaster relief organization “Hilfe im eigenen Land”, the CliniClowns, and the Make-A-Wish Foundation.

As part of a visit from the current, two time world-champion darts player, Michael van Gerwen or “Mighty Mike”, to the ADMIRAL Arena Prater in Vienna, well-known names from business, politics, and the media competed against Mighty Mike in a charity darts tournament. Donations were collected for “PULS – Verein zur Bekämpfung des plötzlichen Herztodes”, a charity dedicated to providing education on first aid

in the event of a heart attack. NOVOMATIC made a significant donation to the initiative.

Greentube Malta made a large donation to the Malta Community Chest Foundation, which helps patients undergoing cancer treatment.

NOVOMATIC Italia supported an initiative that gives blind children a chance to learn how to sail. Specifically, it made a donation for theoretical and practical sailing courses.

Spielbank Berlin made donations to charitable projects. These included the VITA association for assistance dogs, the Deutsche Muskelstiftung (a charity for muscular diseases), the children's hospice Kinder-Hospiz Sternebrücke, the Laughing Hearts, the One Fine Day e.V. association, the German Tinnitus Foundation and the Björn Schulz Foundation.

NOVOMATIC UK provided funds for a young athlete to attend the Olympic games, and donated money for children's education in Africa, among other initiatives.



Providing a donation to “PULS – Verein zur Bekämpfung des plötzlichen Herztodes” at the ADMIRAL Arena Prater (from the left): Mr. Harald Neumann, NOVOMATIC AG CEO; Prof. Harry Kopietz, President of PULS; Mr. Michael van Gerwen, two-time darts world champion



Participants in the first NOVOTeam-Volunteer Day 2017
Mr. Harald Neumann, NOVOMATIC AG CEO; Dr. Klaus Niedl, Global HR Director and
Mr. Philipp Gaggl, Group Corporate Responsibility & Sustainability with the volunteer day participants

Volunteering

NOVOTeam
ZUSAMMEN SIND WIR STARK

A new type of social commitment at NOVOMATIC is the donation of time and resources, instead of money. Corporate Volunteering is an initiative through which the company supports socially beneficial projects by making use of the energy, expertise, and time of its employees.

On May 17, 2017, NOVOMATIC launched the new volunteer initiative, NOVOTeam. Around 30 employees from various Austrian NOVOMATIC companies took part in three charitable projects. The NOVOTeam, the new volunteer project from NOVOMATIC, was thus started. The goal is to benefit society by donating time and resources within the regions in which NOVOMATIC works. This also reflects the excellent social commitment displayed by the company's employees.

“Volunteer work is understood to mean donation of time and skills in order to provide services or complete tasks without expecting any direct financial compensation. Volunteer work is a type of donation.”

 Gabler Wirtschaftslexikon:
www.wirtschaftslexikon.gabler.de

The LÖWEN-Group in Germany also engage in social commitment through volunteer work. During the 2017 holiday season, the social project “Die LÖWEN-Gruppe erfüllt Kinderwünsche” (LÖWEN-Group grants wishes for children) was launched. As part of the project, trainees fulfilled the Christmas wishes of children and young adults coming from child and youth welfare institutions located in Bingen, Pfullendorf, and Rellingen. In total, 100 children received gifts as part of “Die LÖWEN-Gruppe erfüllt Kinderwünsche” initiative.

Audit Report

Report on the independent audit of selected non-financial performance indicators or topics and disclosure of the information required by Sec. 267a para. 6 of the Austrian Commercial Code (UGB) in conjunction with Sec. 267a paras. 2 to 5 of the Austrian Commercial Code in the consolidated non-financial report for 2017 of NOVOMATIC AG.*

Introduction

We conducted audit work to obtain limited assurance on the topics “Determining report content”, “Integrating sustainability issues into risk management” and “Responsible Gaming activities” as well as on the non-financial performance indicators “Total energy consumed in MWh (electricity, natural gas, district heating, self-generated energy)”, “Lost time injuries frequency rate (LTIFR)” and “Number of terminations by employees” in the 2017 consolidated non-financial report (hereinafter: “the report”). In addition, an audit was conducted to determine whether all the information required in Sec. 267a para. 6 of the Austrian Commercial Code (UGB) in conjunction with Sec. 267a paras. 2 to 5 of the Austrian Commercial Code (UGB) is disclosed in the report.

Responsibility of the legal Representative

The legal representatives of NOVOMATIC AG are responsible for the preparation of the report content in accordance with the reporting criteria and for the selection of the information to be reviewed. The reporting criteria include the reporting principles contained in the GRI Standards issued by the Global Sustainability Standards Board (GSSB) and the requirements of the report set out in Sec. 267a para. 6 of the Austrian Commercial Code (UGB) in conjunction with Sec. 267a paras. 2 to 5 of the Austrian Commercial Code (UGB).

This responsibility of the company’s legal representatives includes the selection and application of appropriate non-financial reporting methods as well as the making of assumptions and estimates in respect of individual non-financial disclosures that are appropriate in the circumstances. Furthermore, the legal representatives are responsible for the internal controls that they have identified as necessary to enable the preparation of a non-financial report that is free from material misstatement, whether intentional or unintentional.

Responsibility of the Auditor

It is our task, on the basis of the audit procedures performed by us, to issue an audit opinion with limited assurance on the topics of “Determining report content”, “Integrating sustainability issues into risk management” and “Responsible Gaming activities” as well as on the non-financial performance indicators “Total energy consumed in MWh (electricity, natural gas, district heating, self-generated energy)”, “Lost time injuries frequency rate (LTIFR)” and “Number of terminations by employees”, as well as whether all information required under Sec. 267a para. 6 of the Austrian Commercial Code (UGB) in conjunction with Sec. 267a paras. 2 to 5 of the Austrian Commercial Code (UGB) is included in the report.

We performed our audit procedures in accordance with the International Standard on Assurance Commitments ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB), to obtain limited audit assurance.

In accordance with this, we have to plan and carry out the test in such a way that we can state with a limited assurance that no facts have become known to us that cause us to reach the opinion that the topics of “Determining report content”, “Integrating sustainability issues into risk management” and “Responsible Gaming activities” as well as on the non-financial performance indicators “Total energy consumed in MWh (electricity, natural gas, district heating, self-generated energy)”, “Lost time injuries frequency rate (LTIFR)” and “Number of terminations by employees” have not been prepared in all material respects in accordance with the reporting criteria set out in the GRI standards, and that not all the information required under Sec. 267a para. 6 of the Austrian Commercial Code (UGB) in conjunction with Sec. 267a paras. 2 to 5 of the Austrian Commercial Code (UGB) is included. In an audit to achieve limited assurance, the audit proce-

dures performed are less extensive than those required to obtain adequate assurance, thus significantly reducing audit assurance. The choice of audit procedures is at the due discretion of the auditor. As part of our audit, we have performed the following audit procedures, among others, and other activities that are relevant to the audit to achieve limited assurance:

- Interviewing of the employees named by NOVOMATIC AG regarding the sustainability strategy, the sustainability principles and the sustainability management
- Interviewing of employees to assess data collection and processing methods, and internal controls
- Tour of a subsidiary location in Germany
- Reconciliation of the non-financial performance indicators shown in the report and included in the scope of the audit with the documents and files provided
- In addition, audit procedures were conducted to determine whether all the information required in Sec. 267a para. 6 of the Austrian Commercial Code (UGB) in conjunction with Sec. 267a paras. 2 to 5 of the Austrian Commercial Code (UGB) is disclosed in the consolidated non-financial report. A substantive audit of this information was not performed.

Summary Assessments

Based on our audit procedures, we have not become aware of any facts that lead us to assume that the topics of “Determining report content”, “Integrating sustainability issues into risk management” and “Responsible Gaming activities” as well as on the non-financial performance indicators “Total energy consumed in MWh (electricity, natural gas, district heating, self-generated energy)”, “Lost time injuries frequency rate (LTIFR)” and “Number of terminations by employees” have not been prepared in all material respects in accordance with the reporting criteria set out in the GRI standards.

Additional Information

Without limiting the result of our audit presented above, we hereby make the following recommendations to further develop the company’s sustainability management and sustainability reporting:

- Intensification of the stakeholder dialog and increased involvement of all relevant stakeholder groups
- Extension of the scope of the report regarding the subsidiaries included in the report

Restriction on use

Since our report is prepared exclusively on behalf of and in the interest of the client, it does not form the basis for any third-party trust in its content. Claims by third parties cannot therefore be derived from it.

Conditions of Contract

The “General Conditions of Contract for the Public Accounting Professions” in the version dated 21 February 2011 (AAB 2011), published by the Austrian Chamber of Public Accountants and Tax Advisors shall form the basis of this contract. Our liability is limited to willful intent and gross negligence in accordance with Section 8 AAB 2011. In cases of gross negligence, the maximum liability amount is limited to five times the fee received. This amount constitutes the maximum liability which can only be claimed once up to this maximum amount, even if there are several claimants or if several claims are asserted.

Vienna, April 25, 2018

Deloitte Audit Wirtschaftsprüfungs GmbH

Mr. Gerhard Marterbauer	Dr. Christoph Waldeck
Certified Public Accountant	Certified Public Accountant

*The German wording of the signed Audit Report, which refers to the German Version of the Report, is the only binding one. The English translation is not binding and shall not be used for the interpretation of the English Version of the Report

Notes

Corporate Responsibility

The following data provide comprehensive information on NOVOMATIC AG's non-financial performance.

Key Figures

This information meets requirements of the Austrian Sustainability and Diversity Improvement Act (NaDiVeG), and the information is based, where possible, on definitions from the Global Reporting Initiative (GRI) standards. Unless otherwise stated, all information and data refer to the 2017 fiscal year from January 1, 2017 to December 31, 2017. Figures are taken

from the cut-off date of December 31, 2017. Cells containing no values indicate that no data is available regarding the relevant figure for the last year, or that the value in question cannot be used. This scope includes all Group companies with majority share of NOVOMATIC AG's total revenue. The companies considered core Group companies are:

Country	Gaming Technology	Gaming Operations
Austria	NOVOMATIC Gaming Industries GmbH, NOVOMATIC AG (Headquarter), NOVOMATIC Lottery Solutions GmbH	ADMIRAL Casinos & Entertainment AG, Admiral Sportwetten GmbH, HTM Hotel und Tourismus Management GmbH, Greentube Internet Entertainment Solutions GmbH, Funstage GmbH
Germany	LÖWEN Entertainment GmbH (Bingen), Crown Technologies GmbH	EXTRA Games Entertainment GmbH, Spielbank Berlin Gustav Jaenecke GmbH & Co. KG (Berlin)
Italy	NOVOMATIC Italia S.p.A., NOVOMATIC Italia Services S.r.l.	Allstar S.r.l., Admiral Gaming Network S.r.l.
United Kingdom	Astra Games Ltd., Gamestec Leisure Ltd.	Luxury Leisure Ultd.
Spain	NOVOMATIC Gaming Spain S.A. (Technology)	NOVOMATIC Gaming Spain S.A. (Operations)
Malta	Greentube Malta Ltd.	

All key figures in the "Enjoy Working with Us" chapter, with the exception of the accident rate, also include the following companies:
Germany: BPA Freizeit- und Unterhaltungsbetriebe GmbH, Admiral Play GmbH
Italy: Admiral Games S.r.l., Electro System S.p.A., Allstar S.r.l., Admiral Entertainment S.r.l., Admiral Sport S.r.l., Casino Delle Alpi S.r.l., Novarmatic S.r.l., ALP S.r.l., Capecod Gaming S.r.l., Fec S.p.A.

Diversity within the executive body at NOVOMATIC AG / Always Compliant

	Executive Board	Supervisory Board
Women working for the company in %	0 %	60 %
Men and women over 50 years of age	80 %	40 %
Men and women between 30 and 50 years of age	20 %	60 %
Men and women under 30 years of age	0 %	0 %

The information refers to NOVOMATIC AG's executive body.

✓ GRI 405-1

Employees 2017/Enjoy Working with Us

Regions	Total	Gaming Technology	Gaming Operations
Austria	3,227	1,527	1,700
Germany	3,884	910	2,974
Italy	2,549	2,549	0
United Kingdom	2,821	898	1,923
Spain	1,116	1,116	0
Malta	39	39	0

The headcount is represented including those on parental leave.

✓ GRI 102-8

Accident rate LTIFR 2017/Enjoy Working with Us

Regions	Total	Gaming Technology	Gaming Operations
All countries	10.3	9.4	10.8
Austria	4.52	6	3.63
Germany	15.51	9.69	17.88
Italy	9.43	14.64	7.22
United Kingdom	9.49	10.88	7.27
Spain	14.89	8.08	17.11
Malta	0	0	–

The accident rate is the Lost Time Injury Frequency Rate (LTIFR), that is the number of accidents requiring notification per million work hours (first recorded Group-wide in 2017). Last year there were no accidents resulting in death.

✓ GRI 403-2

Staff turnover rate in % 2017/Enjoy Working with Us

Regions	Total	Gaming Technology	Gaming Operations
All countries	32 %	22 %	38 %
Austria	20 %	12 %	27 %
Germany	36 %	9 %	45 %
Italy	16 %	16 %	0 %
United Kingdom	57 %	26 %	36 %
Spain	53 %	53 %	0 %
Malta	–	–	–

The staff turnover rate includes all departures.

✓ GRI 401-1

New employees in 2017/Enjoy Working with Us

Regions	Total	Gaming Technology	Gaming Operations
All countries	4,370	2,136	2,234
Austria	692	260	432
Germany	1,231	145	1,086
Italy	581	581	0
United Kingdom	946	230	716
Spain	920	920	0
Malta	–	–	–

This includes all new hires in the period in question.

✓ GRI 401-1

Employee resignations /Enjoy Working with Us

Regions	Total	Gaming Technology	Gaming Operations
All countries	1,638	491	1,147
Austria	259	63	196
Germany	415	26	389
Italy	146	146	0
United Kingdom	727	165	562
Spain	91	91	0
Malta	–	–	–

This represents all resignations, including mutually agreed resignations, in which the initiative for the resignation came from the employee.

✓ GRI 401-1

Average number of hours for education and training per employee/Enjoy Working with Us

Regions	Total	Gaming Technology	Gaming Operations
All countries	10.5	5.7	17.0
Austria	14.2	16.8	11.9
Germany	19.8	5.3	24.3
Italy	3.7	3.7	0.0
United Kingdom	0.1	0.2	0.0
Spain	0.5	0.5	0.0
Malta	–	–	–

The United Kingdom includes training and further education hours from Astra Games Ltd.

✓ GRI 404-1

Energy consumption of the organization in MWh/Going Green

Regions	Total	Gaming Technology	Gaming Operations
All countries	165,948	58,963	106,985
Austria	63,535	24,539	38,996
Germany	22,097	9,783	12,314
Italy	29,585	5,063	24,522
United Kingdom	36,238	17,189	19,049
Spain	14,458	2,353	12,105
Malta	36	36	–

The energy consumption represented includes electricity, district heating, fuels, natural gas, and heating oil. EXTRA Games Entertainment GmbH is not included due to a lack of data. Admiral Gaming Network S.r.l. is only represented with transport energy.

✓ GRI 302-1

Energy consumption of organizations per type of energy in MWh/Going Green

	Total	Gaming Technology	Gaming Operations
All energy	165,948	58,963	106,985
Electricity consumption	97,806	17,310	80,496
District heating	1,621	0	1,621
Fuel consumption	50,497	31,971	18,526
Natural gas consumption	14,525	8,182	6,343
Consumption of other fuels	1,499	1,499	0
Self-generated energy	80	80	0
Energy sold	80	80	0

Electricity consumption includes the amounts charged by the energy provider, district heating, and natural gas consumption. The fuel consumption includes the amount of diesel and gas used to run the company-owned vehicle fleet. The only other fuel consumed this year was heating oil, and the amount charged by the energy provider. The self-generated energy includes energy generated by solar panels this year as well as energy sold.

✓ GRI 302-1

CO₂ emissions/Going Green

Regions	Total	Gaming Technology	Gaming Operations
All countries	46,165	15,161	31,004
Austria	6,942	4,339	2,603
Germany	6,454	2,433	4,021
Italy	13,895	2,688	11,207
United Kingdom	12,141	4,780	7,361
Spain	6,665	851	5,814
Malta	69	69	–

tCO₂e: Equivalent CO₂ unit emissions in tons. EXTRA Games Entertainment GmbH for Scope 1 Emissions only. NOVOMATIC Gaming Spain (Operations) for Scope 2 Emissions only.

✓ GRI 305-1, GRI 305-2, GRI 305-3

CO₂ emissions per source/Going Green

	Total	Gaming Technology	Gaming Operations
All emissions	46,165	15,161	31,004
Direct emissions Scope 1 in tCO ₂ e	17,136	10,849	6,287
Indirect emissions Scope 2 in tCO ₂ e	26,454	2,042	24,412
Indirect emissions Scope 3 in tCO ₂ e	2,576	2,270	306

tCO₂e: Equivalent CO₂ unit emissions in tons. EXTRA Games Entertainment GmbH for Scope 1 Emissions only. NOVOMATIC Gaming Spain (Operations) for Scope 2 Emissions only. The direct Scope 1 CO₂ emissions include emissions created by burning diesel and gas for transport, as well as emissions from natural gas. The indirect Scope 2 CO₂ emissions include emissions caused by creation of electricity and district heating from energy suppliers. The indirect Scope 3 CO₂ emissions include emissions caused by air travel from transport companies.

✓ GRI 305-1, GRI 305-2, GRI 305-3

Water consumption in m³/Going Green

Regions	Total	Gaming Technology	Gaming Operations
All countries	120,049	41,251	78,798
Austria	32,022	26,240	5,782
Germany	7,904	3,008	4,896
Italy	36,286	2	36,284
United Kingdom	33,880	2,044	31,836
Spain	7,457	7,457	–
Malta	2,500	2,500	–

The water consumption includes the total volume of water consumed, as charged by water utilities or other public and private waterworks.

✓ GRI 303-1

Waste in tons/Going Green

Regions	Total	Gaming Technology	Gaming Operations
All countries	3,160	2,982	178
Austria	1,342	1,236	106
Germany	1,375	1,303	72
Italy	179	179	–
United Kingdom	264	264	–
Spain	–	–	–
Malta	–	–	–

The waste includes hazardous and non-hazardous waste. Hazardous waste is those materials considered dangerous to health and the environment by local law.

✓ GRI 306-2

Waste in tons by type/Going Green

	Total	Gaming Technology	Gaming Operations
Non-hazardous	3,054	2,888	166
Hazardous	106	94	12

Non-hazardous waste includes all waste considered harmless by local law. This includes residual waste, paper, glass, aluminum, plastic, etc. Hazardous waste is waste classed as dangerous by local law. That includes paint, varnish, oil, electronic components, etc.

✓ GRI 306-2

Index

The index below provides a summary of the application of relevant Corporate Responsibility Guidelines and standards implemented by NOVOMATIC.

United Nations Global Compact (UNGC) Principles

The NOVOMATIC AG Annual Report 2017 also serves as Communication on Progress in line with the UNGC principles. NOVOMATIC joined the UNGC in May of 2014. The initiative was founded in 2000 at the instigation of Kofi Annan, the UN General Secretary at the time. The objective of the UN Global Compact is to enhance social and environmental sustainability on an international level and to promote the social commitment of companies. More than ten principles describe the areas in which companies should take on social responsibility for their actions.

This Communication on Progress is also available online on the United Nations Global Compact website.

 United Nations Global Compact, NOVOMATIC AG profile: www.unglobalcompact.org/what-is-gc/participants/36511

Global Reporting Initiative (GRI) Reporting Standards

The information and key figures provided in the report are based on definitions of reporting standards from the Global Reporting Initiative, with a “core” scope of application. The GRI standards were not implemented in full. The last fiscal year saw the transition from GRI G4 guidelines to GRI standards.

NOVOMATIC has been using GRI since 2011. GRI was founded in 1997 in partnership with the United Nations environmental program. The goal was to increase transparency and comparability of information on sustainability within companies. Today, the GRI reporting guidelines and directives are the de facto standard for reporting on corporate responsibility and sustainability information.

In the NOVOMATIC AG Annual Report 2017, the paragraphs with GRI related information are marked by the  symbol, and the numbered abbreviation for each GRI Indicator. Example:  GRI 103-2

 Global Reporting Initiative (GRI): www.globalreporting.org

Austrian Law on the Improvement of Sustainability and Diversity (Nachhaltigkeits- und Diversitätsverbesserungsgesetz, NaDiVeG)

This report was written to meet requirements from the Austrian Law on the Improvement of Sustainability and Diversity (NaDiVeG), and thus serves as the non-financial portion of the 2017 Annual Report.

The Austrian Law on the Improvement of Sustainability and Diversity was published on January 17, 2017 in the Austrian Federal Gazette. It implements, at a national level, EU Directive 2014/95/EU on non-financial reporting. NOVOMATIC AG is bound to fulfill the conditions of the law due to the bonds issued to the market, the size of the company, and its status as a Public Interest Entity (PIE).

 European Commission Guidelines on non-financial reporting: www.ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en

The columns of the index show the applied guidelines and standards, the rows indicate UNGC principles, GRI Indicators, and NaDiVeG requirements. The order of the contents is based on the GRI standards' standard information, and the priority of those issues identified as material. The index is part of the Notes on Corporate Responsibility from the NOVOMATIC AG Annual Report 2017. These notes are only included in the digital version of the report. The print version indicates that these notes can be downloaded separately on the NOVOMATIC website, which is accessible to everyone.

 Corporate Responsibility notes on the NOVOMATIC AG Annual Report 2017: www.novomatic.com/cr

GRI / UNGC / NaDiVeG Index

GRI information	GRI information Option “core”	Page reference	Additional information GRI, UNGC, NaDiVeG	Omissions in accordance with GRI	UN Global Compact principles	NaDiVeG requirements	External audit focus
Basics							
GRI 101	2016 Basics						
General standard information							
Organizational Profile							
GRI 102-1	Name of the organization		NOVOMATIC AG				
GRI 102-2	Activities, brands, products and services	Pages 12 - 37					
GRI 102-3	Location of Headquarter		Wiener Straße 158, 2352 Gumpoldskirchen, Österreich				
GRI 102-4	Location of operations	Page 3					
GRI 102-5	Ownership and legal form	Page 3					
GRI 102-6	Markets served	Seiten 12 - 15					
GRI 102-7	Scale of the organization	Seiten 3, 12 - 15		The amount of products or services delivered is not disclosed in the report.			
GRI 102-8	Information on employees and other workers	Page 71, Notes Page II	Comprehensive information in the Key Figures notes on Enjoy Working with Us.	In 2017, no information was collected on the type of employment and employment relationships.			Resignation rate (re-signations initiated by the employee)
GRI 102-9	Supply chain	Pages 68 - 69					
GRI 102-10	Significant changes to the organization and its supply chain	Pages 14 - 15					
GRI 102-11	Precautionary Principle or approach		The precautionary approach is shown separately for the individual fields of action.				
GRI 102-12	External initiatives	Page 55					
GRI 102-13	Memberships of associations	Page 52					
Strategy							
GRI 102-14	Statement from senior decision-maker	Pages 16, 19					
Ethics and integrity							
GRI 102-16	Values, principles, standards, and norms of behavior	Pages 43, 65 - 66					
Management							
GRI 102-18	Governance structure	Pages 46 - 47					
Including stakeholders							
GRI 102-40	List of stakeholder groups	Page 49					
GRI 102-41	Collective bargaining agreements		In countries in which there are corresponding provisions for collective bargaining, these also apply to the employment contracts. Thus, the percentage is 100 percent.				
GRI 102-42	Identifying and selecting stakeholders	Pages 50 - 51					
GRI 102-43	Approach to stakeholder engagement	Pages 50 - 51					
GRI 102-44	Key topics and concerns raised	Pages 53 - 54		The key topics are listed individually, not based on stakeholder group.			

GRI information	GRI information Option "core"	Page reference	Additional information GRI, UNGC, NaDiVeG	Omissions in accordance with GRI	UN Global Compact principles	NaDiVeG requirements	External audit focus
Reporting approach							
GRI 102-45	Entities included in the consolidated financial statements	Page 48	Corporate responsibility information is from the core companies.				
GRI 102-46	Defining report content and topic Boundaries	Pages 53 - 54					
GRI 102-47	List of material topics	Page 54					
GRI 102-48	Restatements of information		There was no reformulation.				
GRI 102-49	Changes in reporting	Page 48	The most significant changes relate to the expansion of the scope of the report; what used to be listed by country is now listed based on core companies.				
GRI 102-50	Reporting period	Page 47	Unless otherwise stated, all information and data refer to the 2017 fiscal year from January 1 2017 to December 31 2017. Figures are taken from the cut-off date of December 31, 2017.				
GRI 102-51	Date of most recent report	Page 47	April 7, 2017 Annual Report 2016 – NOVOMATIC AG				
GRI 102-52	Reporting cycle	Page 47	Annual				
GRI 102-53	Contact point for questions regarding the report	Page 52	The responsibility lies with the Head of Group CR e-mail: CR@novomatic.com Telephone: +43 2252 606 0				
GRI 102-54	Claims of reporting in accordance with the GRI Standards	Page 48	Based on the GRI				
GRI 102-55	GRI content index	Notes pages VII - XII	See Corporate Responsibility Notes - NOVOMATIC Annual Report - Index.				
GRI 102-56	External assurance	Pages 96 - 97					

Issue specific information

Management approach

GRI 103-1	Explanation of the material topic and its Boundary	Pages 43 - 44, 53 - 54	The effect of business is represented in the value creation chain as well as in the introduction to each thematic chapter. The identification and delimitation of material fields of action is provided by the materiality matrix and the relevant description of the issues. In the future, the goal is to provide a clearer evaluation of the effects and limits of each issue.				
GRI 103-2	Management approach and its components	Pages 40 - 44 59, 65 - 67, 71 - 73, 83 - 84, 89 - 90	The management approach to strategic CR fields of action is explained in its own chapter. The management approach for the material issues in these fields of action is explained at the beginning of each chapter on the issue, and a short description is given for each paragraph on the issue.				
GRI 103-3	Evaluation of the management approach	Pages 49 - 54, 65 - 68	The CR management chapter describes in detail how the effectiveness of the management approach is audited and improved for each issue. The Chapter Always Compliant describes the mechanism for auditing the management approach.			Applied due diligence processes	

GRI information	GRI information Option "core"	Page reference	Additional information GRI, UNGC, NaDiVeG	Omissions in accordance with GRI	UN Global Compact principles	NaDiVeG requirements	External audit focus
Player protection and the fight against illegal gaming							
	Information on dealing with player protection	Pages 57 - 63	There are no GRI or UNGC equivalents.			Industry-specific issues	
Responsible marketing							
GRI 417-1	Requirements for product and service information, and labeling	Pages 59, 63	The information contained in the report is related to gaming services and products. All services offered within the Group must meet the Responsible Gaming Codex requirements.			Industry-specific issues	
Corruption prevention							
GRI 205-2	Communication and training about anti-corruption policies and procedures	Page 67	All members of the Supervisory Board and the Executive Board, as well as all Group employees, have access to the anti-corruption guideline on the Group-wide Intranet NOVONET. To expand on this, the company offers executive training sessions on the issue. No information is published on this issue outside of the Annual Report.	The total number and percentage of members trained cannot be recorded due to the effort required for data acquisition.	Principle 10	Fighting corruption and bribery	
Local anchoring							
GRI 201-1	Direct economic value generated and distributed	Flap					
Occupational safety & employee health							
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Page 77, Notes Page II	In order to ensure that figures are comparable and valid, the metric used is the Lost Time Injury Frequency Rate (LTIFR), which is used as an indicator in the majority of industries. It specifies the accident rate per one million work hours. To do this, the number of work accidents that must be reported in accordance with local law is compared with the number of hours worked in the same period. There were no work-related deaths in core companies in 2017.	The type of injury, number of days off and occupational diseases was not recorded due to the effort required for data acquisition.		Social and Employee Issues	Accident Rate LTIFR
Data protection							
GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Pages 67 - 68	To the extent known, there were no substantiated complaints last year with regard to violations of the protection of customer data.			Industry-specific issues	
Employee diversity & anti-discrimination							
GRI 405-1	Diversity of governance bodies and employees	Page 79, Notes Page II		The percentage of salaried employees per category of salaried employee, as well as division into age groups, was not collected due to the effort required for data acquisition.	Principle 6	Social & employee issues	
Training and further education							
GRI 404-1	Average hours of training per year per employee	Page 74, Notes Page IV	Training and further education days are listed. The number of hours is listed in the notes.	Division based on gender and category of salaried employee was not recorded due to the effort required for data acquisition.		Social & employee issues	
GRI 404-2	Programs for upgrading employee skills and transition assistance programs	Pages 74 - 76				Social & employee issues	

GRI information	GRI information Option "core"	Page reference	Additional information GRI, UNGC, NaDiVeG	Omissions in accordance with GRI	UN Global Compact principles	NaDiVeG requirements	External audit focus
Supplier responsibility							
GRI 308-1	New suppliers that were screened using environmental criteria	Pages 68 - 69	Last year, 30 percent of NOVOMATIC Gaming Industries GmbH suppliers were audited in accordance with the environmental standard ISO 14001, and 76 percent were audited in accordance with the quality standard ISO 9001. A plan is in place to improve the quality of information for all core companies next year.			Environmental concerns	
GRI 414-1	New suppliers that were screened using social criteria	Pages 68 - 69	To the extent known, no supplier was audited based on social standards last year. Such standards could include, for example OHSAS 18001. A plan is in place to improve the quality of information for all core companies next year.			Social and Employee Issues	
GRI 204-1	Proportion of spending on local suppliers	Pages 68 - 69	Due to the data situation, information is only available for the production location NOVOMATIC Gaming Industries GmbH this year. The data situation will be improved in the future.				
Waste							
GRI 306-2	Waste by type and disposal method	Page 87, Notes Page VI		The removal procedure is not recorded due to the effort required for data acquisition.	Principles 7 & 8	Environmental concerns	
Recyclability							
GRI 301-3	Reclaimed products and their packaging materials	Page 87	The number lists the percentage of gaming devices with recyclable components as compared to the total number produced.	The packaging material is not included due to the effort required for data acquisition.	Principles 7 & 8	Environmental concerns	
Energy consumption & emissions							
GRI 302-1	Energy consumption within the organization	Page 85 - 86, Notes Page IV	Energy used for heating and cooling is included in the values for district heating, natural gas, and electricity consumption.		Principles 7 & 8	Environmental concerns	Including both energy from external sources (electricity, natural gas, district heating) and self-generated energy.
GRI 305-1	Direct (Scope 1) greenhouse gas emissions	Page 85 - 86, Notes Page V		Due to the effort required for data collection, only CO ₂ equivalent emissions were recorded.	Principles 7 & 8	Environmental concerns	
GRI 305-2	Indirect (Scope 2) greenhouse gas emissions	Page 85 - 86, Notes Page V		Due to the effort required for data collection, only CO ₂ equivalent emissions were recorded.	Principles 7 & 8	Environmental concerns	
Human rights							
GRI 412-1	Operations that have been subject to human rights reviews or impact assessments	Page 69	This details the handling of human rights within business activities.	Number and percentage is not recorded in detail due to the effort required for data acquisition.	Principles 1 & 2	Human rights	
Security in & at gaming facilities							
	Information on security in & at gaming facilities	Page 63	There are no GRI or UNGC equivalents.			Social and Employee Issues	
Fair competition							
GRI 206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Page 69	No legal procedures were carried out due to anti-competitive conduct last year.				

GRI information	GRI information Option "core"	Page reference	Additional information GRI, UNGC, NaDiVeG	Omissions in accordance with GRI	UN Global Compact principles	NaDiVeG requirements	External audit focus
Resource consumption							
GRI 303-1	Water withdrawal by source	Page 86 - 87, Notes Page V	Details general information on resource consumption and particularly regarding consumption of water. The data situation will be expanded in the future for the broader relevance of this issue.	Additional resource consumption details are not recorded due to the effort required for data acquisition.	Principles 7 & 8	Environmental concerns	
Public affairs							
	Information on public affairs activities	Page 69	There are no GRI or UNGC equivalents.			Industry-specific issues	
Emissions from transport & logistics							
GRI 305-3	Other indirect (Scope 3) greenhouse gas emissions	Page 85 - 86, Notes Page V	For the first time, the company recorded emissions from employee air travel. In the future, the data will be expanded to include air transport of goods.	Due to the effort required for data collection, only CO ₂ equivalent emissions were recorded.	Principles 7 & 8	Environmental concerns	
Technological innovation							
	Information on technological innovation	Page 81	There are no GRI or UNGC equivalents.		Principle 9	Industry-specific issues	
Sponsoring activities							
	Information on sponsoring activities, donations, and volunteer work	Pages 88 - 95	There are no GRI or UNGC equivalents.			Industry-specific issues	
UN Global Compact specific information							
	UNGC support	Pages 19, 48			Principles 1 - 10		
	Freedom of association	Page 69	NOVOMATIC respects the right to freedom of association in all subsidiaries. Employment contracts within the subsidiaries are subject to various degrees of collective bargaining agreements.		Principle 3		
	Forced labor	Page 69	NOVOMATIC is emphatically against any form of forced labor within its business and that of suppliers.		Principle 4		
	Child labor	Page 69	NOVOMATIC is emphatically against any form of child labor within their business and that of suppliers.		Principle 5		
NaDiVeG specific information							
	Business model	Pages 42 - 43				Business model	
	Approach	Pages 40 - 45				Approach	
	Result of this approach	Notes Pages I - VI	The results of the approach can be found in the CR section of the report and in the Key Figure notes.			Result of this approach	
	Applied due diligence	Pages 49 - 54, 65 - 68				Applied due diligence	
	Material risks	Pages 66 - 67				Material risks	Integration of CR risks into Group risk management
	Non-financial performance indicators	Notes Pages I - VI	The non-financial performance indicators can be found in the CR section of the report and in the Key Figure notes.			Non-financial performance indicators	
	Applied international frameworks	Page 55				Applied international frameworks	



Management Report

Details on the 2017 Individual Financial Statement and Consolidated Financial Statement, NOVOMATIC AG, Gumpoldskirchen

1. Purpose of the Business and Strategy

NOVOMATIC¹ is a globally operating, integrated gaming technology and entertainment group with more than 35 years of experience as a producer of innovative high-tech gaming equipment. The Group develops, manufactures and sells gaming products, lottery technologies and networked system solutions for domestic and international gaming and betting markets. NOVOMATIC furthermore operates around 2,100 gaming facilities, which include casinos, slot arcades, sports betting outlets and bingo facilities.

In addition to the development of gaming equipment, the NOVOMATIC Group has established itself as a content provider of games for licensed online and offline suppliers and as an operator of online gaming platforms.

NOVOMATIC's integrated strategy as a manufacturer of state-of-the-art gaming equipment as well as an operator of gaming facilities has contributed considerably to the company's success since its establishment. With this integrated approach, the Group is able to introduce newly developed products into the marketplace very quickly, gain insights into their potential success and subsequently influence the development of new products in a goal-oriented manner.

2. Economic Conditions

Macroeconomic Development

Growth in the global economy began to accelerate in early 2017 and gained additional momentum in subsequent quarters. In its latest analysis, the International Monetary Fund (IMF) assumes a growth rate of 3.7 percent², after 3.2 percent in 2016. The global upswing was broad-based from both a regional and structural perspective. This development was driven by a revival of investment activity and an uptick in world trade, with financing conditions remaining favorable.

The majority of developing countries and emerging economies saw a considerable rise in economic growth in 2017 after several years of declining growth rates. According to calculations by the IMF, the increase in the gross domestic product (GDP) of these markets was 4.7 percent, after 4.4 percent in 2016. Despite increased efforts by China to reduce its high level of debt financing and thus accept weaker economic growth, the Chinese economy recorded GDP growth of 6.8 percent. Most of the developing countries and emerging economies in Asia, Latin America, Africa and Eastern Europe were able to take advantage of the recent strong economic growth in the US and Europe, with nations such as Brazil and Russia, in particular, benefiting from the further recovery of commodity markets.

With a macroeconomic growth of 2.3 percent, the United States was able to achieve a solid increase in 2017. So far, there are hardly any signs for a slowdown in the US economy as this development is supported by a number of positive framework conditions. Although the Federal Reserve has initiated a policy of modest rate hikes starting in 2015, the federal funds rate still remains at historically low levels. The weaker US dollar boosted exports and continued buoyant consumer demand also had a stimulating effect on the US economy. This was also helped by the favorable situation in the US labor market. The unemployment rate at the end of 2017 was 4.1 percent, representing the lowest level in 15 years.

Economic growth in the euro region significantly exceeded expectations in 2017. The economic recovery has gradually become an upswing affecting all eurozone countries. In 2017, the eurozone grew at its fastest pace in ten years at 2.4 percent. With base rates remaining low, the European Central Bank (ECB) continued its expanded asset purchase program in 2017, announcing a gradual reduction in the bond-buying program as of January 2018. The aim of this program is to encourage banks to invest less in bonds and instead to lend more. Against the backdrop of further job growth, rising wage growth and increasing capacity utilization, domestic demand also picked up and acted as a driver. In terms of exports, growth also was in step with the robust development of foreign sales markets.

The United Kingdom, which is currently negotiating its exit from the European Union, was only able to achieve a growth of 1.7 percent in 2017 according to the latest IMF assessment, which was 0.3 percent below the value expected in April 2017.

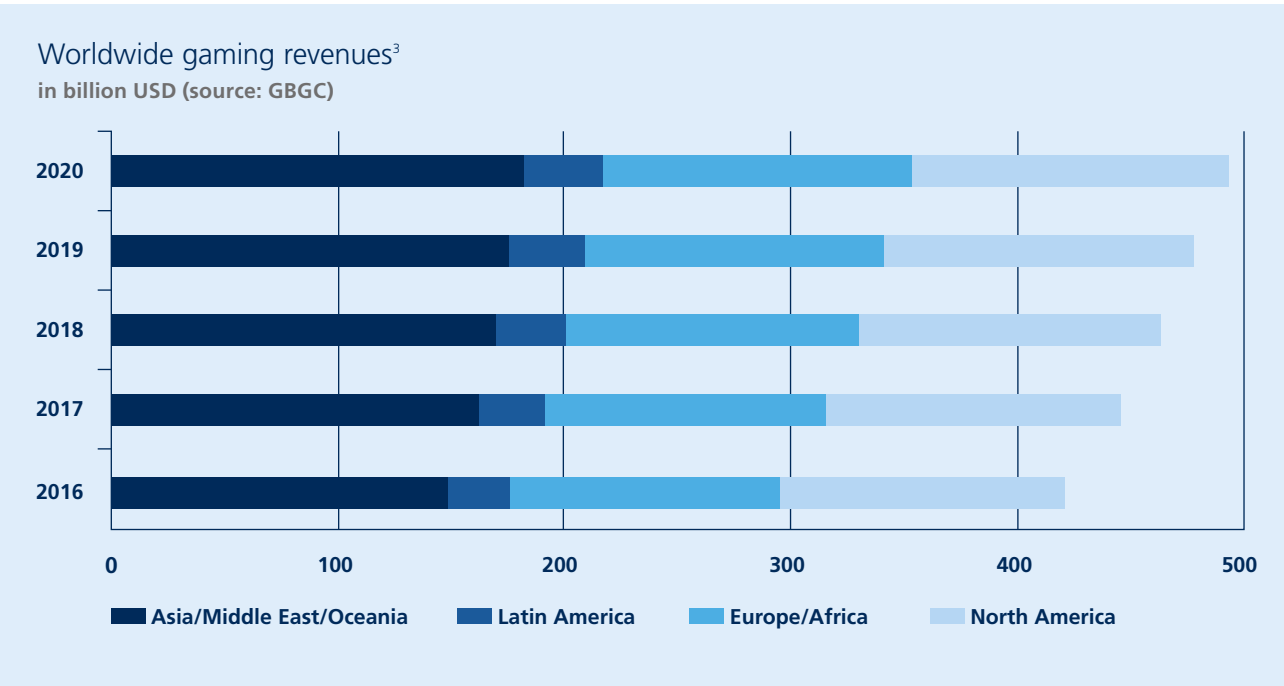
According to estimates by the European Commission, Austria's economy grew twice as fast in 2017 as it did in 2016. For 2017, the European Commission expects a GDP increase of 3.1 percent compared to 1.5 percent in the previous year. According to the European Commission, Austria has clearly benefited from increased global trade and additional demand from neighboring countries. Following moderate growth of Austrian exports of 1.9 percent in 2016, exports increased by more than 5 percent in 2017. However, growth was also driven by strong domestic demand, with high levels of investment in engineering, infrastructure and construction in particular. Private consumption also contributed to this positive development, which received additional impetus from the tax reform that came into force in 2016.

¹⁾ In this management report, the terms "NOVOMATIC", "Group" and "NOVOMATIC Group" refer to the group of consolidated companies included in the consolidated financial statement for NOVOMATIC AG

²⁾ According to the World Economic Outlook provided by the International Monetary Fund (IMF)

Development of the Gaming Market

As in 2016, gaming expenditures increased again in the reporting year. According to a study³ carried out by Global Betting and Gaming Consultants (GBGC), worldwide gross gaming revenues came in at USD 446 billion in 2017. This is an increase of 5.9 percent over the previous year. The largest increases were recorded by the casino and lottery sectors.



In particular, since the gaming monopoly in Macau was overturned in 2002, the Asia-Pacific region has grown to become the most important gaming market worldwide. 2015 saw a marked decline in gaming revenues, triggered by a campaign on the Chinese mainland to fight corruption and money laundering. The result was that gross gaming revenues of the casinos operated in Macau collapsed by 34.3 percent in 2015. After a period of stabilization in 2016, gaming revenue in the Asia-Pacific region increased significantly in 2017 by 9.0 percent.

Compared to the other three large markets (Asia/Oceania, North America and Europe), the gaming market in Latin America and the Caribbean is less significant. Currently, however, this region is achieving the strongest growth momentum worldwide, with an average annual growth rate of 4.6 percent. Compared to 2016, gaming revenues increased again, with the lottery sector seeing particularly impressive growth at 10.1 percent.

The North American gaming market recorded gross gaming revenues of USD 130 billion in 2017, representing growth of 3.3 percent. The casino sector (including the so-called tribal casinos that are operated by the Native Americans) is by far the largest segment of the North American gaming industry with a share of 57.1 percent, and again saw growth of 3.5 percent in the year under review. The gaming sector outside of casinos also achieved a significant increase of 3.5 percent.

The gross gaming revenues of the combined gaming market of Europe/Africa in 2017 reached a value of USD 125 billion. With a share of 32.4 percent, lottery companies, which to a large extent are government-controlled, constitute the most important sector of the European gaming industry, followed by the area of gaming machines outside of casinos (video lottery terminals, fixed odds betting terminals and classic AWP⁴ devices) with a share of 25.3 percent. According to a study carried out by GBGC, the European gaming market is growing at an annual rate of 2.1 percent, with the strongest growth rates coming from the betting sector (in particular sports betting).

According to a study carried out by GBGC, global online gaming revenues increased to USD 45.1 billion in 2017, compared to USD 44.8 billion in the previous year. High growth rates were achieved in this area in previous years, meaning that the share of global gaming revenues coming from online gaming rose steadily. This trend, however, has been showing signs of stabilizing since 2015 at a level of around 10 percent. While the areas of online casinos and online betting continued to demonstrate growth, the area of online poker is showing a downward trend.

³⁾ Global Gambling Report by GBGC

⁴⁾ Amusement with Prizes

3. Business Performance

General business development in the reporting period

For NOVOMATIC, 2017 was again characterized by an expansion of its business activity. Through organic and acquisition-driven growth, revenues (before gaming taxes and betting fees) reached an all-time high of EUR 2,527.3 million, compared to EUR 2,274.0 million in 2016. This development is mainly due to a significant increase in the slot arcades operated by NOVOMATIC worldwide. Compared to the same period last year, the number of self-operated locations (including casinos, sports betting outlets and bingo facilities) rose from around 1,900 to just over 2,100. It was also possible to achieve a new all-time high for the number of gaming devices operated. An increase of around 5,000 devices to around 65,000 devices was achieved in the reporting period.

In Germany, the most important market for NOVOMATIC, tougher industry-related framework conditions (State Treaty Amendment on Gaming, accompanying state laws on gaming arcades, amendment of the Gaming Ordinance) led to less willingness for the German gaming industry to invest. Due to the resulting decline in leased gaming terminals in Germany, the rental portfolio at Group level decreased by nearly 10,000 units compared to the same period of the previous year to approximately 191,000 devices by the end of 2017.

Earnings before interest, taxes, depreciation and amortization (EBITDA) stabilized in 2017 at the level of the previous year at EUR 586.8 million. In addition to an increase in gaming taxes in Italy and fees for betting terminals in Austria, numerous other one-off effects led to a significant reduction in operating profit (EBIT) from EUR 265.3 million in 2016 to EUR 209.8 million in 2017. The preliminary work for the legally required conversion of all gaming devices in Germany in 2018 led to extraordinary costs in the medium single-digit million range in 2017. Further, earnings were weighed down, among other things, by negative foreign currency effects linked to a weaker US dollar. Another significant decline in earnings is the result of a deterioration in the earnings position of the NOVOMATIC Lottery Solutions Group, as well as the related impairment in accordance with IAS 36.

Acquisitions of interests in companies and other important events

On the one hand, the objective of acquisitions is to achieve or solidify a leading position in existing markets and technologies. On the other hand, acquisitions support the pursuit of NOVOMATIC's strategy to develop new markets so as to achieve further diversification for the Group and thus create the basis for sustainable future growth.

In January 2017, NOVOMATIC acquired a majority stake in four Polish companies (including two additional Polish subsidiaries). Even before the share acquisition, the business purpose of the companies acquired in the course of this transaction, ATSI S.A. and Fortress Gaming Technologies S.A., was on development and programming activities for NGI. The company ATT S.A. generates income primarily from the purchase, general overhaul and resale of used gaming machines. The fourth company acquired, Novo Poland Sp.z.o.o. is a holding company with a subsidiary that operates four smaller casinos in Poland.

In March 2017, NOVOMATIC acquired 100 percent of the shares in Casino Royal GmbH, Germany. The acquired company and its 10 subsidiaries operate a total of 126 gaming arcades with a regional focus on North Rhine-Westphalia, Lower Saxony and Rhine-land-Palatinate. With this acquisition, the Group strengthens its operating activity as an operator in the German gaming market.

NOVOMATIC concluded a purchase agreement in December 2016 for the acquisition of 51 percent of the shares in the Spanish company Basque Gaming S.L. The company operates a total of 13 gaming arcades in the Basque Country. With this acquisition, the Group will intensify its operating activity in the Basque Country and pool its own existing operations. The acquisition of Basque Gaming was subject to various conditions precedent, which were ultimately met in March 2017.

The acquisition of around 52 percent of the shares in Ainsworth Game Technology Ltd. (Ainsworth), signed in 2016 and for which closing had not yet been performed due to formal approval requirements of various international licensing and regulatory bodies, was finally completed in January 2018. The acquisition represents another milestone in the corporate history of NOVOMATIC and

is of major strategic importance as it paves the way to access the enormously important North American market, a region with almost one million operated gaming machines. Ainsworth belongs to the market leaders in gaming-enthusiastic Australia and has a strong presence in the Latin American market. The agreed purchase price is AUD 473.3 million.

Furthermore, during the financial year 2017, several smaller operators of gaming facilities in Italy, the Netherlands and Spain were acquired, especially with the business purpose of operating gaming halls, bars and bingo. With these acquisitions, the Group is enhancing its market position in some of Europe's core markets.

In 2017, the Peruvian subsidiaries Inmobiliaria Rapid S.A.C. and Sierra Machines S.A.C. were sold. The purpose of the business of both companies is the operation of slot arcades. In the NOVOMATIC Consolidated Financial Statement, the sale of the 100 percent shareholding in both companies resulted in a profit of EUR 9.4 million (reported under other operating income) for the year 2017.

In March 2017, NOVOMATIC AG concluded a revolving credit line for the amount of EUR 1 billion with a term of 5 years (with the option of prolonging for up to two years). This credit line was concluded with a syndicate of international banks, serving on the one hand to harmonize and refinance existing credit lines and, on the other, as general financing for the company, including for company acquisitions.

Furthermore, a bond issued in 2010 with a volume of EUR 150 million was repaid in October 2017.

Consolidated Financial Statement for NOVOMATIC

NOVOMATIC AG's consolidated financial statement has been prepared according to the reporting and measurement methods stipulated by the IFRS (International Financial Reporting Standards).

INCOME STATEMENT

Condensed version with selected positions

in million EUR	2017	2016	Difference in %
Revenues	2,527.3	2,274.0	11.1 %
Gaming taxes and betting fees	-294.2	-238.3	-23.5 %
Revenues after deduction of gaming taxes and betting fees	2,233.1	2,035.7	9.7 %
Other operating income	373.8	323.6	15.5 %
Cost of material and other purchased services	-371.9	-356.1	-4.4 %
Personnel costs	-763.7	-668.4	-14.3 %
Total other operating expenses	-884.6	-748.3	-18.2 %
EBITDA	586.8	586.4	0.1 %
EBITDA margin in %	23.2 %	25.8 %	
Depreciation and amortization	-377.0	-321.1	-17.4 %
EBIT	209.8	265.3	-20.9 %
EBIT margin in %	8.3 %	11.7 %	
Financial result	-21.5	-34.6	37.9 %
Earnings before taxes	188.3	230.7	-18.4 %
Income tax	-102.1	-75.0	-36.1 %
Net income from continued operations	86.2	155.7	-44.6 %
Result from discontinued operations	-24.8	0.7	n.a.
Annual profit	61.4	156.4	-60.8 %

Earnings Position

Through organic and acquisition-driven growth, sales revenues reached an all-time high of EUR 2,527.3 million during the 2017 fiscal year. This is an increase of 11.1 percent over the previous year.

The largest absolute increase was achieved in the area of gaming machine revenues which rose by EUR 210.9 million to EUR 1,239.8 million. In addition to the acquisition of Casino Royal in Germany in 2017, the operating companies in the United Kingdom, Spain and Italy, in particular, contributed to this increase.

Significant revenue growth was also achieved with e-business revenues, which increased by EUR 32.5 million, as well as with betting revenues, which came in EUR 23.6 million higher than the previous year. There was, however, a decline in rental revenues of minus EUR 17.5 million (due to regulatory changes in Germany) and sales revenues (especially in Italy and the United Kingdom) of minus EUR 26.7 million.

Gaming taxes and betting fees, which depend largely on revenue, increased in 2017 to EUR 294.2 million, compared to EUR 238.3 million in the previous year.

The rise in own work capitalized of EUR 38.4 million stems largely from the core market of Germany. Likewise, the increase in the cost of materials amounting to EUR 15.8 million is largely attributable to the German market. Both positions reflect the preproduction of gaming devices, which is necessary as a result of the amendment to the German Gaming Ordinance. The regulatory changes stipulate that gaming devices that correspond to the old technical directive 4.1 may not be operated in the future. As a result, from November 11, 2018, only devices corresponding to the new technical directive 5.0 may be operated.

Total other operating income increased from EUR 107.9 million to EUR 134.9 million in the year under review. This item also includes the sale of the 100 percent shareholding in the Peruvian subsidiaries Inmobiliaria Rapid S.A.C. and Sierra Machines S.A.C., which resulted in a gain of EUR 9.4 million. Higher earnout charges from earlier divestments also contributed to this increase.

Personnel costs in the NOVOMATIC Group came in at EUR 763.7 million in the year under review, compared to EUR 668.4 million in the previous year. The increase is mainly attributable to the numerous acquisitions of the recent past, with the acquisition of Casino Royal GmbH in Germany in 2017 being highlighted in particular. Personnel costs also saw an increase at LÖWEN ENTERTAINMENT GmbH in Germany. As a result of the preproduction of gaming devices in connection with the new technical directive 5.0, a temporary increase in production capacity was required. The increase in personnel costs in the Group also reflects the additional level of activity in the area of research and development. In particular, the newly acquired Polish company ATSI S.A. specializes in intercompany development and programming activities.

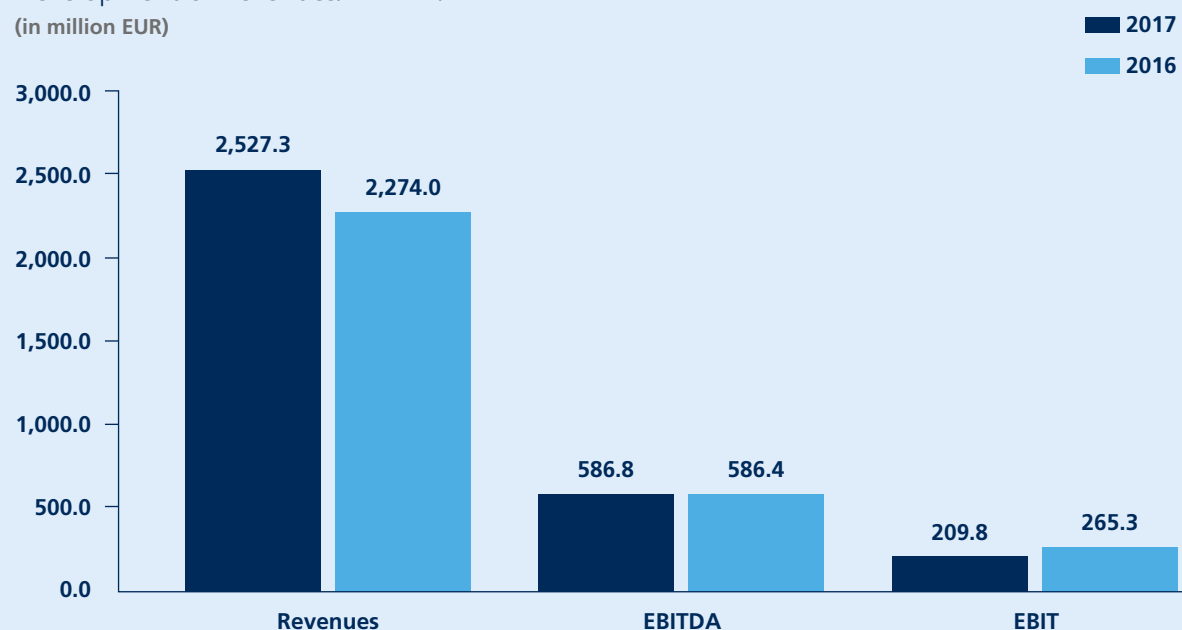
Other operating expenses (excluding gaming taxes) increased to EUR 884.6 million, compared to EUR 748.3 million during the previous year. This increase is connected to the expansion of business activities and stem mainly from the countries in which there was a high level of acquisition activity (in particular of gaming arcade operators). The biggest increases stem from rental, lease and operating expenses, up EUR 40.1 million over the previous year.

However, the increase in other operating expenses is also attributable to numerous one-time effects, which in 2017 contributed to a very strong deterioration in the earnings situation. The exchange losses amounted to EUR 27.1 million in the past year, a year-on-year increase of EUR 23.4 million. The foreign currency losses are linked to the weakening of the US Dollar and affect in particular NOVOMATIC Gaming Industries GmbH (NGI) and stem from the operating business and from the measurement of open forward contracts serving to hedge foreign exchange.

Other operating expenses also include expenses for the formation of a provision for impending losses for orders of the NOVOMATIC Lottery Solutions Group in the amount of EUR 23.9 million.

Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 586.8 million, compared to EUR 586.4 million in 2016. The operating profit (EBIT) decreased from EUR 265.3 million in 2016 to EUR 209.8 million in the year under review due to higher planned and extraordinary depreciation and amortization. The increase in scheduled depreciation and amortization from EUR 296.4 million to EUR 331.0 million is mainly attributable to the companies acquired recently. Extraordinary depreciation and amortization increased by around EUR 22.4 million to EUR 55.7 million, compared to the same period last year. In addition to impairments in accordance with IAS 36 at the German companies due to changes in the regulatory framework conditions, an impairment requirement was determined for individual companies of the NOVOMATIC Lottery Solutions Group, which contributed significantly to this increase.

Development of Revenues/EBITDA/EBIT
(in million EUR)



EBITDA and EBIT constitute key performance indicators that are not defined in the International Financial Reporting Standards (IFRS). They serve as a way for the management of NOVOMATIC to measure and control the Group's economic success and profitability. At NOVOMATIC, the EBIT key performance indicator refers to the operating profit as presented in the consolidated income statement. The EBITDA key performance indicator is calculated by taking the operating profit (EBIT) and adjusting it for the depreciation and amortization of intangible assets, and property, plant and equipment.

At EUR -21.5 million, the financial result came in above the previous year's level of EUR -34.6 million. The increase is mainly due to higher income from financial investments in 2017.

Tax expenses increased from EUR 75.0 million to EUR 102.1 million in the year under review. The main reasons for this increase are higher unused tax losses not recognized as deferred tax assets (and offsetting options) and the increase in tax payments at an Italian subsidiary.

Net income from continuing business segments decreased from EUR 155.7 million in the previous year to EUR 86.2 million in 2017.

The result of the discontinued business operations declined from EUR 0.7 million in 2016 to EUR -24.8 million in the year under review. This position includes the I-New Group, which was presented in the consolidated financial statements for 2017 as "assets held for sale" (sale group). Significant reasons for the deterioration in earnings are the decline in revenue from new projects, valuation adjustments on receivables and impairments in accordance with IAS 36.

Group net income decreased from EUR 156.4 million in the previous year to EUR 61.4 million in 2017.

Net Assets

The balance sheet total amounting to EUR 4,099.7 million as of December 31, 2017 rose by EUR 413.8 million compared to the figure of December 31, 2016. In terms of non-current assets, intangible assets increased by EUR 159.0 million to EUR 881.4 million. The increase was mainly related to licenses and concessions (up EUR 109.3 million) and is in large parts due to the newly acquired companies in Germany (Casino Royal) and Spain (Basque Gaming and several smaller companies). A further cause behind the increase in goodwill (up EUR 88.9 million), results from the recently acquired companies in the markets of Germany, Spain, the Netherlands and Italy.

Property, plant and equipment increased from EUR 953.3 million in the previous year to EUR 1,041.7 million. The deviation largely results from prepayments made and assets under construction, with an increase of EUR 83.7 million. This increase has its origins in the investments of established German companies and reflects the pre-production of gaming terminals for the conversion of all gaming terminals in Germany to the new technical guideline 5.0 in November 2018.

The financial assets position mainly comprises minority interests in Austrian gaming companies (Österreichische Lotterien GmbH and Casinos Austria AG). In the year under review, this item increased from EUR 237.8 million to EUR 271.2 million due to the revaluation of the shares (with no effect on income).

With regards to current assets, inventories increased by EUR 42.6 million to EUR 268.1 million, with the increase stemming primarily from Germany and Spain. Trade receivables, other receivables and assets increased by EUR 36.2 million to EUR 408.7 million, compared to the previous year.

Cash and cash equivalents rose slightly from EUR 877.8 million to EUR 899.7 million. Assets held for sale amount to EUR 20.4 million and comprise the I-New Group.

BALANCE SHEET Condensed Version

in million EUR	2017	2016	Difference in %
Assets			
Non-current assets	2,446.1	2,144.8	14.0 %
Current assets	1,653.6	1,541.1	7.3 %
Balance sheet total	4,099.7	3,685.9	11.2 %
PASSIVA			
Equity	1,328.9	1,376.2	-3.4 %
Non-current liabilities	2,098.2	1,590.3	31.9 %
Current liabilities	672.6	719.4	-6.5 %
Balance sheet total	4,099.7	3,685.9	11.2 %

During the reporting period, equity decreased by EUR 47.3 million to EUR 1,328.9 million, of which EUR 91.4 million consisted of other shareholders' shares. The company's issued capital remained unchanged at EUR 26.6 million. The same applies to additional paid-in capital, which amounted to EUR 85.4 million. In addition to this, equity is comprised of reserves amounting to EUR 1,169.0 million, the revaluation reserve as per IAS 39 amounting to EUR 23.3 million and the currency translation adjustment amounting to EUR -66.8 million.

The increase in non-current liabilities is mainly attributable to the increase in bank credit and loans, which increased by EUR 435.0 million to EUR 878.1 million in the fiscal year. In March 2017, NOVOMATIC AG concluded a revolving credit line for the amount of EUR 1 billion with a term of 5 years (with the option of prolonging for up to two years). This credit line was concluded with a syndicate of international banks, serving on the one hand to harmonize and refinance existing credit lines and, on the other, for general financing needs of the company, including company acquisitions.

Non-current provisions increased by EUR 17.7 million to EUR 83.8 million, with this development being largely attributable to the creation of a provision for impending losses for orders of the NOVOMATIC Lottery Solutions Group.

Current liabilities decreased compared to the previous year due to the significant decline in current financial liabilities, which amounted to EUR 70.7 million at the end of the year under review, compared to EUR 210.8 million in 2016. The most important reason for this change is a bond repaid in 2017 (issue volume EUR 150 million), which was supposed to be reported as current in the 2016 balance sheet due to the maturity in October 2017.

Trade payables and other liabilities increased by EUR 41.4 million to EUR 447.4 million, compared to the previous year. This also includes the liabilities from assets held for sale, which amount to EUR 16.2 million and comprise the I-New Group.

Financial Position

Across the Group, cash flow from operating activities totaled EUR 419.2 million in 2017, compared to EUR 429.1 million the previous year. The slight decline in operating cash flow is primarily attributable to the lower operating profit in the year under review. Compared to 2016, cash flow from operating activities was positively influenced by a lower cash outflow from the change in net working capital. While a rise in inventories had a negative impact on cash flow, increase in liabilities and provisions (including in connection with the NOVOMATIC Lottery Solutions Group) led to an improvement in operating cash flow.

Cash flow from investment activities improved marginally to EUR -516.7 million in the year under review, while the same figure for 2016 amounted to EUR -519.5 million. The position “Acquisition of intangible assets and property, plant and equipment” saw higher cash outflows, resulting particularly from the pre-production of gaming terminals in the German market. Overall, there were no significant changes against the previous year in the area of acquisitions.

Cash flow from financing activities amounted to EUR 109.6 million during the year under review, a considerable drop over the previous year’s value of EUR 474.0 million. In the previous year, the issue of a bond with a total volume of EUR 500.0 million and a capital increase of EUR 85 million led to a significant increase in cash and cash equivalents. In 2017, the cash flow from financing activities was reduced by the repayment of a bond with an issue volume of EUR 150 million, while the utilization of a credit line positively influenced the cash flow.

Free Cash Flow

NOVOMATIC reports “Free cash flow before acquisitions” as an additional liquidity KPI to “Free cash flow after acquisitions”. Both constitute key performance indicators that are not defined in the International Financial Reporting Standards (IFRS). They serve as an indicator to the management of internal financing strength and describe the ability of the Company to pay dividends, service debt and make investments from ongoing cash inflows.

Free cash flow before acquisitions is defined as cash flow from operating activities plus cash inflows or cash outflows from the acquisition as well as the sale of intangible assets and property, plant and equipment. Free cash flow after acquisitions is defined as cash flow from operating activities plus cash flow from investing activities.

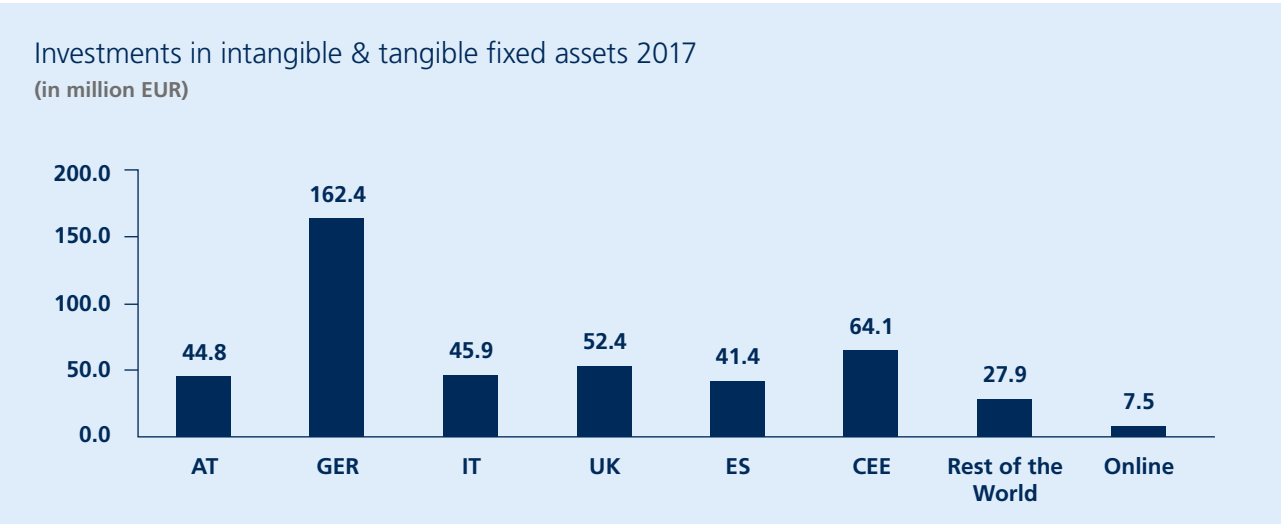
Free cash flow before acquisitions is positive and comes to EUR 53.0 million against EUR 90.0 million in 2016. Free cash flow after acquisitions improved over the previous year’s level from EUR -90.5 million to EUR -97.5 million as a result of lower cash outflows for company acquisitions.

in million EUR	2017	2016	Difference in %
Cash flow from operating activities	419.2	429.1	-2.3 %
Cash Flow from investing activities (excl. acquisitions) ⁵	-366.2	-339.1	-8.0 %
Free cash flow before acquisitions	53.0	90.0	-41.1 %
Cash flow from acquisitions ⁶	-150.5	-180.4	16.6 %
Free cash flow after acquisitions	-97.5	-90.5	-7.8 %

Investments in Intangible Assets, and Property, Plant and Equipment

Investments in intangible assets, and property, plant and equipment came to a total of EUR 446.4 million in 2017. The largest share of investments in property, plant and equipment was in gaming devices, manufactured mostly in-house.

Broken down by regions, the largest investments were in the German market with EUR 162.4 million, followed by the CEE region with EUR 64.1 million.

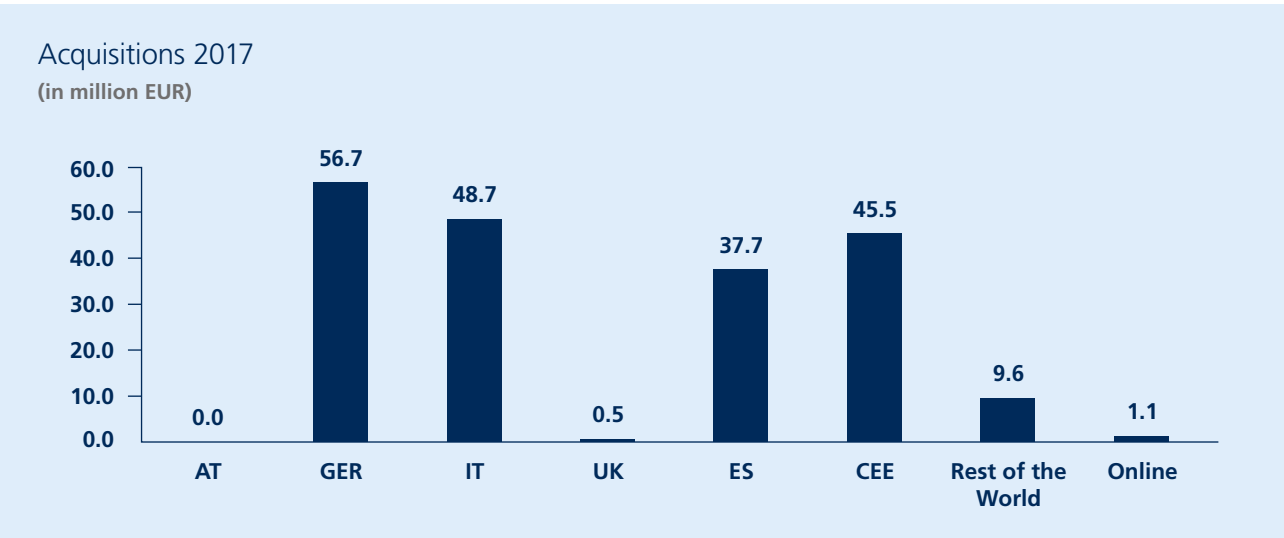


⁵⁾ Includes income from the sale of fixed assets excluding financial assets (EUR 80.2 million in 2017) and acquisition of intangible assets and property, plant and equipment (EUR -447.6 million in 2017)

⁶⁾ Includes results from associated companies and investments (EUR 15.6 million in 2017), proceeds from the sale/repayment of financial assets (EUR 25.0 million in 2017), proceeds from the sale of consolidated companies less cash and cash equivalents (EUR 36.8 million in 2017), acquisition of financial assets and other financial investments (EUR -28.2 million in 2017) and acquisitions of companies less cash and cash equivalents (EUR -198.6 million in 2017)

Acquisitions (strategic & bolt-on)

Acquisitions came to a total of EUR 199.8 million in 2017. The largest acquisitions were in the German market with EUR 56.7 million, particularly as a result of Casino Royal, followed by the Italian market with EUR 48.7 million and the CEE region with EUR 45.5 million.



Selected Group Key Figures

	2017	2016
Equity ratio (equity/balance sheet total)	32.4 %	37.3 %
Return on equity (parent company shareholder result/equity capital)	4.4 %	10.9 %
Return on assets (annual profit + interest cost)/balance sheet total	2.5 %	5.3 %
Working Capital (current assets - current liabilities) in million EUR	981.1	821.7
Net debt (non-current financial liabilities + current financial liabilities – cash and cash equivalents) in million EUR	1,000.0	728.1
Net debt to EBITDA (net debt/EBITDA)	1.7	1.2
Interest coverage ratio (EBIT/interest expense)	5.1	7.0
Asset coverage (equity capital/non-current assets)	54.3 %	64.2 %

4. Segment Analysis

Segment Reporting Contents

NOVOMATIC’s segment reporting follows the Group’s integrated market strategy.

The Gaming Technology segment comprises the business segment focusing on the development, production, leasing and sale of gaming equipment, gaming content and gaming technology. The Gaming Technology segment also includes Group activities in the areas of online and mobile gaming, sports betting and lottery technology, to the extent this relates to the B2B area.

The Gaming Operations segment comprises the self-operated locations, covering slot arcades, casinos, sports betting outlets and bingo halls. The Gaming Operations segment also includes Group activities in the areas of online and mobile gaming as well as sports betting, to the extent this relates to the B2C area.

The Other segment includes all activities not included in the Group’s core business areas. This segment mainly includes the I-New Group, as well as smaller holding companies.

Gaming Technology

External revenues in the Gaming Technology segment amounted to EUR 937.2 million in the reporting period, representing a slight decrease compared to the previous year’s level of EUR 947.3 million.

The segment result (operating result) in the area of Gaming Technology declined from EUR 185.1 million to EUR 110.6 million. The decline is the result of several factors. In addition to the reduction in leased equipment in Germany, these factors included, in particular, a deterioration in the results of operations of the NOVOMATIC Lottery Solutions Group and foreign exchange losses associated with a weakening of the US dollar.

Germany

The First State Treaty amending the State Treaty on Gaming (Glücksspieländerungsstaatsvertrag, GlüÄndStV) in Germany, NOVOMATIC’s most important market, came into effect on July 1, 2012, and largely comprises the establishment of distance regulations between slot arcades and youth facilities. It also contains a ban on multiple concessions and therefore limits one location to a maximum of 12 gaming devices. A (fundamental) transitional period of 5 years was granted to implement the restrictive new regulations, which means that the provisions were applicable from July 1, 2017. As a result of the implementation of the State Treaty on Gaming Law and the accompanying state laws on gaming arcades, a noticeable market reduction has occurred since 2017 in the slot arcade sector. Slot arcades to be downscaled or closed will inevitably have a negative impact on sales revenues from the rental of gaming terminals. However, the decline in the market is slower than envisaged by the legislature due to strong legal opposition to slot arcade closures and concession reductions. Likewise, it was already evident in 2017 that the reduction of gaming terminals (through closed slot arcades or concession restrictions) leads to higher terminal utilization of the remaining gaming terminals and thus to a significant compensatory effect.

The focus of the German Group companies in the Gaming Technology segment is in the area of gaming machine rental. In Germany, the NOVOMATIC Group has long held a share of more than 50 percent of the market for commercial gaming devices. In light of the stricter regulatory framework, however, the number of rented gaming machines decreased during the reporting period by around 11,000 gaming terminals to some 102,000 units. In total, the German companies active in the Gaming Technology segment achieved revenues of EUR 285.7 million against EUR 317.5 million in 2016.

The changes to the regulatory framework conditions also include the amendment to the German Gaming Ordinance. This stipulates that gaming devices corresponding to the old technical directive 4.1 may not be operated in the future. As a result, from November 11, 2018, only devices that correspond to the new technical directive 5.0 may be operated. In addition to the necessary replacement investments, extraordinary costs of an amount in the single-digit million range were incurred due to the preparatory work for the legally required conversion of all gaming terminals in Germany.

Italy

With more than 400,000 operated gaming machines, Italy is Europe's largest gaming market. NOVOMATIC is one of the very few foreign companies that have been successful not only in establishing a presence in this highly competitive market but also in claiming a sustainable market share.

The company acquired by NOVOMATIC in 2016, Electro System S.p.A., a developer and manufacturer of CPUs for gaming devices, benefited in the previous year from a change in the law in Italy that made it necessary to convert certain gaming devices (AWPs). As a result, it was possible to generate extraordinarily high sales revenues with CPU platforms in 2016, which could not be achieved to the same level in 2017.

The resulting decline in sales revenues in 2017 could only be partially offset by increased rental income. The Italian companies were able to increase the number of leased gaming devices by around 1,500 devices to over 45,000 units in a year-on-year comparison. However, the increase in rental revenues was stemmed by a further hike in gaming-related taxes. In May 2017, taxes for networked gaming devices (VLT category) rose from 5.5 percent to 6.0 percent, and for non-networked gaming devices (AWP category) from 17.5 percent to 19.0 percent.

The Italian government has also decided that by April 2018, the number of all AWP appliances operating in the Italian market will have to be reduced by 35 percent. The change in the law is considered by NOVOMATIC to be immaterial, as it primarily affects those devices which have a poor performance, and this does not generally include NOVOMATIC gaming terminals.

Revenues of the Italian companies falling into the Gaming Technology segment reached a level of EUR 202.0 million in 2017, compared to EUR 205.5 million in the previous year.

United Kingdom

The British market is one of the largest gaming markets in Europe and includes approximately 250,000 gaming machines, which are mostly located in pubs, licensed betting offices, gaming facilities and bingo centers. Due to the highly mature nature of the market, the potential for a further increase in the number of gaming machines operated is limited. The market is rather moving towards a state of consolidation. In particular, in the pub sector, a massive trend of pubs having to close has been observable over the past decades. This has resulted in a lower number of gaming machines traditionally operated in pubs.

The pub sector is also undergoing a period of change. Analog gaming devices, such as the ones produced by Bell-Fruit, a Group company of NOVOMATIC, are increasingly being replaced by digital devices, meaning that sales revenues in this area were also lower.

From a regulatory point of view, the pub sector, as well as adult gaming centers (i.e. slot arcades), could benefit from the currently ongoing triennial review. This is a review that takes place (generally) every three years in which the maximum stakes and winnings of different categories of gaming machines are redefined by the legislator. From today's point of view, it can be assumed that gaming terminals in the pub sector and in slot arcades will benefit from this regulatory change, while terminals that are mainly used in so-called licensed betting offices will be in a worse position.

Revenues of the companies in the United Kingdom falling into the Gaming Technology segment reached a level of EUR 115.9 million in 2017, compared to EUR 136.1 million in the previous year.

Spain

The Spanish gaming market is also one of the largest gaming markets in Europe and therefore represents an important target market for the NOVOMATIC Group.

In 2017, an impairment test was carried out on the assets of the Spanish subsidiaries. An impairment loss of approximately EUR 5 million was identified for GIGAMES S.L., a Spanish production and distribution company operating particularly in the area of placing gaming terminals in bars. The write-off relates to the client base (in intangible assets).

Revenues of the companies in Spain falling into the Gaming Technology segment reached a level of EUR 53.3 million in the past fiscal year, compared to EUR 45.4 million in 2016.

CEE

A 15-year partnership entered into with Loteria Romana provides for NOVOMATIC to deliver sophisticated video lottery terminals (VLTs), as well as the corresponding required video lottery system (including a jackpot system, service, spare parts, logistics, etc.) in Romania. By the end of 2017, NOVOMATIC had already placed approximately 5,400 VLTs.

Sales revenues of the companies of the CEE region falling under the Gaming Technology segment showed a positive development in the 2017 fiscal year and reached a value of EUR 65.9 million, compared to EUR 56.5 million in 2016.

Rest of the World

Revenues of the companies falling under the Gaming Technology segment in the Rest of the World region showed a slightly positive development in the past fiscal year. Due to higher rental income, revenues increased from EUR 68.7 million in 2016 to EUR 70.7 million in the year under review.

Online (B2B)

This segment comprises all companies of the NOVOMATIC Group allocated to the area of online and mobile gaming (B2B). This primarily relates to the Greentube Group, an internationally leading content provider of online games, which are offered to licensed operators of gaming platforms both as social games (with no payout of winnings) and as cash games (regular gaming with payout of winnings). Furthermore, the Greentube Group develops system solutions and makes these available to licensed online gaming companies. The range on offer can be scaled as desired by the customer.

In 2017, revenues of the online companies of the NOVOMATIC Group allocated to the B2B area increased by EUR 48.5 million to EUR 65.6 million. The increase in e-business revenues is mainly due to an increase in B2B customers.

In December 2017, the company's management decided to end the distribution of games and platform solutions due to an unclear legal situation in an important core market. As a consequence of this decision and the resulting termination of B2B contracts with customers, a significant decline in sales revenues in 2018 is expected.

Gaming Operations

External revenues in the Gaming Operations segment amounted to EUR 1,587.2 million in the year under review, representing a slight increase in comparison to the previous year (EUR 1,326.4 million).

The segment result (operating result) of Gaming Operations declined from EUR 101.3 million to EUR 97.3 million. The decline resulted from higher extraordinary depreciation in Germany, Italy and Spain. Another reason is the increase in other expenses (in particular rental expenses as well as gaming taxes and betting fees) as well as much higher depreciation due to investments in new locations.

Austria

Revenues of all Austrian gaming and betting companies of the NOVOMATIC Group reached a level of EUR 257.7 million in 2017, compared to EUR 230.6 million in the previous year. The increase is due both to higher gaming machine revenues and higher betting revenues. Negative factors here include newly introduced fees on betting terminals, which led to a sharp rise in betting fees in the provinces of Vienna and Upper Austria.

In respect of the legal discussions going on for several years as to whether the Austrian Gaming Act and the corresponding provisions are consistent with EU law, the three highest courts in Austria have all confirmed conformity with EU law. As a result of the final answer to this legal issue, there has now been a clear improvement in the possibilities for the authorities and courts to act against illegal gaming operators in Austria.

With the final decision of the Provincial Administrative Court of Lower Austria of July 21, 2017, the Group company ADMIRAL Casinos & Entertainment AG (ADMIRAL) has now secured its operations in Lower Austria on a permanent basis. ADMIRAL can operate 1,165 gaming terminals in the Lower Austrian slot arcades for a duration of 15 years, thus until July 21, 2032.

In an individual case decision delivered in 2017, the Supreme Court (OGH) found that some of the game variants offered by NOVOMATIC in the state of Vienna were not covered by the concession issued. This decision could lead to a further round of legal actions by customers demanding back their losses incurred in the corresponding period. In respect of the ongoing pending proceedings, a provision of an amount in the single digit million range was formed.

Germany

The NOVOMATIC Group has seven casinos in Germany. With the venerable Spielbank Berlin, NOVOMATIC operates one of the highest revenue generating live casinos in Germany. In 2017, NOVOMATIC’s German casinos were able to increase revenues from EUR 72.7 million to EUR 80.3 million.

However, a much larger portion of sales revenues in the German market is generated by the operating companies in the area of commercial electronic gaming. NOVOMATIC already had a strong market position with the slot arcade operators Extra Games Entertainment GmbH, BPA Freizeit und Unterhaltungsbetriebe GmbH and Admiral Play GmbH. In March 2017, NOVOMATIC also acquired 100 percent of the shares in Casino Royal GmbH, Germany. The acquired company and its 10 subsidiaries operate a total of 126 gaming arcades with a regional focus on North Rhine-Westphalia, Lower Saxony and Rhineland-Palatinate. Furthermore, several acquisitions of smaller companies have been made since last year. In summary, revenues of the German Group companies allocated to the area of commercial electronic gaming increased from EUR 266.7 million to EUR 356.4 million in the same period of the previous year.

The First State Treaty amending the State Treaty on Gaming (Glücksspieländerungsstaatsvertrag, GlüÄndStV) came into effect on July 1, 2012, and sets out the rules on the establishment of distance regulations between slot arcades and youth facilities. It also contains a ban on multiple concessions and therefore limits one location to a maximum of twelve gaming terminals. A (fundamental)

transitional period of five years was granted to implement the restrictive new regulations, which means that the provisions were applicable from July 1, 2017. As a result of the implementation of the State Treaty on Gaming Law and the accompanying state laws on gaming arcades, a noticeable market reduction has occurred since 2017 in the slot arcade sector. Slot arcades run by German operating companies to be downscaled or closed will inevitably have a negative impact on sales revenues. However, the decline in the market is slower than envisaged by the legislature due to strong legal opposition to slot arcade closures and concession reductions. Likewise, it was already evident in 2017 that the reduction of gaming terminals (through closed slot arcades or concession restrictions) leads to higher terminal utilization of the remaining gaming terminals and thus to a significant compensatory effect.

As in previous years, impairment tests were carried out in 2017 for the assets of the German operating companies. An impairment loss of EUR 14.5 million (net of impairments and write-ups) was identified as a result of the regulatory changes.

Italy

Measured by the number of operated gaming machines, Italy is Europe’s largest gaming market. In this key European market, NOVOMATIC has been successfully implementing its integrated market strategy as a producer of gaming products and operator of gaming facilities for several years.

During the 2016 and 2017 fiscal year, several smaller operators of gaming facilities in Italy were acquired, primarily with the business purpose of operating slot arcades and bingo halls. With these acquisitions, the Group enhanced its market position in this important core European market. The revenues of the Italian Group companies falling into the Gaming Operations segment increased once again thanks to both organic and acquisition-driven growth, reaching a level of EUR 150.5 million, compared to EUR 111.4 million in the previous year.

United Kingdom

After NOVOMATIC succeeded in entering the British market for slot arcades (adult gaming centers or AGCs) with the acquisition of Luxury Leisure Unlimited and S.A.L. Leisure Limited in June 2014, the Group acquired 100 percent of the shares in Talarius Ltd. (Talaria) as well as its associated subsidiaries in June 2016. Around 160 new locations were added to the Group of Companies through the acquisition of Talarius, which made a significant contribution to enabling the British companies falling into the Gaming Operations segment to see revenues rise by EUR 30.7 million to EUR 149.1 million in 2017.

Spain

The majority of revenues in the Gaming Operations segment in Spain are generated by the operating companies in the slot arcade sector. Since the end of 2015, NOVOMATIC has been gradually expanding its market position through organic growth and the acquisition of numerous smaller companies focusing on the operation of slot arcades. With the acquisition in 2017 of 51 percent of the shares in Basque Gaming S.L., a company that operates a total of 13 slot arcades in the Basque Country, and several acquisitions of smaller arcade companies, this development continued.

In July 2016, NOVOMATIC opened the Gran Casino San Roque north of Gibraltar. Almost at the same time, NOVOMATIC acquired another casino in Spain, the Gran Casino Aljarafe in Seville.

The revenues of all Spanish Group companies falling into the Gaming Operations segment increased once again thanks to organic and acquisition-driven growth, reaching a level of EUR 73.1 million, compared to EUR 35.0 million in the previous year.

CEE

The geographical segment CEE comprises the regions of Central, Eastern and South-Eastern Europe. The companies falling into the Gaming Operations segment within the regions of CEE were able to achieve a very satisfactory business development again during the 2017 fiscal year.

In October 2017, the Grand Casino ADMIRAL opened in Zagreb, Croatia. The site has 318 gaming terminals and more than 20 live gaming tables over a total area of approximately 3,000 square feet. In addition to a restaurant, seminar rooms and a sports bar with state-of-the-art technology, the site also offers a four-star hotel.

In summary, the companies falling into this segment saw an increase in revenues of EUR 33.4 million to EUR 330.4 million. This increase is primarily the result of organic growth and was mainly generated in the markets of Latvia, Croatia, Serbia and Macedonia.

Rest of the World

The Dutch companies listed in the Rest of the World geographical segment focusing on slot arcade operations showed a positive development in the year under review. In March 2017, 100 percent of the shares in Super Game B.V. and Biermann's Bingo B.V., the Netherlands, were acquired. The two acquired companies operate a total of seven arcades and contributed significantly to the increase in sales in the Netherlands. Overall, revenues of the Dutch Group companies falling into the Gaming Operations segment increased from EUR 64.4 million in the previous year to EUR 71.7 million in 2017.

In 2017, the Peruvian subsidiaries Inmobiliaria Rapid S.A.C. and Sierra Machines S.A.C. were sold for strategic reasons. The purpose of business of both companies is the operation of slot arcades. The NOVOMATIC Consolidated Financial Statement shows a selling profit of EUR 9.4 million, which is reported under other operating income.

Online (B2C)

The online/mobile B2C market is divided into the segments of Social (no payout of winnings) and Cash (regular gaming with payout of winnings). While a phase of consolidation is underway in the Social market and there is virtually no growth, the area of Cash continues to display positive momentum. The main reason for this is in the prevailing trend to regulate online gaming in many countries around the world. The expanded offer of Cash B2C products is driving out the Social B2C segment in the regulated markets. There is also currently a trend towards customers moving more from desktop to mobile devices (smartphones, tablets, etc.) so as to use games there.

The Greentube Group belonging to the NOVOMATIC Group, as well as other companies in Italy and Latvia belonging to the Group, were able to increase revenues slightly in the Gaming Operations segment to EUR 101.5 million in 2017, compared to EUR 100.3 million in the previous year.

Assets held for sale (I-New Group)

In 2013, NOVOMATIC AG acquired approximately 76.8 percent of the shares in I-New Group. The company consists of the Austrian I-New Unified Mobile Solutions AG headquartered in Mattersburg and its international subsidiaries.

In the 2017 fiscal year, it emerged that quality defects and delays caused by suppliers will lead to the considerably delayed completion of a major expansion stage of the technology solution offered by I-New.

While the revenues from multi-year business contracts showed a stable development (EUR 11.9 million in 2015, EUR 12.3 million in 2016 and EUR 12.0 million in 2017), there was a drop in sales from project new business in the amount of around 80 percent (EUR 7.6 million in 2016, compared to EUR 1.3 million in 2017) due to the aforementioned delays. In Q4 2017, the developmental backlog was considered overcome.

Due to the loss of revenues from planned new projects, the I-New Group faced an unexpected liquidity shortage in Q2 2017, thus necessitating not only the initiation of a comprehensive operational restructuring process but also the carrying out of an impairment test in accordance with IAS 36 in the context of the half-yearly financial reporting. The latter led to an impairment of goodwill and other intangible assets totaling EUR 12.4 million.

The business environment of I-New in Latin America was characterized by increasingly fierce competition among MVNO customers in Mexico and Colombia along with challenging economic conditions in Peru. The resulting consequence was a bad debt allowance of EUR 5.8 million. The reasons for this allowance included a contract renegotiation with an existing customer and a debt waiver as a result of a change of ownership.

In November 2017, the strategic decision was made to sell the majority stake in I-New Group, as a result of which a structured sales process was started. According to current estimates, the signing of the sale of shares is expected in the second half of 2018.

Based on the current situation, the classification, presentation and measurement provisions of IFRS 5 were applied, meaning that the I-New Group was presented in the 2017 Consolidated Financial statement as "assets held for sale" (sale group).

Important Key Figures

Leased gaming devices to third parties

Number at the end of the period	Austria	Germany	Italy	United Kingdom	Spain	CEE	Rest of the World	Group
12/2016	1,704	113,281	43,841	23,659	3,572	12,136	2,579	200,772
12/2017	1,489	102,195	45,406	21,923	3,891	13,140	2,860	190,904

Self-operated gaming devices

Number at the end of the period	Austria	Germany	Italy	United Kingdom	Spain	CEE	Rest of the World	Group
12/2016	2,387	11,073	5,537	15,756	1,766	17,167	6,681	60,367
12/2017	2,234	13,320	7,776	16,567	3,092	17,337	4,779	65,105

Gaming devices sold to third parties

Number at the end of the period	Group
12/2016	30,430
12/2017	28,720

5. Individual Financial Statement of NOVOMATIC AG
(Condensed Version in Accordance with the Austrian Commercial Code (UGB))

The following includes a discussion of the development of NOVOMATIC AG as a supplement to the reporting on the NOVOMATIC Group.

The annual financial statement (individual financial statement) of NOVOMATIC AG is prepared according to the accounting and valuation principles of the Austrian Commercial Code (UGB). According to these regulations, the affiliated companies are identified as part of the financial assets. As such, the individual financial statement only provides an excerpt of the economic situation of NOVOMATIC AG and its affiliated companies.

NOVOMATIC AG is the holding company of the NOVOMATIC Group, which performs the financing and controlling function for the Group. In addition to this role, NOVOMATIC AG is also the owner of the majority of the NOVOMATIC Group's intellectual property rights as well as of a significant share of the Group's property portfolio in Austria.

During the reporting period, NOVOMATIC AG had no subsidiaries registered in the commercial register.

Earnings Position

During the past financial year, NOVOMATIC AG's sales revenue amounted to EUR 78.5 million, remaining almost unchanged against the previous year.

Personnel costs came in at EUR 5.3 million, down from EUR 7.4 million in 2016.

Other operating expenses increased in the year under review from EUR 74.2 million to EUR 82.4 million. This rise is primarily attributable to an increase of EUR 8.5 million in R&D costs in 2017.

Depreciation and amortization fell in the 2017 fiscal year from EUR 25.0 million to EUR 14.0 million primarily as a result of lower extraordinary write-downs and a decline in the amortization of technical software. Operating profit (EBIT) came in at EUR 67.9 million, up from EUR 40.5 million in the previous year. EBITDA (the total of EBIT and depreciation and amortization) increased from EUR 65.5 million to EUR 82.0 million in 2017.

The financial result increased from EUR 28.9 million in the previous year to EUR 43.8 million. While investment income rose sharply, expenses from financial assets and securities held as current assets also increased (particularly as a result of the I-New Group and the NOVOMATIC Lottery Solutions Group).

After the addition of income taxes amounting to EUR 6.3 million, taking the Group taxation into consideration, net profit for the year was EUR 16.4 million compared to EUR 9.3 million in 2016.

⁷⁾ The definition of EBIT differs in the Individual Financial Statement of NOVOMATIC AG from that of the Consolidated Financial Statement of NOVOMATIC AG. In the Individual Financial Statement, EBIT is calculated in accordance with KFS/BW3 from earnings before taxes plus interest and similar expenses in accordance with Sec. 231 para. 2 sentence 15 and para. 3 sentence 14 of the Austrian Commercial Code (UGB).

Net Assets

Fixed assets increased from EUR 1,430.6 million in the previous year to a total of EUR 1,474.0 million. This change was largely attributable to increases in the area of financial assets.

Current assets increased from EUR 527.4 million in the previous year to EUR 716.1 million, mainly due to higher receivables from affiliated companies.

The company's equity capital remained unchanged at EUR 26.6 million. The same applies to capital reserves of EUR 85.4 million. With retained earnings of EUR 1.6 million and a balance sheet profit of EUR 77.5 million being taken into consideration, equity decreased due to a disbursement of EUR 50 million from EUR 224.8 million in 2016 to EUR 191.2 million. Equity's share of total capital now amounts to 8.7 percent, compared to 11.4 percent in the previous year.

While provisions increased slightly from EUR 16.3 million to EUR 22.6 million, liabilities showed a significant increase. Liabilities due to credit institutions rose from EUR 446.2 million to EUR 882.7 million. Bond liabilities declined due to the repayment of a bond (issue volume of EUR 150 million) in October 2017.

During the past financial year, NOVOMATIC AG's balance sheet total increased from EUR 1.975.0 million to EUR 2,198.2 million.

6. Non-Financial Performance Indicators

Regarding the reporting of consolidated non-financial performance indicators, reference is made to the consolidated non-financial report of NOVOMATIC AG according to the Sustainability and Diversity Improvement Act (NaDiVeG), which is separate from the Consolidated Financial Statement.

7. Prospective Development of the Group

In its latest analysis, the International Monetary Fund (IMF) assumes a global growth rate of 3.9 percent⁸⁾ for 2018. Analysts at GBGC⁹⁾ also expect a similar trend, forecasting an increase in global gaming expenditures of 3.4 percent in 2018. For the combined gaming market of Europe/Africa, the experts of GBGC expect an increase of 3.9 percent for 2018.

NOVOMATIC has pursued a growth strategy in recent years aimed at occupying market leadership positions in large, regulated gaming markets. For the 2018 fiscal year, expansion investments and acquisitions are planned to be carried out to a much lesser extent than recently. The focus will increasingly be on consolidating growth and increasing synergies.

Despite this phase of consolidation, a further increase in sales is expected in 2018 as well. The largest share of this development is attributed to Ainsworth Game Technology Ltd. (Ainsworth). The acquisition of around 52 percent of the shares in Ainsworth, signed in 2016 and for which closing had not yet been performed due to formal approval requirements of various international licensing and regulatory bodies, was finally completed in January 2018. The acquisition represents another milestone in the corporate history of NOVOMATIC and is of major strategic importance as it paves the way to access the enormously important North American market, a region with almost one million operated gaming machines. Ainsworth is also a market leader in Australia and has a strong presence in the Latin American market. The agreed purchase price is AUD 473.3 million.

Changes in the gaming laws and tax conditions in the countries in which the NOVOMATIC Group operates have had a significant impact on NOVOMATIC's business in recent years. For the major European gaming markets, it can be assumed that the regulatory environment will continue to be challenging in the future.

⁸⁾ According to the World Economic Outlook provided by the International Monetary Fund (IMF)

⁹⁾ Global Gambling Report by GBGC

In Germany, as of July 1, 2017, the provisions of the German State Treaty on Gaming and the accompanying state laws on gaming arcades were to be applied for the first time. As a consequence of this, 2017 saw a noticeable decrease in the size of the market in the slot arcade sector. Slot arcades to be downscaled or closed will inevitably have a negative impact on sales revenues from the rental and operation of gaming terminals. However, the decline in the market is slower than envisaged by the legislature due to strong legal opposition to slot arcade closures and concession reductions. Likewise, it was already evident in 2017 that the reduction of gaming terminals (through closed slot arcades or concession restrictions) leads to higher terminal utilization of the remaining gaming terminals and thus to a significant compensatory effect. A continuation of this development is expected in 2018.

The changes to the regulatory framework conditions also include the amendment to the German Gaming Ordinance. This stipulates that gaming devices corresponding to the old technical directive 4.1 may not be operated in the future. As a result, from November 11, 2018, only devices that correspond to the new technical directive 5.0 may be operated. The German subsidiaries have already been working for a while to develop attractive products that can be made available to customers promptly upon expiration of the transitional period of the Gaming Ordinance. In addition to the necessary replacement investments, extraordinary costs in the double-digit million range are expected in 2018 due to the preparatory work for the legally required conversion of all gaming terminals in Germany.

As of January 1, 2018, the merger of the German production companies Crown Technologies GmbH and Hirscher Moneysystems GmbH into LÖWEN ENTERTAINMENT GmbH will be completed. By integrating these companies, further synergies in terms of cost efficiency, optimization of production processes and utilization of production capacities are expected.

In the core market of Italy, a further increase in sales revenue is expected in 2018. The most recently acquired slot arcade locations have played a major role in this development.

In the major European gaming markets of the United Kingdom and Spain, a further increase in sales revenues is expected, especially from the recent acquisitions in Spain. In both markets, this increase is mainly due to the developments in the Gaming Operations segment.

In the regions of Central and Eastern Europe (CEE) and South-Eastern Europe (SEE), rising revenues are expected. The increase is primarily attributable to the Gaming Operations segment, which is supported by a large number of countries in this region.

For the 2018 fiscal year, the NOVOMATIC Group companies active in the area of online gaming are likely to be confronted with significant revenue loss. The Gaming Technology (B2B) segment will be particularly affected by the distribution of games and platform solutions, as the company has withdrawn from an important core market due to an unclear legal situation. In the other areas, further organic growth can be assumed. The growth drivers here are the ongoing expansion of the gaming portfolio, realignment of the social casino segment and the continuation of geographical expansion.

8. Risk Management

Within the scope of its business, the NOVOMATIC Group is subject to a number of risks which inevitably arise in connection with entrepreneurial activities. Risk management, as it is understood and applied within the NOVOMATIC Group, aims at both securing the long-term existence of the company and increasing the added value. It, therefore, represents a major factor in the Group's success.

Risk Management System

NOVOMATIC engages in extensive risk management that involves all major Group companies. The risk management system aims at systematically identifying, evaluating, controlling, monitoring and documenting material risks as well as risks directly jeopardizing the company's existence in order to ensure achievement of the corporate objectives and to increase risk awareness within the Group.

All risks and opportunities, which are determined and analyzed systematically, are recorded within a professional, IT-based risk management system that ensures risks, as well as the assigned management measures and control mechanisms, are monitored on a permanent basis.

For continued monitoring of the risk and opportunity situation and to ensure active controlling, risks and opportunities are assigned to the responsible individuals within the individual corporate areas and Group companies. It lies within the responsibilities of the risk officers to define and implement measures aimed at dealing with the individual risks and/or at seizing opportunities, to document emergent risks and opportunities, and to perform reassessments of the identified opportunities and risks at regular, defined intervals. Central risk management supports the individual areas in a consulting function and ensures the continuous updating and further development of the risk management system.

Central Group risk management, which is assigned to the internal audit department, monitors implementation of the defined countermeasures and reports regularly to the Executive Board regarding the current risk situation.

Important Features of the Internal Control System Relevant to the Financial Reporting Process

The predominant objective of the accounting-related internal control system at NOVOMATIC is to ensure the correctness of financial reporting by verifying that the consolidated financial statement and the management report comply with all relevant regulations. As a guide for this process, the internal control system at NOVOMATIC relies on the comprehensive enterprise risk management approach developed by the COSO (Committee of Sponsoring Organizations of the Treadway Commission).

Control Environment

NOVOMATIC AG's Executive Board is responsible for the establishment of an appropriate internal control and risk management system concerning the accounting process. In order to evaluate the appropriateness and effectiveness of this internal control system, the Executive Board has instructed the internal audit department to continuously analyze the main processes, respective related risks and existing control measures, and to report the results to the Executive Board.

In the area of Group accounting, the organizational structure consists of the local departments responsible for accounting within the individual Group companies, as well as NOVOMATIC AG's central accounting department. The Group companies prepare complete and correct individual financial statements according to IFRS on the respective company level, based on the uniform Group-wide accounting and valuation principles.

The main tasks and responsibilities of the Group accounting department are the analysis of the reported Group company data, the performance of consolidation measures and the corresponding preparation of financial reports. It is this department that is also responsible for the preparation of the consolidated financial statement.

Risk Assessment

To avoid material misstatements in the presentation of transactions, multilevel quality assurance measures have been implemented with the objective of ensuring that individual financial statements according to IFRS are recorded correctly for the purpose of consolidation. These measures include automated controls within the consolidation software as well as manual controls performed by employees of the subsidiaries, as well as by employees of the Group accounting department.

Based on the financial statements for the individual Group companies, Group accounting performs comprehensive plausibility and data quality checks on several levels. This aims at ensuring the data reflecting the Group companies’ transactions is properly recorded for the purpose of consolidation or preparation of the consolidated financial statement.

In addition to this, Group accounting enlists the support of external service providers for certain issues that require specialist knowledge, such as the evaluation of pension obligations and severance payments.

Control Activities

The Group’s unified accounting and measurement methods are summarized in the Group manual. Amendments to the IFRS are continuously monitored by Group accounting and included in the Group manual on an annual basis. This update is followed by the publication of the manual’s current annual version.

The Group companies prepare the individual financial statements mainly using Microsoft Dynamics NAV. Further ERP systems currently in use include proAlpha and SAP. The data is transmitted electronically in a standardized format and imported into the consolidation software (IDL Konsis) by Group Accounting. For the accounting-related IT systems, access privileges have been defined to ensure that sensitive data is protected from unauthorized access, use and modification.

Information and Communication

The Executive Board keeps abreast of relevant developments at the Group companies through regular reports prepared by the Group financial department. This includes, above all, the development of current earnings as well as any detected major deviations from the approved annual budget, calculation of the Group cash flow, as well as calculation of the result and value-oriented key figures.

The Executive Board itself informs the Supervisory Board on a quarterly basis regarding the development of the corporate Group as a whole as well as the development of the individual business areas.

Monitoring

Monitoring of compliance with ongoing accounting processes (with the exception of the preparation of the annual financial statement) is performed by the Group’s auditing department, which reports directly to the Board. The Group’s auditing department has documented all financial reporting processes as part of the internal control system and has monitored compliance with the defined controls at regular intervals.

As per the 2008 Austrian Company Law Amendment Act (URÄG), the Supervisory Board is also included in the control system via the auditing committee. The auditing committee’s main responsibilities include monitoring the accounting process, monitoring the internal control and risk management system, monitoring the audit of the consolidated financial statement and critically appraising the audited consolidated financial statement, as well as the Group management report.

Compliance

In addition to the types of risk described, there are also threats related to the reputation and the competitiveness of the company as a whole. As one of the basic principles of entrepreneurial activities, NOVOMATIC pays particular attention to compliance with statutory and ethical regulations.

The term “compliance” is used to describe all measures with which the company ensures that laws, regulations and voluntary codes are adhered to. NOVOMATIC’s compliance activities focus mainly on measures aimed at ensuring that national and international laws on the prevention of criminal acts, market abuse, money laundering and misuse of data are adhered to.

The Group’s compliance system is based on NOVOMATIC’s Code of Conduct, a set of guidelines that is binding for all employees and all business areas. In the Code of Conduct, employees find guidelines and principles for values-based and lawful behavior during day-to-day business activities. This Code of Conduct also provides the basis for training activities related to integrity and compliance. Depending on the risk and the target group, training sessions requiring personal attendance, as well as web-based training events, are held. An e-learning tool allows a large number of employees to be educated on issues such as data protection, property rights violations and the fight against corruption.

The Code of Conduct provides the foundation for the Group-wide organization of compliance activities. Throughout the entire Group, there are designated contact persons for questions regarding the issues mentioned within the Code of Conduct. In addition to the Compliance Manager at NOVOMATIC AG, there are Local Compliance Officers at the Group companies who continuously report to the Group and thereby ensure that ethical and rule-abiding behavior is sustainably anchored throughout the entire company.

Significant Risks and Uncertainties

The following is a detailed description of the risks and uncertainties that can have a major influence on the asset, financial and earnings position, as well as the reputation of the NOVOMATIC Group.

Business and Market Risks

The NOVOMATIC Group’s business is dependent on general economic conditions

There is a risk that a deterioration of general economic conditions, increasing unemployment, declining real incomes and increased volatility in the capital markets, could have a significant negative impact on the asset, financial and earnings positions of the NOVOMATIC Group.

Expansion into new markets or product and/or service areas may be unsuccessful and the success of the strategy pursued by the NOVOMATIC Group is uncertain

A central element of the NOVOMATIC Group’s growth strategy is the geographic diversification of its business by entering markets that offer opportunities for growth. There is a risk that in the future, for various reasons including legal conditions, NOVOMATIC may not or may only to a limited extent be able to pursue this course of expansion, or may not be able to expand its product and/or service offerings.

The NOVOMATIC Group is subject to risks related to completed, ongoing and future acquisitions, joint ventures and investments

It is possible that not all major risks related to acquisitions, joint ventures and investments are identified, which may have a substantial negative impact on the asset, financial and earnings positions of the NOVOMATIC Group.

The NOVOMATIC Group's success as a business depends on its management and key employees

NOVOMATIC's business success comes thanks to the existing knowledge and expertise of its management and employees. Should one or several individuals in key positions leave the company, there is a risk that NOVOMATIC might not be able to recruit qualified individuals with comparable know-how within an appropriate period of time to deal with emerging challenges.

The NOVOMATIC Group is dependent on technology systems and relies on technologies and sophisticated information technology systems that could be subject to malfunctions, disruptions, or illegal attacks and fraudulent activities

NOVOMATIC operates in a highly technology-dependent field of business where new technologies are developed or used within short innovation cycles. There is a risk that NOVOMATIC may not recognize innovative technologies and developments at a sufficiently early stage.

The integrity, reliability and operative performance of the NOVOMATIC Group's IT systems are essential to the business. These IT systems may be damaged or interrupted due to increased load, human error or natural catastrophes. Illegal attacks or fraudulent manipulation could also damage or disrupt the IT systems. Any damage to the IT systems could result in widespread business problems and force NOVOMATIC to deploy considerable financial means to remedy such problems.

Risks related to pathological gaming behavior and lawsuits brought forward by players

In the context of its operating activities, the NOVOMATIC Group could be subject to legal proceedings demanding the refund of gaming and betting stakes, for example in connection with pathological gaming behavior, particularly if this results in the player's legal incapacity. In addition to this, NOVOMATIC could be subject to legal claims such as for damages stemming from the conclusion of gaming and betting contracts.

The NOVOMATIC Group could suffer losses due to technical errors, illegal attacks or fraudulent manipulation

The NOVOMATIC Group's business success is strongly dependent upon the ability to discover and prevent fraudulent manipulation (including betting manipulation) or illegal attacks on products and/or services. Should one of the NOVOMATIC Group's products and/or services be subject to technical errors, fraudulent activity or illegal attacks, it could negatively impact NOVOMATIC's reputation. This could result in NOVOMATIC incurring losses or being subject to damage claims – or even the revocation of licenses by the responsible authorities. Claims for damages due to technical, organizational or program-related errors are partially insured against.

Technical glitches, illegal attacks or fraudulent activity could seriously impair the NOVOMATIC Group's ability to manufacture or provide its products and/or services. If NOVOMATIC were to be unable to achieve its production targets or supply products to customers because of such interferences, this would have a strongly negative impact on the company's reputation and revenues.

NOVOMATIC is also subject to the risk of a temporary or permanent interruption of operations due to internal manipulation. Inappropriate behavior could force NOVOMATIC to temporarily or permanently shut down certain business areas or business locations on account of official orders.

The NOVOMATIC Group is subject to the risk of losing its image

The image of the NOVOMATIC Group and its brands is strongly influenced by their business partners and by media coverage of the gaming industry. Inappropriate behavior by business partners or negative coverage in the media could result in damage to its image and, consequently, in the loss of financing by banks or the withdrawal of licenses.

Risks due to product liability or product defects

The NOVOMATIC Group could be held liable for damages caused by defective products due to applicable product liability provisions. There is also a risk that third parties could bring forward claims against NOVOMATIC AG or one of its affiliated companies due to unexpected product defects. This risk has largely been insured against.

If defective products are not replaced (at all or in a timely fashion), this may also result in revenue losses for the NOVOMATIC Group.

The NOVOMATIC Group's production activities depend on the availability of high-quality raw materials and semi-finished products provided by a limited number of suppliers

The NOVOMATIC Group's production relies on the availability of high-quality raw materials and semi-finished products. Inventory shortages or increased demand could result in an increase in raw material costs, as well as problems or interruptions in production, and hence in delivery problems for the NOVOMATIC Group.

In addition to this, the NOVOMATIC Group sources a considerable amount of raw materials and semi-finished products from a limited number of external suppliers. Should one of these suppliers be unable to supply its goods (at all or in a timely fashion), NOVOMATIC would be forced to search for more expensive alternatives. This could also result in a considerable impairment of NOVOMATIC's production capabilities.

The NOVOMATIC Group is subject to the risk of a temporary or permanent disruption of production or operations due to external events

Some of the NOVOMATIC Group's companies are located in parts of the world where the weather conditions are extreme, are subject to an elevated risk of natural catastrophes, or where terrorist attacks may occur. These factors could result in the temporary or permanent interruption of NOVOMATIC's business activities. The NOVOMATIC Group cannot guarantee that it will be able to insure itself against such risks.

For reasons of efficiency, the NOVOMATIC Group has concentrated a considerable share of its production in a few manufacturing locations. Production at these manufacturing locations is subject to numerous operative risks, including machine failure, labor shortages, accidents, natural catastrophes and power outages. The occurrence of such risks could negatively impact NOVOMATIC's business activities and result in financial losses as well as legal liabilities.

The NOVOMATIC Group is not insured against all risks and its insurance policies may not be sufficient to cover certain losses

NOVOMATIC's operating activities are subject to complex operative risks such as climatic conditions, political unrest, terrorist or similar activities, as well as other events or accidents at the Group's production facilities. Such risks could result in damage to NOVOMATIC's production facilities, personal injury, death, environmental damage, business interruptions and possible liabilities. NOVOMATIC is not insured against all of the risks mentioned above. It also cannot be guaranteed that any payments from existing insurance contracts will be sufficient to cover all possible damages.

The security mechanisms of the NOVOMATIC organization could fail

There is a risk that security mechanisms established by the NOVOMATIC organization (in particular related to the compliance system and the internal control system) could fail, either in part or completely. In consequence, this could result in the violation of national and international laws on the prevention of criminal acts, market abuse, money laundering, corruption and misuse of data. The occurrence of such risks could negatively impact NOVOMATIC's reputation and result in economic losses, legal liabilities and the loss of licenses.

Risks related to changes in customer behavior

Diverse recreational and entertainment options entail constantly changing customer behavior. To maintain NOVOMATIC’s market position in its target markets, product and/or service adjustments, as well as continuous innovation, are required. There is a risk that customer or consumer desires may be recognized not at all or only when it is too late. In addition, a further intensification of the trend towards online gaming could result in a decline in the number of visitors to the Group’s terrestrial gaming facilities.

The NOVOMATIC Group is subject to competitive risks

Some of NOVOMATIC’s competitors have extensive financial, technical and other resources at their disposal. There is a risk that the number of competitors – in particular, the number of companies providing online gaming and betting services – will continue to increase. In addition, there is the risk that competition in currently profitable markets may grow more challenging should NOVOMATIC be unable to offer innovative and competitive products and/or services, or should the company not receive the required gaming licenses.

The NOVOMATIC Group is dependent on certain markets

NOVOMATIC generates the majority of its revenues in a limited number of markets. As these are relatively well-developed markets, further growth opportunities are rather limited. NOVOMATIC plans to expand its business activities in other markets, an effort for which considerable resources are being deployed. There is a risk that the anticipated growth in these countries and regions will not be realized, and/or that the NOVOMATIC Group will not be successful in implementing its strategies there.

Risks in connection with existing financial liabilities

The Group’s inability to generate sufficient cash flows to repay or refinance its financial liabilities, or to gain access to capital markets on commercially reasonable terms, could limit its business, cause downgrades and have a generally negative impact on the net assets, financial position and results of operations, as well as on the reputation of the NOVOMATIC Group.

Legal and Geographic Risks

The NOVOMATIC Group’s international business entails economic, political, legal and other risks

The NOVOMATIC Group conducts business in more than 70 countries. Some of these countries are politically or economically unstable which subjects NOVOMATIC to certain risks. Social unrest or strikes could force NOVOMATIC to interrupt or halt its business activities.

The gaming industry is subject to particularly frequent and sudden legal amendments that can make business significantly more difficult or prohibit it entirely. Insufficient legal or administrative conditions in some countries can furthermore provide insufficient protection for the NOVOMATIC Group’s intellectual property or other rights. In some of these countries, crime and corruption are widespread, which could have a negative impact on the NOVOMATIC Group’s business.

Risks due to possible changes in gaming laws or taxation policy in the countries in which the NOVOMATIC Group does business

The NOVOMATIC Group operates on the basis of currently prevailing political, economic, legal, and fiscal conditions. NOVOMATIC is subject to the risk of changes to legal and taxation-related framework conditions. Changes that have already been adopted, in particular in connection with the German State Treaty on Gaming, the German Gaming Ordinance, the Austrian Gaming Act or the discontinuation of state-regulated gaming in Vienna, changes in administrative practices or even the possible additional prohibition of gaming machines or other restrictions in other jurisdictions, also have a sustained impact on NOVOMATIC’s business activities. On an international level, for example, the increase in gaming taxes in Italy constitutes a risk to the NOVOMATIC Group. Finally, it cannot be ruled out that betting laws in certain jurisdictions may be tightened for the purpose of player protection.

Risks due to the dependence on national licenses, regulations on competition and statutory provisions regarding the operation of gaming and betting facilities, as well as risks due to the dependence on production, sales and product licenses

In the countries where NOVOMATIC does business, the operation of gaming and betting facilities requires a license, concession or other type of permission from the authorities in charge. Such licenses/concessions are usually granted for a limited period of time or in the form of license agreements with limited duration. Should no option for prolongation be provided or if an extension were only possible under economically unacceptable or untenable conditions or requirements, NOVOMATIC would need to participate in new tender procedures in order to recover such a license/concession.

In the countries where NOVOMATIC does business, a permit by a state gaming authority is frequently required in order to be able to sell gaming machines and other gaming products and services. Both manufacturing and sales licenses are generally granted for a limited period of time and are subject to an audit plus subsequent certification by the competent inspecting authorities. Once licenses have been granted, they are usually extended automatically, provided that all license requirements are met. The possibility cannot be excluded that, despite the utmost care, legal provisions, regulatory requirements, technical standards or licensing conditions may not be complied with within the NOVOMATIC Group, which could result in the partial or complete withdrawal of a license, the determination of breaches of competition laws, or other types of damage to the NOVOMATIC Group’s asset, financial and earnings positions or reputation.

Risks related to legal proceedings and arbitration proceedings

During the course of its business activities, the NOVOMATIC Group is involved in legal disputes or administrative proceedings or is threatened by legal disputes or administrative proceedings resulting from the Group’s regular business activities.

Risks due to the possible tightening of regulatory measures

Gaming, and in particular online gaming, is currently not harmonized at the EU level. The individual legal frameworks of the EU Member States are, in some cases, disputed among gaming law experts. There is a risk that, in the future, limitations with regard to gaming and betting could be implemented at a national level. In addition to this, regulatory measures such as access restrictions, stricter player protection measures, provisions for the protection of non-smokers, technical requirements, advertising bans or location requirements, could be introduced. Such measures could result in a decline in the number of visitors and the revenues earned.

Evolving legal systems and tax structures, in particular in the Central, Eastern and South-Eastern European countries as well as in Latin America, could have a considerable detrimental impact on the NOVOMATIC Group

Legal systems, in particular in the Central, Eastern and South-Eastern European countries as well as in Latin America have been subject to a profound transformation over the past few years. In some of these states, the legal order and legal systems are still at an early stage of development, resulting in the inconsistent application and interpretation of legal norms. These countries therefore still lack the experience, precedent-setting cases and/or other suitable interpretation aids by which practitioners are bound and guided.

In particular, NOVOMATIC is subject to a high number of taxation standards that, in some cases, have only been in effect for a short period of time. This frequently makes the administrative practice by which they will be implemented impossible to forecast. Taxpayers such as NOVOMATIC regularly need to turn to the courts for help in order to defend their position against the tax authorities. Therefore, there is a risk that NOVOMATIC might become subject to unpredictable and burdensome taxation.

The NOVOMATIC Group is subject to risks related to intellectual property

The NOVOMATIC Group develops, produces and sells sophisticated technological gaming equipment and systems that are to a large extent protected by industrial property rights such as trademark protection rights, patent rights and rights for the protection of registered designs, as well as copyright. There is a risk of third parties violating industrial property rights or copyrights belonging to the NOVOMATIC Group, as well as of NOVOMATIC violating the industrial property rights or copyrights of third parties. In particular, there is a risk that developments owned by NOVOMATIC might be copied and illegally used or introduced to the market by third parties.

NOVOMATIC is also subject to the risk that third-party components included in its own products might violate certain intellectual property rights. In such cases, NOVOMATIC could be obligated to either not use said intellectual property rights or to pay considerable licensing fees to third parties. NOVOMATIC is also subject to the risk that third parties might acquire patents or other intellectual property in order to initiate actions for damages, etc.

The gaming industry is characterized by rapid technological development, which forces the NOVOMATIC Group to continuously develop new products and enter new markets. The NOVOMATIC Group's success, therefore, depends on its ability to continuously enhance the development of its products and systems in order to integrate new technologies and expand into new markets created by new technologies. Should certain technologies be protected by intellectual property rights held by third parties, including competitors, NOVOMATIC might not be able to offer certain products or expand into certain markets.

The NOVOMATIC Group is subject to the risk of being unable to sufficiently protect its customer data

The NOVOMATIC Group holds information about its customers which is in part sensitive (name, address, age, bank data and gaming tendencies) and must follow the strict data protection rules stipulated by the EU and other jurisdictions. Despite the security systems implemented by NOVOMATIC, there is the risk that customer data could be retrieved and/or used illegally, either by employees or by customers or third parties. There is also the risk that customer data might be deleted, disclosed or edited involuntarily or in violation of data protection regulations. Should NOVOMATIC or one of its external service providers transmit customer data without sufficient protection, or should confidential customer data be lost in any other way, NOVOMATIC might be held liable under data protection laws, which would also damage the Group's reputation.

Risks due to a tightening of international anti-money laundering provisions (Financial Action Task Force)

In the countries where NOVOMATIC pursues business activities, the operation of gaming facilities such as casinos is subject to numerous and increasingly strict legal and regulatory provisions regarding money laundering. At an international level, organizations such as the Financial Action Task Force and the EU continuously adapt and tighten the regulations and standards related to anti-money laundering provisions. A further tightening of these standards and regulations could result in additional organizational measures as well as further financial expenses for NOVOMATIC's business operations.

Risks due to audits by tax authorities

During the course of tax audit procedures carried out by the competent tax authorities, the NOVOMATIC Group could be obligated to pay additional taxes or charges. Should the total amount of taxes or charges payable in arrears result in a substantial figure, this could have a negative impact on the NOVOMATIC Group's liquidity and earnings position.

Changes in accounting policies may materially affect the reporting of the net assets, financial position and results of operations of the Group

Changes in International Financial Reporting Standards ("IFRS") or their interpretation may materially or adversely affect the reported consolidated results and the consolidated balance sheet of the NOVOMATIC Group, without resulting in a comparable change in cash flow from operating activities.

Financial Risks and Usage of Financial Instruments

The NOVOMATIC Group is subject to financial risks in the form of capital risks, financing risks, liquidity risks, counterparty risks, interest rate risks, currency risks and risks related to capital investments. In order to limit these risks, NOVOMATIC makes use of financial instruments when necessary.

Extensive descriptions of the individual risks, including the methods used to hedge the risks mentioned above, are provided in the notes to the consolidated financial statement.

9. Research and Development

Thanks to its numerous technology centers, the NOVOMATIC Group is a pioneer in the development of innovative products and system solutions in the area of gaming. The Group’s development activities focus both on “Distributed Gaming Solutions” and on gaming content and application software. The developed software system solutions include management information systems, ticketing and smart card systems, access systems, video lottery systems, biometric player recognition, links to government regulators, player protection programs, “gaming as a service”, online and mobile gaming system solutions, jackpot systems, multiplayer and community gaming systems, as well as tournament systems. Both modular software architecture and the various developments’ inter-operability are crucially important.

Development activities should be equally efficient for homogeneous markets and highly specialized niche markets. This is ensured by an open platform architecture and development teams that are specialized in individual market segments. The open platform infrastructure allows for the integration of third-party providers and their gaming applications to be able to satisfy market needs in a better and faster manner.

In developing the newest generation of cabinet variants and models, which start new industry trends, industrial design is an extremely important factor. Innovation in terms of hardware includes new and ergonomic cabinet designs for casino, video lottery and AWP gaming markets with control possible of up to five monitors, skill-based roulette terminals with state-of-the-art ball release mechanisms, the new GAMINATOR™ Scorpion cabinet, as well as V.I.P. terminals with giant screen technology and dynamic lighting effects based on LED technology. In terms of data security, increasing emphasis is being placed on physical random number generators that use quantum mechanics.

Standalone progressive jackpots (referred to as “SAP Jackpots”) further expand gaming offerings, as does a new Egyptian-themed jackpot named “Kingdom of Ra”. NOVOMATIC is also represented in the branded games sector by licensing films such as From Dusk Till Dawn, Batman, Austin Powers and Sherlock Holmes.

Development is supported by hardware and software development teams in Austria, Germany, the United Kingdom, Iceland, the Netherlands, Spain, Russia, Argentina, Canada and Poland, working either in-house or related to the Group, as well as by exclusive partnerships with developers in Slovenia, Greece, USA and Australia.

The global importance of intellectual property protection is on the rise. With approx. 4,000 registered IP trademarks and in excess of 100 registrations per year, special attention is paid to this area. The Group is constantly developing new products and product variations, resulting in over 200 new gaming variants per year. With the help of the software development kit (SDK), it is possible to add games developed by third parties to the portfolio immediately.

NOVOMATIC’s innovative strength receives frequent public recognition in the form of awards.

10. Acknowledgments

We would like to thank all employees of the NOVOMATIC Group for their strong commitment, with which they have made a major contribution to the company’s further development and success. We are especially indebted to the owner, Prof. Johann F. Graf, as well as to the Supervisory Board under the leadership of Dr. Bernd Oswald – they have contributed significantly to the positive development of the NOVOMATIC Group. We would also like to acknowledge the positive relationships with our capital providers and business partners, relationships which have always been characterized by a pleasant collaboration.

Gumpoldskirchen, April 25, 2018

Harald Neumann
Chairman, CEO

Dr. Christian Widhalm
Deputy Chairman,
Chief Investment Officer, CIO

Ryszard Presch
Chief Operating Officer, COO

Thomas Graf
Chief Technology Officer, CTO

Peter Stein
Chief Financial Officer, CFO

Consolidated Balance Sheet as of December 31, 2017

EUR m	Notes	12/31/2017	12/31/2016
ASSETS			
Non-current assets			
Intangible assets	(7.1, 7.3)	881.4	722.4 ¹
Property, plant and equipment	(7.2, 7.3)	1,041.7	953.3 ¹
Investment Property	(7.4)	21.5	21.1
Investments in Associated Companies	(7.5)	1.4	0.2
Financial assets	(7.6)	271.2	237.8
Deferred tax assets	(7.7)	98.6	93.2
Other non-current assets	(7.8)	130.4	116.9
		2,446.1	2,144.8
Current assets			
Inventories	(7.9)	268.1	225.5
Trade Receivables, Other Receivables and Assets	(7.10)	408.7	372.5
Current tax receivables	(7.7)	31.4	34.0
Current financial assets	(7.11)	25.4	31.3
Cash and cash equivalents	(7.12)	899.7	877.8
Assets of a group held for sale	(8.15)	20.4	0.0
		1,653.6	1,541.1
Total ASSETS		4,099.7	3,685.9
EQUITY AND LIABILITIES			
Equity			
Share Capital	(7.13)	26.6	26.6
Capital Reserves	(7.14)	85.4	85.4
Retained Earnings	(7.15)	1,169.0	1,246.2 ¹
Revaluation Reserve	(7.16)	23.3	5.2
Currency Translation Adjustment	(7.17)	-66.8	-52.4 ¹
		1,237.5	1,311.0
Non-controlling interests	(7.18)	91.4	65.3 ¹
		1,328.9	1,376.2
Non-current liabilities			
Non-current financial liabilities	(7.19)	1,829.0	1,395.1
Non-Current Provisions	(7.20)	83.8	66.1
Non-current tax liabilities	(7.7)	0.0	11.0
Deferred tax liabilities	(7.7)	131.9	98.4 ¹
Other Non-Current Liabilities	(7.21)	53.5	19.6
		2,098.2	1,590.3
Current liabilities			
Current Financial Liabilities	(7.22)	72.0	210.8
Current Provisions	(7.23)	82.8	68.7
Current tax liabilities	(7.7)	71.7	33.9
Trade Payables and Other Liabilities	(7.24)	429.8	406.0 ¹
Liabilities of a group held for sale	(8.15)	16.2	0.0
		672.6	719.4
Total EQUITY AND LIABILITIES		4,099.7	3,685.9

¹⁾ Adjustment of previous year's figures according to IFRS 3 "Business combinations"

Consolidated Profit and Loss Account for Financial Year 2017

EUR m	Notes	01 - 12/2017	01 - 12/2016
Revenues	(8.1)	2,527.3	2,274.0 ¹
Gaming taxes and betting fees	(8.2)	-294.2	-238.3
Revenues less gaming taxes and betting fees		2,233.1	2,035.7
Changes in inventories of finished goods and work in progress	(8.3)	6.0	21.0
Own work capitalized	(8.3)	233.0	194.6
Other Operating Income	(8.4)	134.9	107.9 ¹
Cost of Material and Other Purchased Services	(8.5)	-371.9	-356.1 ¹
Personnel costs	(8.6)	-763.7	-668.4 ¹
Amortization, Depreciation, Impairment and Reversal of Impairment for Intangible Assets, Property, Plant and Equipment, and Investment Property	(8.7)	-377.0	-321.1 ¹
Other operating expenses	(8.8)	-884.6	-748.3 ¹
Operating profit		209.8	265.3
Interest income	(8.9)	9.6	7.8
Other Financial Income	(8.10)	31.4	12.6
Interest expenses	(8.11)	-40.8	-37.0 ¹
Other financial expenses	(8.12)	-14.5	-12.1
Currency exchange gains/losses from intra-group financing	(8.13)	-7.4	-5.9 ¹
Financial result		-21.5	-34.6
Earnings before taxes		188.3	230.7
Tax expenses	(8.14)	-102.1	-75.0
Net income from continued operations		86.2	155.7
Result from discontinued operations	(8.15)	-24.8	0.7 ¹
Annual profit		61.4	156.4
thereof attributable to non-controlling interests		3.1	6.8
thereof attributable to shareholders of the parent (net profit)		58.3	149.6¹

¹⁾ Adjustment of previous year's figures according to IAS 8 or IFRS 3 "Business combinations"

Consolidated Statement of Comprehensive Income for Financial Year 2017

EUR m	Notes	01 - 12/2017	01 - 12/2016
Annual profit		61.4	156.4¹
Amounts that will be reclassified to profit and loss account in subsequent periods			
Currency translation	(7.18, 7.19)	-14.5	-28.4 ¹
Currency translation for discontinued operations		0.2	-0.1
Hedging of payment flows		-12.5	0.0
Market value of financial assets available for sale	(7.17)	40.8	18.4
Apportionable income tax		-10.2	-4.6
Amounts that will not be reclassified to profit and loss account in subsequent periods			
Revaluation of the net defined benefit liability	(7.16)	0.5	-3.0
Apportionable income tax		-0.1	0.9
Other comprehensive income after taxes		4.2	-16.9
Total comprehensive income		65.6	139.5
thereof attributable to non-controlling interests		3.3	6.8
thereof attributable to shareholders of the parent (net profit)		62.3	132.7¹

¹⁾ Adjustment of previous year's figures according to IAS 8 or IFRS 3 "Business combinations"

Consolidated Cash Flow Statement for Financial Year 2017

EUR m	Notes	01–12/2017	01–12/2016
Operating profit		209.8	265.3¹
Result from discontinued operations		-24.8	0.7
		185.0	266.0¹
Loss (+) / Gain (-) from the disposal of fixed assets		-16.1	-12.1 ¹
Depreciation (+) / Appreciation (-) of fixed assets		391.9	324.4
Other non-cash income and expenses		-46.1	-33.2
Interest received and interest-related income		18.3	13.0
Taxes paid		-95.4	-89.1 ¹
		437.6	469.0
Increase (-) / Decrease (+) in inventories		-47.8	-30.4
Increase (-) / Decrease (+) in receivables		-33.8	-31.8
Increase (+) / Decrease (-) in provisions		36.3	24.7 ¹
Increase (+) / Decrease (-) in liabilities		26.9	-2.4
Cash flow from operating activities		419.2	429.1
Proceeds from the disposal of fixed assets (excluding financial assets)		80.2	76.1 ¹
Proceeds from the disposal/repayment of financial assets		25.0	106.3
Proceeds from the sale of consolidated companies, net of cash		36.8	51.9
Acquisition of intangible assets, property, plant and equipment		-446.4	-415.3
Acquisition of financial assets and other financial investments		-28.2	-139.4
Acquisition of consolidated companies, net of cash		-199.8	-199.5 ¹
Results from associated companies and investments		15.6	0.3
Cash flow from investing activities		-516.7	-519.5
Proceeds from capital increase		0.0	85.0
Dividend payments		-57.5	-50.8
Proceeds from non-controlling interests		0.0	0.3
Expenditures from change in interests in subsidiaries (without change of control)		-18.8	-17.1 ¹
Proceeds from issuance of a bond		0.0	492.7
Expenditures from the redemption of bonds		-148.2	0.0
Proceeds from bank loans and financial liabilities		483.4	135.7
Payouts from bank loans and financial liabilities		-97.2	-133.0
Interest paid and interest-related expenses		-52.0	-38.8 ¹
Cash flow from financing activities		109.6	474.0
Net change in cash and cash equivalents		12.1	383.5
Currency translation adjustments		-0.5	-8.2 ¹
Changes in cash and cash equivalents due to changes in scope of consolidation		10.0	0.1
Net change in cash and cash equivalents		21.6	375.3
Cash and cash equivalents at the beginning of the period	(7.12, 9)	878.0	502.5
Cash and cash equivalents at the end of the period	(7.12, 9)	899.7	877.8
Net change in cash and cash equivalents		21.6	375.3

¹⁾ Adjustment of previous year's figures according to IAS 8

Consolidated Statement of Changes in Equity for Financial Year 2017

EUR m	Shares of shareholders of NOVOMATIC AG						Non-controlling interests	Equity
	Share capital	Capital reserve	Retained earnings	Revaluation reserves	Currency translation adjustment	Total		
As of 1/1/2017	26.6	85.4	1,246.2	5.2	-52.4	1,311.0	65.3	1,376.2
1) Total comprehensive income								
Profit for the period	0.0	0.0	58.3	0.0	0.0	58.3	3.1	61.4
Other comprehensive income	0.0	0.0	0.2	18.0	-14.3	3.9	0.3	4.2
2) Dividend payments	0.0	0.0	-50.0	0.0	0.0	-50.0	-7.5	-57.5
3) Change in non-controlling interests	0.0	0.0	-10.0	0.0	0.0	-10.0	-6.4	-16.4
4) Changes in the scope of consolidation	0.0	0.0	-1.5	0.0	0.0	-1.5	35.3	33.8
5) Obligation from written put options for non-controlling interests	0.0	0.0	-39.3	0.0	0.0	-39.3	0.0	-39.3
6) Transactions under common control	0.0	0.0	-34.8	0.0	0.0	-34.8	1.4	-33.4
As of 12/31/2017	26.6	85.4	1,169.0	23.3	-66.8	1,237.5	91.4	1,328.9

EUR m	Shares of shareholders of NOVOMATIC AG						Non-controlling interests	Equity
	Share capital	Capital reserve	Retained earnings	Revaluation reserves	Currency translation adjustment	Total		
As of 1/1/2016	26.0	1.0	1,172.5	-8.6	-24.1	1,166.9	48.4	1,215.3
1) Total comprehensive income								
Profit for the period	0.0	0.0	149.6 ¹	0.0	0.0	149.6	6.8	156.4
Other comprehensive income	0.0	0.0	-2.1	13.8	-28.5 ¹	-16.9	0.0	-16.9
2) Dividend payments	0.0	0.0	-50.0	0.0	0.0	-50.0	-0.8	-50.8
3) Change in non-controlling interests	0.0	0.0	-14.1	0.0	0.1	-14.0	-3.2 ¹	-17.1
4) Changes in the scope of consolidation	0.0	0.0	0.3	0.0	0.0	0.3	13.9 ¹	14.2
5) Obligation from written put options for non-controlling interests	0.0	0.0	-10.0 ¹	0.0	0.0	-10.0	0.0	-10.0
6) Capital increase	0.6	84.4	0.0	0.0	0.0	85.0	0.3	85.3
As of 12/31/2016	26.6	85.4	1,246.2	5.2	-52.4	1,311.0	65.3	1,376.2

¹⁾ Adjustment of previous year's figures according to IAS 8

Notes to the Consolidated Financial Statements

as of December 31, 2017

(1) Information about the Company

The NOVOMATIC Group consists of NOVOMATIC AG and its subsidiaries. NOVOMATIC AG is a public limited company according to Austrian legislation and its registered office is in Gumpoldskirchen, Austria. The company's address is NOVOMATIC AG, Wiener Strasse 158, 2352 Gumpoldskirchen. The company is filed with the Register of Companies maintained by the Regional Court of Wiener Neustadt under FN 69548 b.

The NOVOMATIC Group is a globally operating, integrated gaming technology and entertainment company. The Group develops, manufactures and sells gaming products, lottery technologies and networked system solutions for domestic and international gaming and betting markets. The NOVOMATIC Group furthermore operates around 2,100 gaming facilities, which include casinos, slot arcades, sports betting outlets, and bingo facilities.

In addition to the development of gaming equipment, the NOVOMATIC Group has also established itself as a content provider of games for licensed online and offline suppliers and as an operator of online gaming platforms.

The NOVOMATIC Group is aware of its considerable social responsibility and pursues business activities only in markets with a clearly defined legal framework.

(2) Accounting Principles

The present consolidated financial statements as of December 31, 2017 was prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as well as with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (EU). The requirements of Sec. 245a para 1 of the Austrian Commercial Code have likewise been fulfilled.

The fiscal year corresponds to the calendar year. The financial statements of every fully consolidated domestic or foreign company included in the Consolidated Financial Statement for 2017 were prepared as of the balance sheet date of the consolidated financial statements.

The Consolidated Financial Statement is prepared in euros. For the purpose of clarity, all items in the consolidated financial statements are shown in millions of euros (EUR m). Due to the financial rounding of individual values and percentages, insignificant discrepancies may arise.

(3) Scope of Consolidation

This Consolidated Financial Statement covers NOVOMATIC AG and the companies that it controls. The control over a subsidiary is assumed if NOVOMATIC AG can exercise control over the associated company either directly or indirectly, is exposed to fluctuating returns on its investment, and can influence returns in terms of their size due to the power to control. Subsidiaries are fully consolidated from the acquisition date, i.e. the date on which the Group gains control over the company. Inclusion in the consolidated financial statements ends when the parent no longer exercises control over the subsidiary.

The equity method is applied for companies that are significantly influenced – but cannot be considered to be controlled – by NOVOMATIC AG. In cases of joint operations, the attributable assets and liabilities are recognized.

Affiliated companies, whose influence on the net assets, financial and earnings position of the Group is marginal, are not included in the scope of the fully consolidated companies but are shown as financial assets at acquisition costs.

The scope of consolidation has developed as follows:

Scope of consolidation	Fully consolidated	Valued at equity	Joint activity
As of 1/1/2017	217	1	1
First time inclusion in 2017	37	2	0
Disposed of in 2017	-7	0	0
Merged in 2017	-25	0	0
Switched from joint operations to fully consolidated in 2017	1	0	-1
As of 12/31/2017	223	3	0
thereof non-Austrian companies	203	2	0

A summary of fully consolidated subsidiaries, companies consolidated using the equity method, and non-consolidated affiliated companies can be found under other disclosures.

During 2017, the Group acquired or founded the following subsidiaries:

- Admiral Leisure SRL., Romania
- Advanced Technology Trust S.A., Poland
- ALP S.r.l., Italy
- Amugames Automaten BV, the Netherlands
- Basque Gaming S.L., Spain
- Bet Master SRL, Romania
- Biermann's Bingo B.V., the Netherlands
- Bingo Casilini S.r.l., Italy
- Bingo Italia S.r.l., Italy
- Bingo Net S.r.l., Italy
- Capecod Gaming S.r.l., Italy
- Casino Admiral Appelscha B.V., the Netherlands
- Casino Royal GmbH – Subgroup, Germany
- CIV S.r.l., Italy
- Decanomatic S.L., Spain
- Erreka Games S.L., Spain
- Estrada Polska Sp.z.o.o., Poland
- FEC S.p.A., Italy
- Fortress Gaming Technologies S.A., Poland

- Greentube UK Ltd., United Kingdom
- Inversiones Kerala S.A.C., Peru
- NMI Invest GmbH, Austria
- Novarmatic Srl., Italy
- Novo Poland Sp.z.o.o., Poland
- Novomatic Services FRA SAS, France
- NOVOMATIC Technologies Poland S.A., Poland
- Orchidea 2001 S.r.l., Italy
- Pajuma Algeciras S.L., Spain
- PDP S.r.l., Italy
- Recreativos del Este S.L., Spain
- Rio Vught B.V., the Netherlands
- Slotter Group (Mini Casino Europa S.r.l. - Mini Casino Europa S.r.l. 7), Italy
- Spielbanken MV GmbH & Co.KG (Spielbanken MV Bewerbergesellschaft GmbH & Co.KG), Germany
- Super Game B.V., the Netherlands
- Video Planet Srl., Italy

Additionally two subsidiaries were acquired and included in the scope of consolidation.

Interseven Gaming Team S.L., Spain, has been included in the scope of consolidation since 31 October 2017, being moved from joint operations.

In Italy, Spain, and Poland, some subsidiaries were merged.

(4) Accounting Policies

Standards and Interpretations to be Applied for the First Time in Financial Year 2017

The following new or revised standards and interpretations were adopted by EU legislation and implemented for the first time in the 2017 fiscal year:

Standard/Interpretation	
IAS 7	Disclosure Initiative
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses
Miscellaneous	Annual Improvements to IFRS 2014–2016

The application of the amendments had no significant impact on the Consolidated Financial Statement.

Standards and Interpretations Already Published, but only to be Applied in Future Periods

At the date upon which this financial statement was authorized for publication, the following standards and interpretations relevant to the NOVOMATIC Group were already published but not yet mandatory and were not voluntarily applied in advance:

Standard/Interpretation		Obligatory application for the financial years from
IAS 40	Investment Property	January 1, 2018
IFRS 9	Financial Instruments	January 1, 2018
	Amendments: Negative prepayment penalties	January 1, 2019
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
	Clarification to IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
IFRS 16	Leasing	January 1, 2019
IFRS 17	Insurance Contracts	January 1, 2021 ¹⁾
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
IFRIC 23	Uncertainty regarding income tax treatment	January 1, 2019 ¹⁾

¹⁾ Not adopted by EU legislation so far

The introduction and implementation of the aforementioned standards and interpretations in the NOVOMATIC Group is intended from the time of mandatory application taking into account any potential exemptions.

The new IFRS 9 “Financial Instruments” deals with the classification, recognition, measurement and derecognition of financial assets and liabilities. The new regulations are based on the business model and the contractual cash flows when it comes to classifying financial instruments. Similarly, the recognition of write-offs on financial assets has been reorganized to reflect the expected loss model. Furthermore, the regulations regarding hedge accounting were modified with the objective of allowing entities to better reflect risk management activities and measure their effectiveness more easily. IFRS 9 also requires comprehensive new disclosures and changes in the presentation.

The new regulations on classifying and subsequent measurement of financial assets and liabilities will not have a material effect on the Consolidated Financial Statement, as first-time recognition and subsequent measurement will take place, for the overwhelming majority of financial instruments, in accordance with principles comparable to previous accounting methods. There are some changes, for example for shares held in investment funds. In future, these must be measured via the income statement at fair value, as the payments in connection with the funds are not solely made up of interest and principal payments. In addition, individual effects may be in evidence during accounting for (other) shares or shares held over the long term, which up until now were partially positioned under acquisition costs and must now be measured with the fair value. Not only that, the Group will use the option of classifying equity instruments which, in accordance with IFRS 9, must in principle be measured via the income statement, as FVTOCI. This will lead to less volatility in the result, as in the future all valuation and disposal connected to these equity instruments will be included in the other comprehensive income.

With regard to write-offs within the NOVOMATIC Group, trade receivables, loans, and bank and time deposits, in particular, are affected by the new regulations. Expected credit loss calculations as of December 31, 2017, however, have shown that the new impairment loss logic has not caused any material impairments or deviations to the previous write-offs. In terms of trade receivables, the NOVOMATIC Group will follow the suggestion in IFRS 9.B5.5.35 and use a provision matrix as an application simplification to determine the required impairment losses, which will be based on historical failure rates, if necessary adjusted with future-oriented information, and subject to a relevant risk grouping.

In addition, the extended requirements will affect the nature and extent of disclosures on financial instruments.

The initial application of IFRS 9 within the NOVOMATIC Group will take place retroactively in the 2018 fiscal year; there will be a record of cumulative adjustment amounts for the date of initial application, and therefore no adjustment of comparative information.

The new IFRS 15 “Revenue from Contracts with Customers” regulates the recognition of revenue and thus replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. Pursuant to IFRS 15, revenues are to be recognized when the customer acquires the power to dispose of the agreed goods and services and may derive a benefit therefrom. The standard provides for a five-step model to recognize revenues. The first step is to identify the contract/contracts with customers and the independent performance obligations so as then to determine the transaction price and to divide up the contractual performance obligations. NOVOMATIC generates revenue primarily in the following areas:

- Revenue from the operation of gaming machines
- Rental and management revenue from gaming machines
- Sales revenues from gaming machines
- Revenue from eBusiness
- Betting revenues

In areas concerned by revenue recognition, there has hitherto been an orientation towards industrial practice as well as US regulations regarding the gaming industry (such as the treatment of proceeds from the operation of gaming machines as a net amount from the use of customers and payout to them according to ASC 924). For the purposes of IFRS 15, retaining this approach was analyzed, with the result that in many areas, such as the operation of gaming halls or the betting business, a continuation of the previous accounting practice is not inconsistent with IFRS 15. In this context, due to the similarity of the provisions of IFRS 15 with those of the US ASC 606, similarly in-depth US guidance was used (e.g. the industry guidance of the AICPA for the gaming industry).

The focus of the further analysis of NOVOMATIC concerning the provisions of IFRS 15 for the individual areas listed above was on:

- **Separation of benefit obligations and the associated transfer of control**

This topic mainly concerns the area of the “sale of gaming machines”, since in this context additional services such as installation, spare parts, warranties, software updates or transport services are often agreed. In principle, the separation of individual benefit obligations and transfer of control currently already complies with the requirements of IFRS 15.

Equally relevant was the assessment of this point in the area of the “operation of gaming machines” in which customers are sometimes granted game incentives in the form of coupons, complementary services or jackpot systems. These are to be divided into discretionary and non-discretionary incentives which, depending on their nature, are to be regarded as a marketing expense, own performance obligation or option with substantial justification. The current procedure basically complies with the requirements of IFRS 15.

- **Handling any variables in the transaction price**

In the area of the “sale of gaming machines”, contracts were examined for possible financing components and rights of return, with these occurring only sporadically and, to a large extent, having already hitherto been accounted for in compliance with IFRS 15.

In the betting business, this point was also important. Due to the uncertainty associated with the betting result, there are variable payments that are only recognized in the proceeds with the appropriate security. This corresponds to the current procedure.

- **Interaction of IFRS 15 and IAS 17/IFRS 16 in the rental business**

In connection with the rental business, the question of the separation of individual services, as well as the corresponding time of the revenue recognition, are of particular importance. Rental revenues are recognized over the contract period. Maintenance services and cash collection services are also recognized over the relevant period, which complies with the requirements of IFRS 15, meaning that there are no changes here.

In summary there will be no material impact of IFRS 15 on the accounting of Group revenues, however individual changes in presentation and extended disclosures in the notes will be required.

The new IFRS 16 “Leasing” regulates the recognition, measurement and reporting, as well as the disclosure requirements, regarding leases. For the lessee, the standard provides for a single accounting model. This model results in the lessee having to recognize all assets and liabilities from lease agreements in the balance sheet. The only exceptions here are for current leases and leases for low-value assets. Lessors, on the other hand, continue to differentiate between financing and operating leases. The NOVOMATIC Group is currently undertaking a detailed analysis of the impact of IFRS 16. On the one hand, NOVOMATIC has a large presence as a lessee, since a considerable number of the operated slot arcades are rented, but on the other hand also as a lessor, since gaming equipment is rented in addition to the possibility of being sold. At a general level, it is expected that the recognition of usage rights and leasing liabilities from the contracts previously classified as operating leases, where the Group acts as lessee, will be enhanced. The most important effect is apparent in the area of operated gaming arcades or locations that are largely rented by third parties. Rental business is not generally expected to have a major impact for the lessor, as the criteria of IAS 17 for assessing whether a finance lease or an operating lease essentially exist have been carried over to IFRS 16. IFRS 16 is to be applied for the first time in fiscal years commencing on or after January 1, 2019. NOVOMATIC does not plan to adopt the new standards early.

The NOVOMATIC Group does not expect any significant impact on its net assets, financial and earnings position due to the first-time application of the other standards and interpretations.

Basis of Consolidation

First-time consolidation of acquired companies is carried out according to the purchase method at the date of acquisition. The consideration transferred in the case of a business combination is measured at its fair value, which is an aggregate of the fair values of the assets acquired and liabilities taken over from the former owner of the acquired company at the date of acquisition in exchange for control of the company. The contingent consideration is treated as part of the transferred consideration and is measured at its fair value at the date of acquisition. If the business combination is achieved in stages, the previously held interest in the acquired entity is revalued at the fair value prevailing at the acquisition date and the resulting profit or loss is recognized in the Consolidated Profit and Loss Account. Additional acquisition costs are directly recognized as expense.

The acquired identifiable assets and liabilities taken over are measured at their fair value at the date of acquisition, unless exceptions thereto exist. In accordance with IFRS 3, any excess of the consideration transferred over the fair values of the identifiable net assets acquired is recognized as goodwill. If the consideration transferred is below the identifiable net assets, the difference is recognized against income after a reevaluation of the acquired net assets.

Non-controlling interests are valued initially at either their respective share of the identifiable net assets or their fair value. During the subsequent accounting, the profit/loss of the subsidiary is attributed proportionally to the non-controlling interests, even if this results in a negative balance. The presentation is within the equity and is separate from the equity attributable to the shareholders of NOVOMATIC AG.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Profit and Loss Account from the effective date of acquisition or up to the effective date of disposal.

Changes in interests in subsidiaries without loss of control are recognized as equity transactions.

The results, as well as the assets and liabilities of associated companies, are included using the equity method. Investments in associated companies are recognized on the balance sheet at acquisition costs, adjusted by post-acquisition changes of the Group's share of net assets, as well as by losses resulting from impairment. Losses exceeding the Group's share of the associated company are not taken into account.

In the case of joint operations, the Group recognizes its share in jointly held assets, incurred debts, revenues and expenses.

All significant intercompany receivables, liabilities, expenses and earnings, as well as intragroup profits, are eliminated.

Foreign Currency Translation

Foreign currency transactions are presented in the functional currency by applying the exchange rate between the functional currency and the foreign currency at the time of the transaction. Exchange rate differences from the payment of monetary items at conversion rates that deviate from those initially recognized are recognized immediately in profit or loss.

Foreign fully consolidated subsidiaries are considered as independent companies because they are financially, economically and organizationally independent. Their functional currencies are usually the respective national currencies. Apart from the positions within equity, all balance sheet items are translated into the reporting currency at the exchange rate prevailing on December 31, 2017. Income and expense items of foreign consolidated companies are translated at average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income. Upon the elimination of a foreign company from the consolidation scope, the exchange difference is recognized in profit or loss.

The significant exchange rates used for the currency translation developed as follows:

Equivalent amount = EUR 1	Exchange rate prevailing at the balance sheet date		Average exchange rate for the year	
	12/31/2017	12/31/2016	2017	2016
British pound	0.8888	0.8575	0.8761	0.8228
Croatian kuna	7.4437	7.5500	7.4637	7.5310
Macedonian denar	61.6390	61.5520	61.5875	61.5594
Peruvian new sol	3.8827	3.5200	3.6817	3.7165
Romanian leu	4.6683	4.5420	4.5686	4.4922
US Dollar	1.2021	1.0563	1.1294	1.1034

Intangible Assets and Goodwill

Acquired intangible assets are capitalized at acquisition costs and amortized on a scheduled straight-line basis according to their economic useful life or contract period. Internally generated intangible assets are capitalized at production costs if the criteria for inclusion are met and amortized on a scheduled straight-line basis according to their economic useful life.

Trademarks and licenses can have indefinite useful lives. The assessment of intangible assets with an indefinite useful life is reviewed once a year to decide if the assumption of an indefinite useful life is still justified. If this is not the case, the assumption of an indefinite useful life is changed prospectively to a limited useful life.

For intangible assets with an indefinite useful life, an impairment test is carried out at least annually or, in cases where indications of impairment arise, also during the year. Impairment is given if the recoverable amount is lower than the carrying amount. The recoverable amount is the higher value of the fair value and the value-in-use. Impairment is recognized in the year during which the event causing the impairment arises. Where an impairment loss subsequently reverses, the assets are written up.

In the case of business combinations, any excess of the consideration transferred over the fair values of the identifiable net assets acquired is shown as goodwill and allocated to cash-generating units for the purpose of an impairment test. The allocation to cash-generating units or groups of cash-generating units is carried out on the identified business segments that are expected to profit from it. The carrying amount of the goodwill is subject to an impairment test annually as of September 30, or if there is any

indication of impairment. The carrying amount is compared to the recoverable amount for the cash-generating unit to which it is allocated. Any impairment loss is immediately charged against income and is not reversed in any later period.

The estimated useful lives for intangible assets and goodwill are:

	Useful life in years	
	from	to
Goodwill		indefinite
Software	3	5
Patents and trademarks	3	20 or indefinite
Licenses	5	20 or indefinite
Customer relationships	3	20
Other intangible assets	3	10

Property, plant and equipment

Property, plant and equipment are stated on the balance sheet at acquisition or production costs less the scheduled straight-line depreciation and amortization. Depreciation of property, plant and equipment begins when they are ready for use. For the determination of the estimated useful life of property, plant and equipment, their expected economic life is taken into account. With regard to impairment tests in cases where the corresponding indications arise, reference to the above remarks will be made.

The estimated useful lives for property, plant and equipment are:

	Useful life in years	
	from	to
Buildings	20	50
Investments in rented property	10	20
Machines	3	10
Gaming machines	3	7
Equipment	3	10

Investment Property

Investment property denotes land and buildings held but not used in business operations. They are stated at amortized cost. Buildings are written off over their estimated useful lives of 25 to 50 years using the straight-line method.

Leasing

Agreements by which all risks and rewards of ownership related to the use of the assets transferred to the Group are classified as finance leases. Assets held as finance leases are recognized initially at their fair value or, if lower, at the present value of the minimum lease payments, and are written off over their estimated useful life or over the shorter term of the leasing contract, if applicable. The capitalized assets are shown on the balance sheet along with the present value of the liability from all lease payment outstanding at the balance sheet date.

For agreements where the Group is lessor, the amounts payable by the lessee based on finance lease relationships are shown as receivables amounting to the net investment in the lease of the Group.

All other leases are qualified as operating leases. Rentals are shown as an expense or income.

Inventories

Inventories are stated at acquisition or production cost, or at the lower net realizable value. Costs of raw materials and supplies are calculated using the weighted average price method. Aside from individual manufacturing and material costs, finished and unfinished goods contain reasonable shares of material and production overheads. Inventories are reviewed for slow movement or obsolete items and, if necessary, appropriate adjustments are made. Advance payments concerning inventory are related to advance payments for deliveries.

Other Assets

Precious metals (gold) are valued and recognized in accordance with the current market value. Due to the high liquidity and volatility, a measurement at fair value is usual and considered the most suitable valuation method.

Assets Held for Sale and Sale Groups

Non-current assets and sale groups classified as held for sale are measured at the lower amount of their original book value and the fair value minus the cost of sale. In the event that the Group has agreed on a sale that will result in the loss of control over a subsidiary, all asset positions and debts from said subsidiary will be classified as held for sale.

Financial Instruments

A financial instrument is a contract that is simultaneously recognized by one entity as a financial asset and by that entity's counterparty as a financial liability or an equity instrument. The recognition of the financial instrument in the balance sheet occurs only when the Group is a party to the contract.

The valuation of financial instruments is dependent on the categories to which the specific instruments belong, as defined in accordance with IAS 39. In the NOVOMATIC Group's balance sheet, the following financial instruments are disclosed:

- Loans and Receivables
- Available-for-sale financial assets
- Financial Liabilities Recognized at Amortized Cost
- Financial Liabilities Measured at Fair Value through Profit or Loss

Loans and Receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted on tradable markets are recognized under this category. Such assets primarily include trade receivables, loans and other receivables, as well as cash and cash equivalents. Loans and receivables are carried at amortized cost less impairment. Foreign currency receivables are valued using the prevailing rates as of the balance sheet date and the resulting currency translation differences are recognized in profit or loss.

Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that have been either designated as such or not classified in any of the other categories in accordance with IAS 39. These include securities, investments in affiliated, non-consolidated entities and other participating interests (including financial investments). The valuations of available-for-sale assets are carried at fair value.

The valuation of securities is done to correspond with market values – the values of which can be derived from quoted market prices on the balance sheet date. In the case of financial investments, the market value is derived from internal company valuations. Any changes in value resulting from fluctuations in fair value are recognized in other comprehensive income, accumulated under changes in revaluation reserve (IAS 39). When the investment is impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

The valuation of holdings in affiliated, non-consolidated entities and other participating interests (excluding financial investments) cannot be reliably determined. Therefore, such assets are carried at amortized cost less impairment. If the reasons for the impairment no longer exist, the assets will be appreciated up to the maximum of their original acquisition costs.

Financial Liabilities Recognized at Amortized Cost

Financial liabilities, which include bonds, borrowings from banks and other liabilities, are carried at amortized cost. Non-current liabilities are discounted using the effective interest method, with the interest expense, calculated in accordance with the effective interest rate, recognized in profit or loss. Foreign currency liabilities are valued using the prevailing rates on the balance sheet date and the resulting currency translation differences are recognized in profit or loss.

Financial Liabilities Measured at Fair Value through Profit or Loss

A financial liability is measured at fair value through profit or loss when it is classified as a derivative or contingent consideration.

The Group uses derivatives as hedging instruments against interest and currency risks in the operating business. These derivatives are valued at fair value on the basis of generally accepted financial mathematical models. Derivatives are recognized as assets when their fair value is positive, and as liabilities when their fair value is negative.

For the initial recognition of contingent considerations in a business combination, the facts and circumstances surrounding the contingent consideration that existed at the time of acquisition are disclosed. Subsequent valuation is measured at fair value through profit or loss.

Cash Flow Hedges

For derivatives and other hedging instruments intended to hedge against the risk of fluctuating cash flows, the effective portion of changes in the fair value of the hedging instruments is recognized in other comprehensive income and recognized in equity in the cash flow hedge reserve. The ineffective portion of changes in fair value is recognized directly in profit or loss.

The cumulative amount recognized in equity initially remains in other comprehensive income and is reclassified to profit or loss in the same period or periods in which the hedged expected cash flows or hedged underlying transaction affects profit or loss. When hedging non-financial items, a so-called base adjustment is made.

Impairment of Financial Assets

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected negatively. Losses expected to arise from possible future events, regardless of their likelihood of occurrence, cannot be recognized.

For the purposes of determining the recoverability of receivables, the creditworthiness of customers, existing collaterals, changes in payment history and behavior, and past experiences, are taken into account. Expected default risks are calculated into value adjustments or writedowns.

Recognition and Derecognition

Financial assets and financial liabilities are recognized on the Group’s balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. Recognition and derecognition are booked at the trading date.

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset along with all significant risks and rewards associated with ownership of the asset to another entity.

The Group derecognizes a financial liability when the Group’s obligations related to that financial liability have been discharged or canceled, or have expired.

Provisions

Provisions for pensions or similar obligations, as well as provisions for severance and jubilee payments, are measured according to the regulations of IAS 19 using the projected unit credit method. The costs of the estimated benefit entitlements are allocated over the whole period of employment. Future increases in remuneration are taken into account. Actuarial gains and losses concerning provisions for severance payments and pensions are recognized in other comprehensive income or charged against income when it comes to jubilee payments. Past service costs are recognized as an expense at the time of plan adjustment. Provisions correspond to the present value of the obligations (DBO). The accrued amounts are based on the expert opinion of qualified actuaries as of the respective balance sheet date.

Other provisions are stated at the amount necessary to cover uncertain payment obligations and result from careful consideration of all the facts involved.

Contingent Liabilities

Contingent liabilities are possible current obligations that arise from past events, where an outflow of resources is nonetheless not probable. If, in rare cases, a present obligation is not recognized in the consolidated financial statements as a provision because the amount of the obligation cannot be measured with sufficient reliability, this is also classified as contingent liability. Contingent liabilities are not stated in the consolidated balance sheet but are disclosed in the notes to the Consolidated Financial Statement.

Revenue and Expense Recognition

The Group recognizes revenues from the sale and rental of gaming machines, from the operation of gaming halls and electronic gaming machine casinos, as well as from online gaming and from betting. Revenues from the sale of gaming machines are recognized when the products are delivered and risk and ownership have passed to the customer. Rental revenues are recognized at the rendering of service; obtained special rent payments are deferred on a straight-line basis over the service performance period (basic rental period). Revenues from the operation of gaming halls and electronic gaming machine casinos are shown as the net amount of the bets placed by customers and the payouts received by them and are recognized at the time of settlement. In cases where the supply and networking of account settlement systems represent the core business activity, the consideration received is shown as revenue. Revenue from online gaming is recognized as soon as the underlying games have taken place or the service has been provided. Betting income is recognized according to the number of bets placed up to the balance sheet date, insofar as the underlying bets have already taken place. Revenues from betting operations are shown as net amounts resulting from bets and payouts from betting. Operating expenses are recognized when incurred or at the date of use of the service.

Financial result

Interest expense is comprised of interest accrued on debt financing and finance leases. Other finance cost relates to the impairment of financial assets, losses on the disposal of financial assets and expenses related to derivatives.

Interest income includes realized interest income from the investment in funds and investments in financial assets. Other finance income is comprised of dividends and similar income, profits from the sale of financial assets, and income from derivatives.

Foreign currency effects resulting from intragroup financing are stated separately in the financial result because of their close connection to financing activities.

Taxes

The income tax expense disclosed is comprised of the income tax payments by each subsidiary based on its taxable profit for the year and calculated using the applicable tax rate for the respective jurisdiction (“actual taxes”), as well as of changes in the deferred taxes.

Deferred taxes are accounted for using the balance sheet liability method and are recognized for temporary differences arising between the carrying amounts stated in the consolidated balance sheet as per IFRS and the corresponding tax base used on the balance sheet of the subsidiary. Furthermore, the probable tax advantages resulting from tax loss carried forward are also taken into account for the determination of deferred taxes. Temporary differences arising from non-deductible goodwill or (under certain circumstances) from the initial recognition of an asset or liability are not recognized.

Deferred tax assets and liabilities are shown net in the Group if a right of set-off exists and the taxes relate to taxpayers in the same tax group.

Important average tax rates used by Group companies are:

Country	2017 tax rate	2016 tax rate
Germany	15.825 %–57.2 %	15.825 %–57.2 %
United Kingdom	17 %–19.25 %	20 %
Italy	24 %–27.9 %	27.5 %–31.4 %
Croatia	18 %	20 %
Latvia	15 %	15 %
Malta	35 %	5 % and 35 %
Macedonia	10 %	10 %
Netherlands	25 %	25 %
Austria	25 %	25 %
Peru	29.5 %	28 %
Romania	16 %	16 %
Spain	25 %	25 %
United States	26%–40 %	40 %

Fair Value Measurement

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The NOVOMATIC Group uses the following hierarchy to allocate certain assets and/or liabilities, which are either to be stated at fair value or at least where the fair value has to be disclosed, to a certain measurement method:

Level 1: Measurement on the basis of quoted (unadjusted) prices in active markets

Level 2: Measurement on the basis of market prices for similar instruments or on the basis of valuation methods, relying solely upon parameters observable in the market.

Level 3: Measurement on the basis of parameters that significantly affect the fair value and are not based on observable market data.

In the face of varying influencing factors, the fair values presented can only be considered as indicators of the values that could actually be generated on the market.

Estimates and Judgments

For the preparation of the financial statements, assumptions and estimates were made that influence the amount of assets and liabilities, income and expenses, for the review period. Even under a high degree of diligence, these assumptions may differ from the actual circumstances.

For the following situations, the assumptions made at the balance sheet date are of particular importance:

The assessment of recoverability of intangible assets and property, plant and equipment is based on assumptions for the future. For the impairment tests, several assumptions to determine the recoverable amount are taken into account. Of particular importance are future cash flows as well as the discount rate. Cash flow predictions are based on financial plans approved by the management. In addition, assumptions for the presence of indicators for impairments or the reversal of impairments are necessary.

Concerning purchase price allocations performed for business combinations, assumptions are made concerning the existence and valuation of assets (in particular intangible assets), liabilities, and contingent liabilities received. The evaluation of their fair value is based on several different assumptions, especially for future cash flows and the discount rate. For the evaluation of contingent considerations, assumptions are made concerning the probability of achieving the defined objectives.

Assumptions are necessary for estimating the useful life of property, plant and equipment, and intangible assets.

Deferred tax assets are recognized to the extent that it is probable that sufficient taxable income will be generated in future periods to utilize deductible temporary differences or existing tax loss carryforwards.

The fair value of financial assets (if reliably determinable), as well as derivatives, is derived based on market information available on the balance sheet date. When calculating the market value of financial investments, a multiplier method is used as there is no active market available for this. The parameters used in the measurement may be fraught with predictive uncertainty and, similarly, the selection of the suitable peer group requires assumptions about their comparability. In the face of varying influencing factors, the values disclosed may deviate from values realized at a later point in time.

Concerning the valuation of inventories, assumptions must be made regarding market development and economic exploitability. Concerning receivables, individual value adjustments are made based on assumptions about the probability of default.

Additionally, the preparation of financial statements requires that assumptions be made about future developments. Concerning social capital obligations, assumptions are made about the employees’ retirement age and life expectancy as well as about future pension and salary increases.

A provision for anticipated losses will be created for existing contracts in which it is expected that the total contract cost will exceed the total contract revenue. As part of the determination process, several assumptions had to be made regarding the future development of earnings (in particular with regard to the cost structure).

The assumptions upon which estimates are based are subject to constant scrutiny and adjustment.

Changes in Recognition

Due to the application of the classification, presentation and measurement requirements of IFRS 5 to the I-New Group in the 2017 Consolidated Financial Statement, the comparative figures in the income statement for the previous period were restated. Further explanations are provided in note (8.15).

(5a) Company Acquisitions in 2017

Germany

In March 2017, NOVOMATIC Gaming Industries GmbH acquired 100 percent of the shares in Casino Royal GmbH, Germany. The acquired company and its 10 subsidiaries operate a total of 126 gaming arcades with a regional focus on North Rhine-Westphalia, Lower Saxony and Rhineland-Palatinate. With this acquisition, the Group strengthens its operating activity as an operator in the German gaming market.

The consolidated Casino Royal companies have been included on the basis of final fair values for the acquired assets and assumed liabilities. When recording the acquisition on the balance sheet, usage rights in particular for the operation of approved gaming arcades (licenses) were identified and valued. The final fair values at the acquisition date are as follows:

EUR m	Fair values
Intangible assets	64.2
Property, plant and equipment	8.5
Deferred tax assets	2.3
Cash and cash equivalents	12.7
Other current assets	1.7
Non-current liabilities and provisions	-38.1
Deferred tax liabilities	-18.9
Current liabilities and provisions	-10.7
Net assets	21.7
Goodwill	40.7
Consideration	62.3

The consideration of EUR 62.3 million comprises a share of EUR 58.9 million already paid in cash and a contingent consideration of EUR 3.4 million, which was deposited on a trust account. The contingent purchase price depends on the future interpretation of the legal framework conditions for the operating companies. The legal fees for this acquisition amounted to EUR 0.7 million.

Provisional goodwill resulting from the acquisition reflects expected strategic advantages for the Group due to the further expansion of operational business activities and further potential growth through synergies. None of the goodwill resulting from these acquisitions is tax-deductible.

Revenue amounts to EUR 69.1 million since the acquisition date, whereas the result for the period since the acquisition date amounts to EUR -6.3 million.

Spain

The Group company Admiral Operations Spain S.A. concluded a purchase agreement in December 2016 for the acquisition of 51 percent of the shares in Basque Gaming S.L. The company operates a total of 13 slot arcades itself in the Basque Country. Basque Gaming S.L. also has a wholly owned subsidiary Erreka Games S.L., which also operates one slot arcade in the Basque Country. Call and put options have been agreed upon for the remaining 49 percent stake of non-controlling interests. The obligation resulting from the written put option was balanced as a liability.

With this acquisition, the Group has intensified its operating activity in the Basque Country and pooled its own existing operations. The acquisition of Basque Gaming was subject to the condition precedent of various approvals by the Basque government and local authorities, which were ultimately met in March 2017.

In March 2017, a further 60 percent of the shares in Recreativos del Este S.L. was acquired. The company operates six gaming arcades in Valencia, through which the Group expanded its activities in this region. Call and put options have been agreed upon for the remaining 40 percent stake of non-controlling interests. The obligation resulting from the written put option was balanced as a liability.

In August 2017, 60 percent of the shares in Decanomatic S.L. were acquired, which was merged directly into an existing Spanish company. The acquired company operates four slot arcades in Huelva.

EUR m	Fair values
Intangible assets	53.4
Property, plant and equipment	5.4
Other non-current assets	0.1
Deferred tax assets	3.6
Cash and cash equivalents	5.9
Other current assets	0.1
Non-current liabilities and provisions	-1.5
Deferred tax liabilities	-14.6
Current liabilities and provisions	-1.0
Net assets	51.4
Non-controlling interests	-28.3
Goodwill	18.6
Consideration	41.7

The consideration of EUR 41.6 million (of which a contingent consideration comprising EUR 21.1 million) has already been paid fully in cash. The conditional purchase price depended on interim year earnings. The legal fees for this acquisition amounted to EUR 2.1 million.

Provisional goodwill resulting from the acquisition reflects expected strategic advantages for the Group due to the further expansion of operational business activities and further potential growth through synergies. The tax deductibility of the goodwill is given for an amount of EUR 16.5 million.

Revenue amounts to EUR 14.0 million since the acquisition date, whereas the result for the period since the acquisition date amounts to EUR 4.9 million.

Other Company Acquisitions

Italy

In January 2017, the newly founded 70 percent Group company ALP S.r.l acquired 100 percent of the shares in CIV S.r.l and PDP S.r.l in Italy, respectively, with which it directly carried out a merger. The acquired companies operated two slot arcades together in the Marche and Abruzzo regions with 170 VLTs and 5 roulette tables. In July 2017, 80 percent of the shares in FEC S.p.A, an operator of six slot arcades with 245 AWP and 258 VLTs in the regions of Lombardy, Piedmont, Emilia-Romagna and Sardinia, were acquired. Furthermore, the Mini Slotter Group (consisting of seven companies), which operates seven slot arcades with 91 AWP and 106 VLTs in the Rome region, was acquired. Finally Mini Slotter Group was merged with an existing company.

All of the shares in Video Planet S.r.l. were acquired in March 2017 and in Orchidea 2001 S.r.l. in July 2017. Both companies each operate a bingo hall in the region of Rome or Turin and were merged with an existing company. In addition, 100 percent of the shares were acquired in Bingo Casilini S.r.l., Bingo Italia S.r.l. and Bingo Net S.r.l., which all run bingo halls, and finally these companies were merged with an existing corporation.

In addition to this, several gaming halls were acquired through asset deals. The slot arcades generally house AWP and VLT devices as well as bingo facilities.

In July 2017, 80 percent of the shares in Capecod Gaming S.r.l. were acquired. The acquired company develops and markets online games in the B2B sector and a gaming platform.

With these acquisitions, the Group is intensifying its extensive activities as an operator of slot arcades and bingo halls, as a provider of catering services and as a technology provider on the Italian market in various regions.

Netherlands

In March 2017, 100 percent of shares in Super Game B.V. and Biermann's Bingo B.V., the Netherlands, were acquired. These two acquired companies operate a total of 7 gaming arcades.

In addition, 100 percent of the shares in Rio Vught B.V., operator of arcades, was acquired in October 2017.

Germany (Other Acquisitions)

The Group company Extra Games Entertainment GmbH has acquired four slot arcades as part of an asset deal.

The accounting of the individual acquisitions mentioned above pursuant to IFRS 3 in Italy, the Netherlands and Germany (other acquisitions) has already been completed. In the following overview, the fair values for these further business combinations (i.e. excluding the separately recognized acquisitions in Germany, Spain, and Poland/Austria) are presented in summary:

EUR m	Fair values
Intangible assets	50.6
Property, plant and equipment	7.2
Other non-current assets	0.4
Deferred tax assets	0.4
Inventories	0.4
Cash and cash equivalents	12.4
Other current assets	3.1
Non-current liabilities and provisions	-2.0
Deferred tax liabilities	-11.9
Current liabilities and provisions	-12.6
Net assets	48.0
Non-controlling interests	-3.1
Goodwill	34.3
Consideration	79.2

The consideration of EUR 79.2 million for the acquisitions listed above consists of a portion of EUR 76.2 million to be paid in cash (thereof EUR 71.8 million already paid), as well as a contingent consideration amounting to EUR 3.0 million. The contingent purchase price was determined depending on the expected development of future earnings. The acquisition-related legal costs of EUR 0.5 million were recognized as an expense.

Non-controlling interests have been valued at their respective shares of the recognized identifiable net assets at the acquisition date. Provisional goodwill resulting from the acquisitions reflects expected strategic advantages for the Group due to the further expansion of operational business activities and further potential growth through synergies. None of the goodwill resulting from these acquisitions is tax-deductible.

Revenue amounts to EUR 16.8 million since the acquisition date, whereas the result for the period since the acquisition date amounts to EUR 0.1 million.

Poland/Austria

In January 2017, NOVOMATIC Gaming Industries GmbH (NGI), a subsidiary of NOVOMATIC AG, acquired a majority stake in four Polish companies (including two additional Polish subsidiaries). The business purpose of the companies acquired in the course of this transaction, ATSI S.A. and Fortress Gaming Technology S.A. was in development and programming activities for NGI, even before the share acquisition. The company ATT S.A. generates income primarily from the purchase, general overhaul and the resale of used gaming machines. The fourth company acquired, Novo Poland Sp.z.o.o., is a holding company with a subsidiary that operates four smaller casinos in Poland. Gryphon Invest AG, a related company to NOVOMATIC AG, was the seller of the investments. The consideration for the entire transaction was EUR 67.3 million.

In August 2017, NOVOMATIC Gaming Industries GmbH (NGI) further acquired a majority stake in an Austrian company (including its Slovenian subsidiary). The business purpose of the companies acquired as part of this transaction comprises the manufacture and sale of software. Gryphon Invest AG, a related company to NOVOMATIC AG, was also the seller of the investments. The consideration for the entire transaction was EUR 9.5 million.

These two acquisitions constitute a combination of companies with joint control over subsidiary. As there are no specific rules in IFRS for this purpose, such transactions are accounted for under an intra-Group accounting policy. This stipulates that the respective carrying amounts are recognized for the acquired assets and assumed liabilities and the results and the cash flows are presented from the acquisition date. The companies were included without retrospective adjustment. The difference of EUR 34.8 million between the purchase price and acquired net assets at their carrying values less shares of non-controlling shareholders are offset against the retained earnings in the Group.

The assumed carrying amounts of the assets and liabilities identified are as follows:

EUR m	Fair values
Intangible assets	4.3
Property, plant and equipment	6.9
Other non-current assets	1.9
Deferred tax assets	0.2
Inventories	1.7
Cash and cash equivalents	31.3
Other current assets	7.1
Non-current liabilities and provisions	-2.5
Deferred tax liabilities	-0.7
Current liabilities and provisions	-3.6
Net assets	46.6
Non-controlling interests	-5.1
Acquired net assets	41.5

Further Comments on the Acquisitions

Assuming that the acquisition dates for all business combinations were at the start of the reporting periods, revenues in the present Consolidated Financial Statement would come to EUR 2,584.1 million and the annual profit to EUR 70 million.

(5b) Company Sales in 2017

Peru

In July 2017, it was decided to sell the Peruvian subsidiaries Inmobiliaria Rapid S.A.C. and Sierra Machines S.A.C. for strategic reasons. The purpose of the business of both companies was the operation of slot arcades.

The respective carrying amounts of the assets and liabilities at the time of the sale are as follows:

EUR m	Carrying value in the Group
Intangible assets	1.6
Property, plant and equipment	12.3
Other non-current assets	0.2
Inventories	0.5
Cash and cash equivalents	1.7
Other current assets	2.8
Deferred tax liabilities	-0.1
Current liabilities and provisions	-4.1
Net assets sold	15.0

From the other comprehensive income, EUR 2.2 million resulting from the currency loss were reclassified to the income statement. The consideration received amounts to EUR 23.5 million (of which EUR 14.8 million to be paid in cash and cash equivalents) for the reporting periods. In the NOVOMATIC Consolidated Financial Statement, the sale of the 100 percent shareholding in both companies resulted in a profit of EUR 9.4 million (reported under other operating income) for the year 2017.

Other Comments on Sales

In addition, other companies – to a negligible extent – were sold or voluntarily discontinued. For materiality reasons, no further information is provided about these disposals.

(6) Company Acquisitions in 2016

The individual company acquisitions are detailed in NOVOMATIC AG's Consolidated Financial Statement as of December 31, 2016.

Talarius Group, United Kingdom

The Talarius Group was included at the time the 2016 Consolidated Financial Statements were prepared based on provisional fair values, as the values in the opening balance had not yet been conclusively determined. Likewise, the total purchase price had not yet been fully allocated to the acquired assets and assumed liabilities.

The final values for this business combination are now available and have been taken into account retroactively:

EUR m	Provisional fair values	Final fair values
Intangible assets	102.9	123.6
Property, plant and equipment	22.0	20.2
Other non-current assets	1.3	1.3
Deferred tax assets	4.8	4.8
Inventories	0.1	0.1
Cash and cash equivalents	8.6	8.6
Other current assets	3.6	3.6
Non-current liabilities and provisions	-3.7	-3.7
Deferred tax liabilities	-18.6	-21.7
Current liabilities and provisions	-15.4	-13.5
Net assets	105.6	123.2
Goodwill	20.1	2.4
Consideration	125.7	125.7

Goodwill resulting from the acquisition reflects expected strategic advantages for the Group due to the expansion of operational business activities and further potential growth through synergies. None of the goodwill resulting from this acquisition is tax-deductible.

The other disclosures from 2016 remained unchanged.

Other Company Acquisitions

At the time of preparation of the 2016 Consolidated Financial Statements, the accounting for various company acquisitions in Spain had not yet been completed, in particular with regard to intangible assets, meaning that provisional fair values had been used. The final values for these business combinations are now available and have been taken into account retroactively.

In the following overview, the final fair values for these further business combinations (i.e. excluding the separately recognized Talarius Group) are presented in summary:

EUR m	Provisional fair values	Final fair values
Intangible assets	76.9	96.6
Property, plant and equipment	23.7	21.2
Other non-current assets	2.7	2.7
Deferred tax assets	2.2	2.9
Inventories	3.7	3.7
Cash and cash equivalents	15.9	15.9
Other current assets	13.8	13.8
Non-current liabilities and provisions	-29.9	-29.9
Deferred tax liabilities	-21.3	-26.1
Current liabilities and provisions	-24.6	-24.8
Net assets	63.0	75.9
Non-controlling interests	-10.4	-13.2
Goodwill	62.4	58.1
Received surpluses recognized in profit and loss	-1.4	-1.4
Consideration	113.6	119.4

The consideration for the listed acquisitions amounted to EUR 119.4 million, with EUR 93.1 million being paid in cash, EUR 13.4 million resulting from contingent considerations and EUR 13.0 million resulting from offsetting with receivables. The contingent purchase price was calculated dependent on the development of underlying earnings figures in 2016.

Non-controlling interests have been valued at their respective shares of the recognized identifiable net assets at the acquisition date.

Goodwill resulting from the acquisitions reflects the strategic advantages that are expected for the Group from the expansion of operating activities in the respective market, as well as the expected synergies. Based on an assessment, goodwill will not be tax-deductible.

The other disclosures from 2016 remained unchanged.

(7) Notes to the Consolidated Balance Sheet

(7.1) Intangible Assets EUR m

Acquisition costs	Goodwill	Trademarks and patents	Licenses and concessions	Customer relationships	Software	Other intangible assets	Total
As of 1/1/2016	174.0	31.3	313.0	91.9	133.8	71.6	815.6
Currency translation adjustments	-4.2 ¹⁾	-2.8	-9.9	-1.6	-0.5	-0.3	-19.3
Acquisitions through business combinations	60.6 ¹⁾	26.2 ¹⁾	170.5 ¹⁾	18.7	6.2	0.6 ¹⁾	282.8
Additions	0.0	0.0	21.2	0.0	14.3	8.4	44.0
Disposals	-0.4	0.4	-5.8	0.0	-1.8	0.6	-7.0
Reclassifications	0.0	0.0	-0.1	0.0	0.9	-1.0	-0.2
As of 12/31/2016	230.0	55.2	488.9	109.0	153.0	79.9	1,115.9

Acquisition costs	Goodwill	Trademarks and patents	Licenses and concessions	Customer relationships	Software	Other intangible assets	Total
As of 1/1/2017	229.9	55.2	488.9	109.0	153.0	79.9	1,115.8
Currency translation adjustments	-2.0	-2.0	-5.0	-1.8	-0.7	0.0	-11.6
Acquisitions through business combinations	101.9	0.7	165.2	2.1	8.7	2.7	281.3
Additions	0.0	0.1	6.0	0.0	17.1	6.4	29.5
Disposals	-1.9	-0.2	-8.5	0.0	-5.5	-2.2	-18.3
Assets held for sale	-4.4	0.0	-0.2	-4.5	-8.6	-9.1	-26.7
Reclassifications	0.1	0.0	-1.6	0.0	7.9	-6.2	0.3
As of 12/31/2017	323.7	53.8	644.8	104.8	171.7	71.5	1,370.3

Cumulative depreciation and amortization	Goodwill	Trademarks and patents	Licenses and concessions	Customer relationships	Software	Other intangible assets	Total
As of 1/1/2016	42.2	12.9	112.7	25.5	86.4	37.8	317.4
Currency translation adjustments	0.0 ¹⁾	-0.1	0.4	2.1	-0.2	-0.2	1.9
Acquisitions through business combinations	0.0	0.0	0.0	0.0	1.9	0.0	2.0
Additions	0.0	1.5	24.6	9.6	22.5	6.0	64.1
Impairment	0.6	1.2	10.3	0.0	0.9	2.0	14.9
Disposals	-0.2	0.4	-5.8	0.0	-1.6	1.1	-6.1
Reclassifications	0.0	0.0	-0.1	0.0	0.2	-0.1	0.0
Impairment reversals	0.0	0.0	-0.7	0.0	0.0	0.0	-0.7
As of 12/31/2016	42.5	15.9	141.3	37.1	110.2	46.5	393.5

Cumulative depreciation and amortization	Goodwill	Trademarks and patents	Licenses and concessions	Customer relationships	Software	Other intangible assets	Total
As of 1/1/2017	42.5	15.9	141.3	37.1	110.2	46.5	393.5
Currency translation adjustments	0.0	-0.2	0.0	-1.0	-0.5	-0.1	-1.8
Acquisitions through business combinations	0.0	0.0	0.9	0.0	5.4	0.4	6.8
Additions	0.1	4.8	43.6	9.7	22.3	5.2	85.6
Impairment	10.6	0.1	14.8	8.1	2.2	7.2	43.0
Disposals	-1.3	-0.1	-5.1	0.0	-2.9	-1.2	-10.6
Assets Held for Sale	-4.4	0.0	-0.2	-4.5	-3.5	-8.6	-21.1
Reclassifications	0.0	0.0	-1.1	0.0	0.3	0.7	0.0
Impairment reversals	0.0	0.0	-6.3	0.0	0.0	0.0	-6.3
As of 12/31/2017	47.4	20.6	188.0	49.4	133.4	50.2	488.9

Book values as of 12/31/2016	187.4	39.2	347.6	71.9	42.8	33.4	722.4
Book values as of 12/31/2017	276.3	33.2	456.9	55.4	38.3	21.3	881.4

¹⁾ Adjustment of previous year's figures according to IAS 8 or IFRS 3 "Business combinations"

Goodwill

Goodwill is allocated to the following groups of cash-generating units:

EUR m	12/31/2017	12/31/2016
Gaming Operations – Germany	67.7	25.7
Gaming Operations – United Kingdom	25.5	26.5 ¹⁾
Gaming Operations – Italy	34.1	8.8 ²⁾
Gaming Operations – Netherlands	10.1	4.8
Gaming Operations – Online	10.3	10.3
Gaming Operations – Spain	29.3	10.7 ¹⁾
Gaming Operations – Spain casinos	4.5	4.5 ¹⁾
Gaming Technology – United Kingdom	13.5	14.0
Gaming Technology – Italy	43.6	36.3 ²⁾
Gaming Technology – Online	10.1	10.3
Gaming Technology – Spain	7.0	7.0 ¹⁾
Mobile Virtual Network	0.0	4.4
Other	20.7	24.3
Total	276.3	187.4

¹⁾ Adjustment of previous year's figures according to IFRS 3 "Business combinations"

²⁾ Adjustment of prior-year figures in accordance with IAS 8 due to change in segment allocation

Goodwill with a single value below EUR 4.0 million is summarized under "Other".

Intangible Assets with Indefinite Useful Lives

Intangible assets include licenses amounting to EUR 188.9 million (previous year: EUR 157.4 million) as well as trademarks totaling EUR 2.2 million (previous year: EUR 1.5 million) with indefinite useful lives. The licenses and trademarks are allocated to the following groups of cash-generating units. Single values below EUR 4.0 million are summarized under "Other".

Licenses EUR m	12/31/2017	12/31/2016
Gaming Operations – Latvia	18.7	18.6
Gaming Operations – Spain	45.2	6.1 ¹⁾
Gaming Operations – United Kingdom	124.8	131.2 ¹⁾
Other	0.2	1.5
Total	188.9	157.4

¹⁾ Adjustment of previous year's figures according to IFRS 3 "Business Combinations"

Trademarks EUR m	12/31/2017	12/31/2016
Other	2.2	1.5
Total	2.2	1.5

The useful life of the preceding intangible assets is indefinite because there is no prospect of an end to their economic use at the moment.

Impairments and Reversals of Impairments

Details concerning impairment tests for intangible assets may be found under note (7.3).

Research and Development Expenses

Internally generated intangible assets are only capitalized if the criteria stipulated by IAS 38.57 are fulfilled. Development costs that cannot be capitalized of EUR 115.0 million (previous year: EUR 95.0 million) were recognized through profit and loss under "Personnel costs", "Other operating expenses" and "Amortization, Depreciation, Impairment and Reversal of Impairment for Intangible Assets, Property, Plant and Equipment and Investment Property".

(7.2) Property, Plant and Equipment EUR m

Acquisition costs	Land and buildings	Plant and machinery	Factory and office equipment	Prepayments and property under construction	Total
As of 1/1/2016	645.2	901.4	377.6	24.0	1,948.1
Currency translation adjustments	-2.9	-13.7	-5.8	0.1	-22.4
Acquisitions through business combinations	50.4 ¹⁾	53.3 ¹⁾	42.6	0.2	146.4
Additions	52.7	216.6	75.1	45.9	390.3
Disposals	-39.5 ¹⁾	-93.2	-37.9	-29.5	-200.2
Reclassifications	4.7	3.9	2.7	-11.1	0.2
As of 12/31/2016	710.5	1,068.2	454.2	29.6	2,262.5

Acquisition costs	Land and buildings	Plant and machinery	Factory and office equipment	Prepayments and property under construction	Total
As of 1/1/2017	710.5	1,068.3	454.2	29.6	2,262.6
Currency translation adjustments	-2.7	-9.9	-3.0	0.1	-15.5
Acquisitions through business combinations	42.4	22.1	33.3	0.4	98.2
Additions	50.5	176.5	80.6	104.0	411.6
Disposals	-21.9	-268.3	-43.2	-1.6	-335.0
Assets Held for Sale	-2.6	-2.5	-1.2	0.0	-6.2
Reclassifications	11.1	5.0	2.7	-19.1	-0.3
As of 12/31/2017	787.4	991.2	523.5	113.3	2,415.4

¹⁾ Adjustment of previous year's figures according to IFRS 3 "Business combinations"

Cumulative depreciation and amortization	Land and buildings	Plant and machinery	Factory and office equipment	Prepayments and property under construction	Total
As of 1/1/2016	288.9	552.1	243.3	6.9	1,091.2
Currency translation adjustments	-1.9	-7.1	-4.1	0.0	-13.1
Acquisitions through business combinations	35.8	39.4	29.9	0.0	105.0
Additions	36.5	146.6	50.6	1.2	234.9
Impairment	12.4	1.4	4.6	0.0	18.4
Disposals	-21.6	-73.5	-24.3	0.0	-119.4
Reclassifications	0.1	1.1	0.1	-1.2	0.0
Impairment reversals	-4.9	-0.5	-2.1	-0.4	-7.9
As of 12/31/2016	345.3	659.5	297.9	6.5	1,309.2

Cumulative depreciation and amortization	Land and buildings	Plant and machinery	Factory and office equipment	Prepayments and property under construction	Total
As of 1/1/2017	345.3	659.5	298.0	6.5	1,309.3
Currency translation adjustments	-1.2	-5.3	-2.1	0.0	-8.6
Acquisitions through business combinations	32.4	11.6	24.6	0.0	68.6
Additions	35.7	154.0	57.0	0.0	246.6
Impairment	9.1	8.8	6.7	0.4	25.2
Disposals	-11.1	-220.8	-30.0	0.0	-261.9
Assets Held for Sale	-0.4	-1.3	-0.9	0.0	-2.5
Reclassifications	0.0	0.3	0.1	-0.4	0.0
Impairment reversals	-2.0	-0.3	-0.7	0.0	-3.0
As of 12/31/2017	407.9	606.5	352.9	6.5	1,373.7

Book values as of 12/31/2016	365.2	408.7	156.3	23.1	953.3
Book values as of 12/31/2017	379.5	384.7	170.7	106.8	1,041.7

Plant and machinery contains slot machines with a carrying amount of EUR 365.5 million (previous year: EUR 394.3 million) for the Group's own operations and rental.

In order to collateralize loans, liens were registered on property, plant and equipment (particularly property) in the amount of EUR 1.0 million (previous year: EUR 1.7 million).

Impairments and Reversals of Impairments

Details concerning impairment tests for property, plant and equipment may be found under note (7.3).

(7.3) Impairments and Reversals of Impairments

7.3.1 Calculation Model and Principles

The recoverable amount is the higher value of the fair value less costs to sell and the value-in-use. Where capitalized earnings methods are applied, cash flow projections for a three-year period based on financial plans approved by the management are used. The cash flow projections are based on the detailed budget for the following fiscal year as well as forecasts for the subsequent two years derived therefrom. The main assumptions are based on the previous fiscal year, experiences of comparable businesses and the overall economic development. During the planning period, these base values are adjusted by development improvements estimated by the management in light of comparable projects, market potentials and risks. In substantiated cases, the cash flow projections are extended to a period of up to 5 years.

Cash flows occurring after this detailed planning period of between three and five years are calculated with a growth rate of 0.00 percent to 2.00 percent and, finally, on the basis of a perpetual annuity without a growth rate. The discount rates used for the cash flow forecasts are post-tax interest rates when calculating the fair value less costs to sell and pre-tax interest rates when calculating the value-in-use, taking respective country-specific risks into consideration. The recognized recoverable amounts of the (groups of) cash-generating units therefore correspond to Level 3 of the valuation hierarchy.

Groups of cash-generating units	Recoverable amount	Discount rate	Pre-tax/post-tax interest rate
Gaming Technology - Italy	Fair value*	9.42 %	Post-tax interest rate
Gaming Technology - Online	Value-in-use	14.62 %	Pre-tax interest rate
Gaming Technology - Spain	Value-in-use	14.49 %	Pre-tax interest rate
Gaming Technology – United Kingdom	Fair value*	7.52 %	Post-tax interest rate
Gaming Operations - Germany	Fair value*	6.81 %	Post-tax interest rate
Gaming Operations - Italy	Fair value*	9.82 %	Post-tax interest rate
Gaming Operations - Netherlands	Value-in-use	11.21 %	Pre-tax interest rate
Gaming Operations - Online	Value-in-use	10.37 %	Pre-tax interest rate
Gaming Operations - Spain	Fair value*	9.88 %	Post-tax interest rate
Gaming Operations - Spain Casino	Value-in-use	12.91 %	Pre-tax interest rate
Gaming Operations – United Kingdom	Value-in-use	10.08 %	Pre-tax interest rate
Mobile Virtual Network	Value-in-use	8.81 %	Pre-tax interest rate
Other	Fair value* and value-in-use	4.16 % to 15.65 %	Post-tax interest rate and pre-tax interest rate

*) Fair value less costs to sell

7.3.2 Goodwill and Intangible Assets with Indefinite Useful Lives

The comparison of book values with the recoverable amounts for the (groups of) cash-generating units that was undertaken as part of the annual impairment test for goodwill and intangible assets with indefinite useful lives, which was carried out on September 30, 2017, resulted in an impairment in the amount of EUR 3.8 million (previous year: EUR 1.7 million) due to business not having developed as expected. The impairments made relate entirely to the (group of) cash-generating units Gaming Technology – Lottery (EUR 3.8 million). This includes all companies of the Novomatic Lottery Group. The impairment is entirely attributable to the capitalized goodwill.

- The capital costs considered in the model (WACC before tax) are 4.16 percent.
- The growth rate considered in the model is 0.00 percent.

The underlying cash flow forecasts are based on the financial plans approved by the company management (detailed budget for the following fiscal year and the derived forecasts for the subsequent four years).

In the previous year, no impairment was made in the Gaming Technology segment. No impairment was made in the Gaming Operations segment (previous year: EUR 1.7 million). Goodwill and intangible assets with expected useful lives resulting from acquisitions completed after September 30, 2017, was tested as of the balance sheet date on December 31, 2017. No required impairment was identified. The recognized recoverable amounts of the (groups of) cash-generating units therefore correspond to Level 3 of the valuation hierarchy.

For the (group of) cash-generating units Gaming Operations – Spain, the recoverable amount (fair value) exceeded the book value by EUR 9.9 million. If the discount rate were to increase to 10.48 percent, the exceeding amount would be consumed. For the (group of) cash-generating units Gaming Operations – Spain Casino, the recoverable amount (value-in-use) exceeded the carrying amount by EUR 2.2 million. If the discount rate were to increase to 15.50 percent, the exceeding amount would be consumed.

7.3.3 (Other) Intangible Assets and Property, Plant and Equipment

In addition to this, an event-driven impairment test for non-current assets concerned is carried out if indications (triggering events) exist. This resulted in impairments of EUR 51.9 million (previous year: EUR 31.6 million) and impairment reversals of EUR 9.7 million (previous year: EUR 8.6 million). The impairment made (with an individual value of over EUR 4.0 million) relate to the following (group of) cash-generating units: Gaming Technology – Austria with EUR 0.8 million (previous year: EUR 6.5 million), Gaming Technology – Lottery with EUR 6.7 million (previous year: EUR 0.4 million), Gaming Technology – Spain with EUR 5.5 million (previous year: EUR 0.1 million), Gaming Operations – Austria with EUR 2.3 million (previous year: EUR 6.5 million), and Gaming Operations – Germany with EUR 21.7 million (previous year: EUR 5.3 million). Impairment reversals (with an individual value of more than EUR 4.0 million) relate to the (group of) cash-generating units Gaming Operations – Italy with EUR 1.8 million (previous year: EUR 6.6 million) and Gaming Operations – Germany with EUR 7.2 million (previous year: EUR 1.1 million).

The following takes a closer look at selected markets.

Gaming Operations/Technology – Germany

In Germany, the First State Treaty amending the State Treaty on Gaming in Germany (Glücksspieländerungsstaatsvertrag, GlüÄndStV) came into effect from July 1, 2012. The First State Treaty amending the State Treaty regarding Gaming in Germany essentially involves creating distance regulations between gaming arcades and youth facilities. It also contains a ban on multiple concessions, and therefore limits one location to a maximum of 12 gaming devices. A (fundamental) transitional period of 5 years was granted to implement the restrictive new regulations, which means that the provisions were applicable from July 1, 2017.

For supplementary provisions, the GlüÄndStV refers to the executive regulations of the individual states stipulated by state laws on gaming arcades. These individual state laws on gaming arcades vary considerably. In certain cases, there are important differences regarding limitations on opening hours, distance regulations, advertising bans and player identification requirements.

As a result of the implementation of the State Treaty on Gaming Law and the accompanying state laws on gaming arcades, a noticeable market reduction has occurred since 2017 in the slot arcade sector. Slot arcades to be downscaled or closed will now inevitably have a negative impact on sales revenues from the rental of gaming terminals. However, the decline in the market is slower than envisaged by the legislature due to strong legal opposition to slot arcade closures and concession reductions.

In November 2014, a further amendment to the Gaming Ordinance was passed. This amendment includes further regulation aimed at improving the protection of players and minors, as well as preventing tax evasion and money laundering. A transitional period of four years was granted for the implementation of the Gaming Ordinance. This means that the gaming machines currently installed in gaming arcades will lose their existing protecting after four years and, from November 11, 2018, only devices as per the new Gaming Ordinance may be operated. The German subsidiaries have already been working for a while to develop attractive products that can be made available to the customers promptly upon expiration of the transitional period of the Gaming Ordinance.

The focus of the German Group companies in the Gaming Technology segment, LÖWEN ENTERTAINMENT GmbH and Crown Technologies GmbH, is on the area of gaming machine rental. In light of the stricter regulatory framework, however, the number

of rented gaming machines decreased during the reporting period by around 11,000 gaming terminals to some 102,000 units. In total, the German companies active in the Gaming Technology segment achieved revenues of EUR 285.7 million against EUR 317.5 million in 2016. The impairment test in the Gaming Technology segment resulted in non-material devaluation.

In the Gaming Operations segment, NOVOMATIC already had a strong market position with the German operating companies Extra Games Entertainment GmbH, BPA Freizeit und Unterhaltungsbetriebe GmbH and Admiral Play GmbH. In March 2017, NOVOMATIC also acquired 100 percent of the shares in Casino Royal GmbH, Germany. The acquired company and its 10 subsidiaries operate a total of 126 gaming arcades with a regional focus on North Rhine-Westphalia, Lower Saxony and Rhineland-Palatinate. Furthermore, several acquisitions of smaller companies have been made since last year. In summary, revenues of the German Group companies allocated to the area of commercial electronic gaming increased from EUR 266.7 million to EUR 356.4 million compared to the same period of the previous year.

With the expiry of the transitional period as of June 30, 2017, the focus was on clarifying the continued existence of existing locations for the operating companies. With the exception of North Rhine-Westphalia (deadline November 30, 2017), as of July 1, 2017, there should be certainty about the permit situation. As a result of the slow pace of processing by the authorities, however, around one-third of the concessions have still not been definitively granted by the licensing authorities and operations are tolerated until the decision is made. In 248 cases, a new permit has been granted for the concessions and, in 497 cases, a hardship ruling has been granted for the operation of the concessions, which grants a temporary continuation of operations. Thus, as a result of the implementation of the State Treaty on Gaming Law and the accompanying state laws on gaming arcades, a noticeable market reduction has occurred since 2017 in the slot arcade sector. Slot arcades run by German operating companies to be downscaled or closed will inevitably have a negative impact on sales revenues. However, it was already evident in 2017 that the reduction of gaming terminals (through closed slot arcades or concession closures) leads to higher terminal utilization of the remaining gaming terminals and thus to a significant compensatory effect.

As in previous years, impairment tests were carried out in 2017 for the assets of the German operating companies. The scope of the impairment test included all slot arcades run by the operating companies active in the area of commercial machine gaming. Locations with final permit approval were included in the impairment test on this basis. Scenarios for site and concession closures were in the foreground for all other locations, with the impact assessment of the gaming facilities taking into account the experience gained in the application process in 2017.

In total, the required impairment loss amounted to EUR 21.7 million (previous year: EUR 5.3 million). The largest share of this relates to the impairment of the rights of use of the gaming arcades (disclosed under "Licenses" within the intangible assets), as well as an impairment of property, plant and equipment (in particular land, buildings, factory and office equipment). The reevaluation led to the conclusion that a reversal of impairment was required for certain gaming facilities, as the assessment regarding the impact on the individual locations in question had changed. In total, the required impairment reversal amounted to EUR 7.2 million (previous year: EUR 1.1 million)

An impairment test was also carried out on the assets (in particular the goodwill) of the Gaming Operations Germany cash-generating unit, resulting in a clear surplus.

- The capital costs considered in the model (WACC after tax) are 6.81 percent.
- The growth rate considered in the model is 2.0 percent.

Impairments (less impairment reversals) of a cumulative EUR 70.6 million (previous year: EUR 56.1 million) were made over the past few years on non-current assets in the Gaming Operations Segment. The carrying amount of the intangible assets and property, plant and equipment, amounts to EUR 190.8 million (previous year: EUR 99.9 million) as of the balance sheet date. Of the stated carrying amount, EUR 45.0 million is attributable to locations without final permit approval as of December 31, 2017.

Gaming Technology – Lottery

The NOVOMATIC Lottery Solutions Group (NLS) is a full service provider for international state-licensed lottery companies. The services offered range from the provision of lottery technology and customer-specific developments to the operative system operation and the full-scale daily operation of a lottery.

NOVOMATIC Lottery Solutions Group is divided into the Austrian company NOVOMATIC Lottery Solutions GmbH (wholly owned by NOVOMATIC AG) and seven other subsidiaries which operate internationally.

The basis for the emergence of the NLS Group was the acquisition of the Icelandic company Betware Holding hf. and its affiliated subsidiaries in 2013.

In 2017, contract negotiations were carried out with a notable material customer. Cooperation with this customer would have had a significant influence on business development in the NLS Group. In the second half of 2017, however, it became clear that co-operation with the customer would not be agreed upon on the expected scale. Based on this new knowledge, the entire business strategy was subjected to critical analysis, in which all existing projects were reevaluated, and the financial plans based on existing projects had to be revised.

As a result of these measures, the cash flow prognosis for the cash-generating unit Gaming Technology – Lottery was reduced. The comparison of book values with the recoverable amounts for the (groups of) cash-generating units that was undertaken as part of the annual impairment test for goodwill and intangible assets with indefinite useful lives, which was carried out on September 30, 2017, resulted in an impairment to the amount of EUR 3.8 million (previous year: EUR 0.0 million). The impairment is entirely attributable to the capitalized goodwill.

- The capital costs considered in the model (WACC before tax) are 4.16 percent.
- The growth rate considered in the model is 0.00 percent.

In addition, within the framework of the impairment test, a need for devaluation was determined for other intangible assets in the amount of EUR 0.7 million (previous year: EUR 0.4 million) and for property, plant and equipment in the amount of EUR 5.9 million (previous year: EUR 0.0 million).

In addition, as part of the loss-free valuation of contracts, it was determined that a provision for anticipated losses must be created. In each case, the planned EBITDA per project over the contractual time period is used to determine the provision for anticipated losses. The provision amounts to a total of EUR 23.9 million.

Others – I-New Group

The details regarding the impairment of the I-New Group are summarized in note (8.15).

(7.4) Investment Property

EUR m	12/31/2017	12/31/2016
Balance as of 01/01	21.1	18.7
Currency translation adjustments	-0.2	0.1
Additions	0.9	3.2
Disposals	0.0	-0.3
Depreciation and amortization	-0.8	-0.6
Reversal of impairment	0.5	0.0
Balance as of 12/31	21.5	21.1

Investment property denotes land and buildings held but not used in business operations. Gross carrying amounts come to EUR 36.4 million (previous year: EUR 35.8 million) as well as cumulative depreciation to EUR 14.9 million (previous year: EUR 14.8 million). For the determination of the fair value, external valuation reports from independent regional experts were obtained in the 2015 fiscal year. Given that the underlying assumptions have not materially changed, the reports were not updated. The fair value (fair value hierarchy – level 3) amounts to a total of EUR 24.6 million (previous year: EUR 24.1 million).

Both income and expenditures from investment property were insignificant.

(7.5) Investments in Associated Companies

EUR m	12/31/2017	12/31/2016
Balance as of 01/01	0.2	0.2
Additions	1.0	0.0
Share of post-acquisition profits	0.2	0.0
Balance as of 12/31	1.4	0.2

The companies recognized at equity on the consolidated balance sheet are shown in the investment schedule. The following table shows the basic data from the balance sheet and profit and loss account of the companies recognized at equity, whereas the data corresponds to 100 percent and not to the percentage of shares owned by the NOVOMATIC Group in associated companies:

EUR m	12/31/2017	12/31/2016
Assets	19.5	11.4
Liabilities	12.8	10.1
Revenues	6.4	0.8
Results	0.5	0.0

(7.6) Financial assets

EUR m	12/31/2017	12/31/2016
Investments in affiliated companies, non-consolidated	13.6	18.2
Securities	5.2	10.0
Other investments	252.4	209.6
Total	271.2	237.8

The NOVOMATIC Group indirectly holds an 11.56 percent interest in Österreichische Lotterien Gesellschaft mbH (ÖLG) and directly holds 17.19 percent in Casinos Austria Aktiengesellschaft (CASAG). These two financial investments are recognized under other investments with a fair value of a total of EUR 234.9 million, as no significant influence may be exerted over the two companies.

Details concerning the calculating of the fair values can be found under the notes to the financial instruments.

The fair value of investments in affiliated companies and other investments (except for ÖLG and CASAG) cannot be reliably evaluated, therefore, they are valued at their acquisition costs less any possible impairment.

The securities classified as available-for-sale primarily comprise stocks and promissory notes. They are not subject to any restraint of disposal.

(7.7) Taxes

Current taxes:

EUR m	12/31/2017	12/31/2016
Current tax receivables	31.4	34.0
Non-current tax liabilities	0.0	11.0
Current tax liabilities	71.7	33.9

Deferred taxes:

EUR m	12/31/2017	12/31/2016
Deferred tax assets	98.6	93.2
Deferred tax liabilities	-131.9	-98.4 ¹⁾
Total	-33.3	-5.2

¹⁾ Adjustment of previous year's figures according to IFRS 3 "Business combinations"

Deferred tax assets and liabilities result from the following temporary valuation and accounting differences between the carrying amounts of the financial statement prepared according to IFRS and their respective tax bases.

EUR m	12/31/2017	12/31/2016
Intangible assets	-96.1	-77.7 ¹⁾
Property, plant and equipment	33.7	34.5
Financial assets	-7.9	2.5
Other non-current assets	-3.1	-2.6
Inventories	13.7	8.6
Current financial assets	-0.2	0.9
Trade and other receivables	2.0	-2.8
Non-current financial liabilities	0.3	1.5
Other Non-Current Liabilities	0.9	0.1
Non-Current Provisions	8.7	8.3
Current Financial Liabilities	0.1	0.6
Current Provisions	-0.7	0.5
Trade Payables and Other Liabilities	10.8	7.4
Tax loss carryforward	4.6	13.1
Total	-33.3	-5.2

¹⁾ Adjustment of previous year's figures according to IFRS 3 "Business combinations"

Income tax charged directly to equity:

EUR m	2017	2016
Revaluation of available-for-sale financial instruments	-12.2	-2.0
Revaluation of the net defined benefit liability	3.5	3.6

Deferred taxes are both non-current at EUR -58.9 million (previous year: EUR -20.3 million) and current at EUR 25.6 million (previous year: EUR 15.1 million).

Pursuant to IAS 12, deferred tax assets on existing loss carryforwards were capitalized in the amount of EUR 4.6 million (previous year: EUR 13.1 million) as these can be offset against future taxable profits. Tax assets are netted with tax liabilities if they concern the same tax authority, and if the right and intention to offset exist.

In 2017, subsidiaries that incurred losses in the current year or the years before carried forward tax losses in the amount of EUR 375.7 million (previous year: EUR 237.2 million) that can no longer be utilized. Of the deferred taxes not recognized and amounting to EUR 91.2 million (previous year: EUR 57.7 million) for taxable losses, EUR 0.0 million will expire in 2018 (previous year: EUR 0.4 million in 2017) and EUR 113.4 million in the years after 2019 (previous year: EUR 57.4 million in the years after 2018).

No deferred tax liabilities were carried for temporary differences between the pro rata IFRS equity and the taxable carrying amount of subsidiaries amounting to EUR 968.5 million (previous year: EUR 1,001.4 million), as the Group is able to control when the temporary differences are reversed and will probably not reverse the temporary differences in the foreseeable future.

(7.8) Other Non-Current Assets

EUR m	12/31/2017	12/31/2016
Loans	47.0	44.5
Receivables from finance lease	15.5	17.8
Purchase price receivables	14.3	8.0
Deposits with gaming authorities	21.2	21.1
Miscellaneous other non-current assets	32.5	25.4
Total	130.4	116.9

(7.9) Inventories

EUR m	12/31/2017	12/31/2016
Raw materials and supplies	135.6	93.1
Work in progress	28.6	24.0
Finished goods and trade goods	102.9	104.3
Prepayments	1.1	4.1
Total	268.1	225.5

The inventory total includes inventory write-downs amounting to EUR 72,3 million (previous year: EUR 67,5 million).

(7.10) Trade Receivables, Other Receivables and Assets

EUR m	12/31/2017	12/31/2016
Trade receivables	222.8	221.4
Receivables from non-consolidated affiliated companies	5.6	8.2
Prepaid expenses	44.3	39.7
Purchase price receivables	27.8	10.8
Precious metals	52.1	35.3
Other tax receivables, excluding income taxes	13.6	7.1
Other current receivables and assets	42.5	50.0
Total	408.7	372.5

The reported trade receivables include impairment charges amounting to EUR 36,3 million (previous year: EUR 30,4 million). The impairment expenses for the reporting period are recognized as other operating expenses in the profit and loss account.

The age structure of the trade receivables is as follows:

EUR m	12/31/2017	12/31/2016
Receivables without valuation allowance		
not overdue	118.2	107.8
overdue up to 3 months	42.9	47.8
overdue between 3 and 6 months	7.2	9.4
overdue for more than 6 months	13.5	12.0
Receivables with valuation allowance	41.0	44.4
Total	222.8	221.4

The trade receivables shown above disclose the amounts that are overdue as of the balance sheet date. The Group has not created any provisions for write-downs for these amounts as no material changes to the creditworthiness have been detected, and recoverability of outstanding amounts is also expected.

Receivables from non-consolidated affiliated companies contain trade receivables of EUR 3.2 million (previous year: EUR 7.6 million).

Precious metals with a carrying amount of EUR 52.1 million (previous year: EUR 35.3 million) are measured through profit and loss at the current market value (fair value hierarchy – level 2). The change in value of EUR -0.8 million (previous year: EUR 3.9 million) resulting from the revaluation of the precious metals is reported under other operating expenses or income.

Other current receivables and assets are comprised primarily of the offset with payment service providers, prepayments and deferred income.

(7.11) Current financial assets

EUR m	12/31/2017	12/31/2016
Securities	11.4	9.2
Loans	2.9	3.6
Receivables from finance lease	8.8	10.8
Derivatives	0.0	6.1
Other current financial assets	2.3	1.7
Total	25.4	31.3

(7.12) Cash and cash equivalents

EUR m	12/31/2017	12/31/2016
Cash	171.3	141.7
Bank balances	728.4	736.1
Total	899.7	877.8

The stated cash in the amount of EUR 171.3 million (previous year: EUR 141.7 million) is largely tied up as cash reserves and base filling of the gaming machines at the various gaming establishments.

The bank balances as of December 31, 2016 included a partial amount of EUR 65.3 million, which was deposited for the potential acquisition of direct and indirect shares in Casinos Austria Aktiengesellschaft. These funds were freely available again in February 2017.

Bank balances comprise foreign currencies of AUD 463.8 million (equivalent to EUR 301.4 million), which were earmarked for the acquisition of around 52 percent of shares of Ainsworth Technology Ltd. (Australia) in January 2018.

(7.13) Share Capital

The share capital of EUR 26.6 million (previous year: EUR 26.6 million) is fully paid up and is divided into 26,590,000 registered no-par value shares. Each share corresponds to EUR 1.0 of the share capital.

(7.14) Capital Reserves

The capital reserves of EUR 85.4 million (previous year: EUR 85.4 million) are tied-up reserves.

(7.15) Retained Earnings

The retained earnings consist of the Group's consolidated profit for the year and of the accumulated profits from previous periods. Retained earnings also comprise the revaluation of net debt from defined benefit obligations amounting to EUR -9.6 million (previous year: EUR -10.0 million), with the change of EUR 0.4 million (previous year: EUR -2.1 million) being stated in other comprehensive income.

(7.16) Revaluation Reserve

The revaluation reserve includes the revaluation of the available-for-sale financial instruments with EUR 35.8 million (previous year: EUR 5.2 million). The change of EUR 30.6 million (previous year: EUR 13.8 million) is reported under other comprehensive income. In addition, the cash flow hedge result of EUR -12.5 million (previous year: EUR 0.0 million) is also shown under revaluation reserve.

From net profit of NOVOMATIC AG according to öUGB (Austrian Commercial Code) a distribution of EUR 20.0 million is planned.

(7.17) Currency Translation Adjustment

Upon consolidation, differences from the translation of foreign subsidiaries at the exchange rates prevailing on the balance sheet date are transferred to this position. For the 2017 fiscal year, changes in the currency translation adjustment amount to EUR -14.3 million (previous year: EUR -28.5 million) in other comprehensive income. The final consolidation led to a reclassification of EUR 2.2 million (previous year: EUR -1.9 million) from other comprehensive income to the income statement.

(7.18) Non-controlling interests

Non-controlling interests consist of the interests in equity of consolidated subsidiaries held by other shareholders. The portion allocable to the non-controlling interests from change of foreign currency translation adjustments in the amount of EUR 0.3 million (previous year: EUR 0.0 million) is stated in other comprehensive income.

Subsidiaries with non-controlling interests:

EUR m	12/31/2017			12/31/2016		
	Non-controlling interests (%)	Profit/loss attributable to non-controlling interests	Accumulated non-controlling interest	Non-controlling interests (%)	Profit/loss attributable to non-controlling interests	Accumulated non-controlling interest
Gaming Technology						
Electro System S.p.A., Italy	25 %	0.0	4.6	25 %	1.3	5.6
GiGames S.L., Spain	20 %	-0.8	6.5	20 %	0.1	7.2
Gaming Operations						
Admiralu Klubs SIA, Latvia	40 %	4.2	22.3	40 %	3.0	19.3
Alfor SIA, Latvia	40 %	6.2	17.8	40 %	5.9	16.4
Automáticos Surmatic S.L., Spain	40 %	0.1	5.7	40 %	0.0	6.2
Basque Gaming S.L., Spain	49 %	2.3	25.5			
Marginal non-controlling interest		-8.9	9.0		-3.6	10.6 ¹⁾
		3.1	91.4		6.8	65.3

¹⁾ Adjustment of previous year's figures according to IFRS 3 "Business combinations"

The amounts held as non-controlling interest correspond to the voting rights.

A summary of financial information regarding Group subsidiaries with significant non-controlling interests (before Group-internal elimination) is presented in the following table:

EUR m	12/31/2017					
	Electro System S.p.A., Italy	GiGames S.L., Spain	Admiralu Klubs SIA, Latvia	Alfor SIA, Latvia	Automáticos Surmatic S.L., Spain	Basque Gaming S.L., Spain
Balance sheet						
Non-current assets	16.8	8.8	44.2	27.0	16.6	60.5
Current assets	8.6	32.5	13.0	24.8	2.4	3.4
Non-current liabilities	5.3	4.4	0.0	2.4	3.2	9.8
Current liabilities	1.7	13.4	1.5	5.0	1.4	2.2
Profit and loss account						
Revenues	5.8	25.5	26.8	77.0	10.6	10.7
Annual profit	0.2	-4.1	10.4	15.5	0.2	4.7
Dividends paid to non-controlling interest	1.0	0.0	1.2	4.8	0.5	0.0
Cash flow						
from operating activities	-1.1	1.1	9.0	22.0	3.1	7.1
from investing activities	-0.1	0.1	-1.0	-3.2	-1.3	-25.9
from financing activities	-1.1	1.3	-1.2	-4.8	-0.5	0.0
Net change in cash and cash equivalents	-2.4	2.5	6.8	13.9	1.3	-18.8

EUR m	12/31/2016					
	Electro System S.p.A., Italy	GiGames S.L., Spain	Admiralu Klubs SIA, Latvia	Alfor SIA, Latvia	Automáticos Surmatic S.L., Spain	Basque Gaming S.L., Spain
Balance sheet						
Non-current assets	18.9	17.5	42.1	30.9	17.6	0.0
Current assets	13.7	28.6	11.1	19.1	2.2	0.0
Non-current liabilities	5.9	6.5	3.3	1.6	3.7	0.0
Current liabilities	4.5	11.9	1.7	7.5	0.8	0.0
Profit and loss account						
Revenues	18.2	25.1	25.5	69.0	10.0	0.0
Annual profit	5.2	0.1	7.6	14.6	0.1	0.0
Dividends paid to non-controlling interest	0.0	0.0	0.8	0.0	0.0	0.0
Cash flow						
from operating activities	-5.0	2.2	10.1	20.7	2.2	0.0
from investing activities	-5.5	-1.0	-0.6	-8.4	-0.7	0.0
from financing activities	-0.1	1.4	-0.8	0.0	-0.1	0.0
Net change in cash and cash equivalents	-10.7	2.6	8.7	12.3	1.5	0.0

During the 2017 fiscal year, the Group increased its share of ownership in some subsidiaries.

(7.19) Non-current financial liabilities

EUR m	12/31/2017	12/31/2016
Bonds	939.2	937.8
Bank loans	878.1	443.1
Obligations under finance leases	2.0	6.0
Other non-current financial liabilities	9.7	8.2
Total	1,829.0	1,395.1

NOVOMATIC AG issued bonds with the following terms and conditions:

Nominal value	250 EUR m	200 EUR m	500 EUR m
Term	2013–2019	2014–2021	2016–2023
Denomination	EUR 500,–	EUR 500,–	EUR 500,–
Nominal interest rate	4.00 % p.a.	3.00 % p.a.	1.625 % p.a.
Coupon	01/28 every year	06/23 every year	09/20 every year
Redemption	1/28/2019 bullet	6/23/2021 bullet	9/20/2023 bullet
Closing price 12/31/2017	EUR 104.111	EUR 108.316	EUR 103.314
ISIN	AT0000A0XSN7	AT0000A182L5	AT0000A1LHT0

The bonds are listed on the second regulated market at the Vienna Stock Exchange. The pro rata carrying amount of repurchased own bonds with a nominal value of EUR 4.0 million (previous year: EUR 6.2 million) is deducted from the bond liabilities.

The fair value of bonds amounts to EUR 989.3 million (previous year: EUR 1,145.0 million), of which EUR 989.3 million (previous year: EUR 991.5 million) are for the non-current portion and EUR 0.0 million (previous year: EUR 153.5 million) for the current portion.

The fair value of bank loans amounts to EUR 880.5 million (previous year: EUR 449.7 million). Bank loans with a term of between one and five years amount to EUR 804.8 million (previous year: EUR 350.6 million) and to EUR 73.1 million (previous year: EUR 92.5 million) with a term of over five years.

The weighted average interest rate comes to 2.39 percent (previous year: 2.29 percent).

(7.20) Non-Current Provisions

EUR m	12/31/2017	12/31/2016
Provision for severance payments	30.2	26.2
Provision for Pensions	19.0	19.9
Provision for Jubilee Payments	6.4	6.2
Other Non-Current Provisions	28.1	13.8
Total	83.8	66.1

Provision for severance payments

Due to legal or collectively agreed obligations, employees in Austria and Italy are entitled to receive severance payments upon termination of employment or upon reaching normal retirement age. Such entitlements depend on their years of service and final compensation levels. For the future liabilities, provisions are generated according to actuarial principles. The provision for pensions was calculated in accordance with IAS 19 (projected unit credit method) using an interest rate of 1.30 percent to 1.89 percent (previous year: 1.31 percent to 1.58 percent) and assuming a pay increase from 1.0 percent to 2.5 percent (previous year: 1.0 percent to 2.5 percent). The estimated retirement age refers to the earliest possible retirement age according to local legislation. Discounts due to fluctuations or other factors are not taken into account.

Expenses for severance payments recognized as personnel costs:

EUR m	12/31/2017	12/31/2016
Current service cost	4.8	4.2
Interest cost	1.0	0.4
Expense for the year	5.8	4.6

Provision for severance payments shown on the balance sheet:

EUR m	12/31/2017	12/31/2016
Balance as of 01/01	26.2	20.7
Amounts recognized in the profit and loss account		
Current service cost (+)	4.8	4.2
Interest cost (+)	1.0	0.4
Remeasurement of the period (other comprehensive income)		
Actuarial gains/losses from the change in demographic assumptions	1.0	0.7
Actuarial gains/losses from the change in financial assumptions	-0.5	1.7
Payments (-)	-2.7	-2.4
Change in the consolidation scope	0.4	0.8
Present value of obligations as of 12/31	30.2	26.2

Sensitivity analysis for severance payments:

	Change of the parameter	Change in the present value of obligation
EUR m		12/31/2017
Discount rate	0.5 %	-1.0
Discount rate	-0.5 %	0.9
Salary increase	0.5 %	0.8
Salary increase	-0.5 %	-1.0

As of December 31, 2017, the average maturity of severance obligations is 10 to 14 years (previous year: 10 to 15 years), depending on the country. Payments in the amount of EUR 5.8 million (previous year: EUR 3.1 million) are expected for the next fiscal year.

Provision for Pensions

Due to individual agreements, some Group companies are obligated to accord a pension allowance to Executive Board members and employees beginning with the date of their retirement. The amounts of such entitlements depend on years of service and final compensation levels. Measurement was made pursuant to IAS 19 using the projected unit credit method with an interest rate of 1.89 percent to 1.95 percent (previous year: 1.58 percent to 1.60 percent) and a value adjustment of 2.0 percent to 3.0 percent (previous year: 2.0 percent to 3.0 percent).

Expenses for pensions recognized as personnel cost:

EUR m	12/31/2017	12/31/2016
Current service cost	0.4	0.1
Interest cost	0.3	0.4
Expense for the year	0.7	0.5

Provision for pensions shown on the balance sheet:

EUR m	12/31/2017	12/31/2016
Balance as of 01/01	19.9	18.4
Amounts recognized in the profit and loss account		
Current service cost (+)	0.4	0.1
Interest cost (+)	0.3	0.4
Remeasurement of the period (other comprehensive income)		
Actuarial gains/losses from the change in financial assumptions	-1.1	1.4
Payments (-)	-0.5	-0.5
Present value of obligations as of 12/31	19.0	19.9

Sensitivity analysis for pensions:

	Change of the parameter	Change in the present value of obligation
EUR m		12/31/2017
Discount rate	0.5 %	-2.4
Discount rate	-0.5 %	2.3
Pension increase	0.5 %	1.2
Pension increase	-0.5 %	-1.0

As of December 31, 2017, the average maturity of pension obligations is between 2 and 14 years (previous year: between 3 and 15 years), depending on the country. Payments in the amount of EUR 0.5 million (previous year: EUR 0.5 million) are expected for the next fiscal year.

Provision for Jubilee Payments

After a long period of service with the company, employees are entitled to jubilee payments arising from collective agreements. The amount of these obligations was calculated under the assumptions of a discount rate of 1.55 percent to 1.95 percent (previous year: 1.58 percent to 1.70 percent) and a pay increase of 1.75 percent to 2.5 percent (previous year: 1.75 percent to 2.50 percent). A fluctuation discount based on an internal statistic concerning withdrawals of the previous 3 years and considering probable individual continuance in the company until the jubilee payment is due was taken into account.

Expenses for jubilee payments recognized as personnel cost:

EUR m	12/31/2017	12/31/2016
Current service cost	1.2	1.0
Interest cost	0.1	0.1
Past service cost	-0.1	1.2
Net actuarial gains/losses	-0.9	-0.1
Expense for the year	0.3	2.3

Provision for jubilee payments shown on the balance sheet:

EUR m	12/31/2017	12/31/2016
Balance as of 01/01	6.2	4.8
Amounts recognized in the profit and loss account		
Current service cost (+)	1.2	1.0
Interest cost (+)	0.1	0.1
Past service cost	-0.1	1.2
Net actuarial gains/losses	-0.9	-0.1
Payments (-)	-0.3	-0.8
Change in scope of consolidation	0.2	0.0
Present value of obligations as of 12/31	6.4	6.2

Other Non-Current Provisions

The other non-current provisions essentially concern provisions for anticipated losses and dismantling obligations. The development of other non-current provisions is shown below:

EUR m	12/31/2017	12/31/2016
Balance as of 01/01	13.8	8.2
Currency translation adjustments	-0.2	-0.5
Changes in the scope of consolidation	2.6	4.2
Utilization	-1.7	-1.5
Release	-3.2	-0.5
Allocation	16.7	4.1
Compounding	0.1	-0.1
Balance of provisions as of 12/31	28.1	13.8

(7.21) Other Non-Current Liabilities

EUR m	12/31/2017	12/31/2016
Deferred income	0.5	0.5
Other Non-Current Liabilities	5.3	3.8
Purchase price obligations	47.7	15.3
Total	53.5	19.6

Purchase price obligations comprise contingent considerations from business combinations as well as obligations from written put options for non-controlling interests.

(7.22) Current Financial Liabilities

EUR m	12/31/2017	12/31/2016
Bond	0.0	147.7
Current bank liabilities	62.7	58.9
Obligations under finance leases (current portion)	0.5	2.4
Current financial liabilities	2.2	0.9
Derivatives	6.6	0.9
Total	72.0	210.8

(7.23) Current Provisions

EUR m	Other provisions for personnel	Warranties	Obligations for legal issues	Other current provisions	Total
As of 12/31/2016	26.2 ¹⁾	3.6	6.2	32.7	68.8
Currency translation adjustments	-0.4	0.0	0.0	-0.4	-0.8
Changes in the scope of consolidation	2.1	0.0	0.0	1.0	3.1
Utilization	-20.2	-0.2	-3.0	-23.1	-46.6
Release	-0.8	0.0	-0.7	-6.5	-8.0
Allocation	18.6	0.6	3.5	53.0	75.7
Assets held for sale	0.0	0.0	0.0	-0.2	-0.3
Reclassifications	-9.2	0.0	0.0	0.0	-9.2
As of 12/31/2017	16.4	4.0	6.1	56.4	82.8

¹⁾ Adjustment of previous year's figures according to IFRS 3 "Business Combinations"

Other current provisions consist mainly of provisions for anticipated losses and for sites.

(7.24) Trade Payables and Other Liabilities

EUR m	12/31/2017	12/31/2016
Trade payables	109.5	113.5
Payables to non-consolidated affiliated companies	0.7	1.1 ¹⁾
Advance payments received	9.1	3.6
Deferred income	42.7	35.3
Liabilities to employees	51.6	44.3
Other liabilities from social security obligations	13.8	11.6
Other tax liabilities, excluding income taxes	120.9	104.9
Purchase price obligations	23.0	28.1 ¹⁾
Other current liabilities	58.5	63.5
Total	429.8	406.0

¹⁾ Adjustment of previous year's figures according to IFRS 3 "Business Combinations"

Deferred income consists mainly of special rent payments for slot machines and loyalty rewards for clients in Germany.

Purchase price obligations cover contingent considerations from business combinations as well as purchase price components from business combinations or financial investments not yet due.

Other current liabilities consist mainly of deposits received, outstanding invoices, accrued interests and liabilities from pending games and bets.

(8) Notes to the Profit and Loss Account

The profit and loss account was prepared applying the total cost method.

(8.1) Revenues

EUR m	2017	2016
Sales revenues	223.1	249.9
Income from slot machines	1,239.8	1,028.9
Income from rent and management services	589.5	607.0
Betting revenues	141.4	117.8
eBusiness income	192.4	159.8
Income from food and beverage	40.9	32.4
Other sales	115.5	93.5 ¹⁾
Sales reductions	-15.2	-15.3
Total	2,527.3	2,274.0

¹⁾ Adjustment of previous year's figures in accordance with IAS 8

(8.2) Gaming taxes and betting fees

EUR m	2017	2016
Gaming taxes	-278.5	-224.7
Betting fees	-15.7	-13.6
Total	-294.2	-238.3

(8.3) Changes in Inventories of Finished Goods and Work in Progress as well as Own Work Capitalized

EUR m	2017	2016
Changes in inventories of finished goods and work in progress	6.0	21.0
Own work capitalized	233.0	194.6
Total	239.0	215.6

Own work capitalized consists mainly of internally produced electronic gaming machines.

(8.4) Other Operating Income

EUR m	2017	2016
Income from the disposal of intangible assets and property, plant and equipment	22.0	16.4 ¹⁾
Foreign exchange gains	8.0	6.6 ¹⁾
Sale from companies	46.9	30.4
Other operating income	58.1	54.4 ¹⁾
Total	134.9	107.9

¹⁾ Adjustment of intermediate consumption in accordance with IAS 8

The income from final consolidation is due to the sale of fully consolidated subsidiaries during the respective reporting period, as well as earn-out settlements from prior disposals.

Other operating income includes in particular shipping, tronc, insurance and other ancillary revenues.

(8.5) Cost of Material and Other Purchased Services

EUR m	2017	2016
Cost of material	-361.1	-349.6 ¹⁾
Purchased services	-10.8	-6.5 ¹⁾
Total	-371.9	-356.1

¹⁾ Adjustment of intermediate consumption in accordance with IAS 8

(8.6) Personnel costs

EUR m	2017	2016
Wages and salaries	-612.7	-540.4 ¹⁾
Expenses for severance payments	-10.9	-9.9
Expenses for pensions	-5.1	-4.4
Cost of statutory social security, payroll-related taxes and mandatory contributions	-122.2	-103.4 ¹⁾
Other social expenses	-12.8	-10.4 ¹⁾
Total	-763.7	-668.4

¹⁾ Adjustment of intermediate consumption in accordance with IAS 8

Expenses for severance payments include EUR 2.1 million (previous year: EUR 1.9 million) and expenses for pensions include EUR 2.3 million (previous year: EUR 1.8 million) for defined contribution plans.

The increase in personnel costs is mainly due to an increase in the number of employees in the Group. The average number of employees developed as follows:

	2017	2016
Salaried employees	8,847	8,619
Workers	15,568	14,772
Total	24,415	23,391

(8.7) Amortization, Depreciation, Impairment and Reversal of Impairment for Intangible Assets, Property, Plant and Equipment, and Investment Property

EUR m	2017	2016
Scheduled depreciation/amortization	-331.0	-296.4 ¹⁾
Impairment	-55.7	-33.3
Impairment reversals	9.7	8.6
Total	-377.0	-321.1

¹⁾ Adjustment of previous year's figures according to IAS 8

The breakdown of the depreciation/amortization for the year according to the individual asset classes is shown in notes (7.1), (7.2) and (7.3).

Impairments of EUR 23.1 million (previous year: EUR 9.1 million) relate to the "Gaming Technology" segment, EUR 31.1 million (previous year: EUR 24.2 million) to the "Gaming Operations" segment and EUR 1.5 million (previous year: EUR 0.0 million) to "Other". Impairment reversals of EUR 0.2 million (previous year: EUR 0.8 million) relate to the "Gaming Technology" segment, EUR 9.0 million (previous year: EUR 7.8 million) to the "Gaming Operations" segment and EUR 0.5 million (previous year: EUR 0.0 million) to the "Other" segment.

(8.8) Other operating expenses

EUR m	2017	2016
Other taxes, fees and charges	-82.4	-75.7 ¹⁾
Maintenance	-52.6	-44.2
Energy costs	-37.3	-31.9
Telephone, communications	-17.9	-14.6 ¹⁾
Rental expense for real estate	-149.9	-120.8 ¹⁾
Rental expense for slot machines	-17.7	-9.3
Rental expense for other assets	-11.7	-9.2
Insurance costs	-6.6	-6.2 ¹⁾
Vehicle fleet operation costs	-17.4	-15.7
Legal, audit and consulting costs	-46.0	-43.4 ¹⁾
Other services received	-43.4	-43.9 ¹⁾
Advertising costs	-114.5	-108.6 ¹⁾
Traveling costs	-17.9	-15.5 ¹⁾
Development costs	-15.0	-23.3
License costs	-16.0	-13.8
Commissions	-18.0	-16.0
Partners' shares	-23.2	-23.0
Bad debt and valuation adjustment	-13.9	-10.2
Loss from the disposal of property, plant and equipment	-5.9	-4.4 ¹⁾
Provision for losses from orders	-24.1	0.0
Security costs	-21.4	-15.6
Foreign exchange losses	-27.1	-3.7
Disposal from companies	-0.8	0.0
Other expenses	-111.8	-103.3 ¹⁾
Release of provisions	8.1	3.8 ¹⁾
Total	-884.6	-748.3

¹⁾ Adjustment of previous year's figures in accordance with IAS 8

The rental expenses for real estate, slot machines and other assets were incurred through operating lease agreements. Further details are provided in note (12).

Other expenses include, in particular, outgoing freight, charged costs, various services, fees for money transactions and administrative costs.

(8.9) Interest income

EUR m	2017	2016
Interest income	8.1	6.6
Interest income from finance lease receivables	1.5	1.2
Total	9.6	7.8

(8.10) Other Financial Income

EUR m	2017	2016
Income from the disposal of financial assets	6.6	0.6
Investment income from other investments	15.6	3.8
Fair value valuation of interest rate swaps	0.2	0.0
Other financial income	9.0	8.2
Total	31.4	12.6

The financial investment in Österreichische Lotterien Gesellschaft mbH (ÖLG) resulted in investment income amounting to EUR 3.9 million (previous year: EUR 3.5 million). Other investment income, at around EUR 11.0 million, results from investments in shares of Austrian banks and international companies.

(8.11) Interest expenses

EUR m	2017	2016
Interest expenses	-10.0	-10.5 ¹⁾
Interest expenses on bonds	-30.8	-26.3
Interest expenses on obligation under finance lease	0.0	-0.2 ¹⁾
Total	-40.8	-37.0

¹⁾ Adjustment of previous year's figures in accordance with IAS 8

(8.12) Other financial expenses

EUR m	2017	2016
Losses from the disposal of financial assets	-1.1	-0.8
Impairment of financial assets, loans and securities	-3.3	-4.9
Fair value valuation of interest rate swaps	0.0	-0.8
Other financial expenses	-10.1	-5.6
Total	-14.5	-12.1

(8.13) Currency exchange gains/losses from intra-group financing

Foreign currency effects resulting from intra-group financing are stated separately in this item because of their close connection to financing activities. Currency exchange gains/losses from intra-group financing amount to EUR -7.4 million (previous year: EUR -5.9 million).

(8.14) Tax expenses

EUR m	2017	2016
Current income tax expense	-101.9	-84.2 ¹⁾
Current income tax relating to other periods	-21.1	0.1
Deferred tax income/expense	20.8	9.1 ¹⁾
Total	-102.1	-75.0

¹⁾ Adjustment of previous year's figures according to IAS 8

The reconciliation of the income tax burden applying the Austrian corporation tax rate of 25 percent (previous year: 25 percent) to the effective tax rate for the 2017 fiscal year is as follows:

EUR m	2017	2016
Earnings before taxes	188.3	230.7¹⁾
Computed income tax expense of 25 percent (previous year: 25 percent)	-47.3	-57.9¹⁾
Adjustment of the computed income tax expense		
Adjustment for differing foreign tax rates	0.5	-4.9 ¹⁾
Effects of non-taxable income	9.0	18.6 ¹⁾
Effects of non-deductible expenses	-10.1	-19.5 ¹⁾
Effects of tax advantages	3.4	3.7
Actual income tax relating to other periods	-20.7	0.1
Effects of change in income tax rate on deferred taxes	4.2	1.3
Effects of initially not recognized and unused tax losses and possible offsets on the actual tax expense	6.4	4.5
Effects of initially not recognized and unused tax losses and possible offsets on the deferred tax expense	1.2	1.7
Effects of adjustments or of the reversal of a previous adjustment of a deferred tax asset	-5.6	-3.4
Effects of unused tax losses and possible offsets not recognized as deferred taxes	-38.7	-16.9
Withholding tax	2.5	0.6 ¹⁾
Other	-6.9	-2.8 ¹⁾
Effective tax expense	-102.2	-75.0
Effective tax rate in %	54.3 %	32.5 %

¹⁾ Adjustment of previous year's figures according to IAS 8

Income taxes included in the other comprehensive income:

EUR m	2017	2016
Revaluation of available-for-sale financial instruments	-10.2	-4.6
Revaluation of the net defined benefit liability	-0.1	0.8

(8.15) Result from Discontinued Business Segments

In 2013, NOVOMATIC AG acquired approximately 76.8 percent of the shares in I-New Group. The company consists of the Austrian I-New Unified Mobile Solutions AG headquartered in Mattersburg and its international subsidiaries.

The I-New Group is one of the leading global providers of combined BSS (Business Support Systems) and OSS (Operating Support Systems) technologies used for mobile virtual network operators (MVNOs) as well as mobile network operators (MNOs). The solutions target the mass market as well as the niche market. The company is now present on all continents with its product range and generates about 80 percent of its sales outside the European Union (mainly in Latin America and Asia).

In the 2017 fiscal year, it emerged that quality defects and delays caused by suppliers will lead to the considerably delayed completion of a major expansion stage of the technology solution offered by I-New.

While the revenues from multi-year business contracts showed a stable development (EUR 11.9 million in 2015, EUR 12.3 million in 2016 and EUR 12.0 million in 2017), there was a drop in revenue from new business projects in the amount of around 80 percent (EUR 7.6 million in 2016 compared to EUR 1.3 million in 2017) due to the aforementioned delay. In Q4 2017, the developmental backlog was considered overcome.

Due to the loss of revenues from planned new projects, the I-New Group faced an unexpected liquidity shortage in Q2 2017, thus necessitating not only the initiation of a comprehensive operational restructuring process, but also the carrying out of an impairment test in accordance with IAS 36 in the context of the half-yearly financial reporting. The latter led to an impairment of goodwill and other intangible assets totaling EUR 12.4 million.

The business environment of I-New in Latin America was characterized by increasingly fierce competition among MVNO customers in Mexico and Colombia along with challenging economic conditions in Peru. The resulting consequence was a bad debt allowance of EUR 5.8 million. The reasons for this allowance included a contract renegotiation with an existing customer and a debt waiver as a result of a change of ownership.

In November 2017, the strategic decision was made to sell the majority stake in I-New Group, as a result of which a structured sales process was started. According to current estimates, the signing of the sale of shares is expected in the second half of 2018.

Based on the current situation, the classification, presentation and measurement provisions of IFRS 5 were applied, meaning that the I-New Group was presented in the 2017 Consolidated Financial Statement as disposal group. Accordingly, the assets and liabilities are reported separately in the balance sheet and the result from the discontinued operation in the income statement.

Assets and Liabilities of a Group Held for Sale

EUR m	2017	2016
Assets of a Group Held for Sale	20.4	0.0
Liabilities of a Group Held for Sale	16.2	0.0

In order to collateralize loans, liens were registered on property, plant and equipment (particularly property) in the amount of EUR 1.3 million.

Profit/loss from discontinued operations

EUR m	2017	2016
Revenues	12.9	20.2
Other sales	0.7	1.1
Expenses	-22.9	-16.6
Depreciation/impairments	-14.4	-3.3
Earnings before taxes	-23.7	1.3
Attributable income tax expense	-1.2	-0.7
Profit/loss from discontinued operations	-24.8	0.7

Cash flow from discontinued operations

EUR m	2017	2016
Cash flow from operating activities	-5.2	2.2
Cash flow from investing activities	-3.2	-4.6
Cash flow from financing activities	5.9	0.9
Total	-2.4	-1.5

(9) Notes on the Cash Flow Statement

Cash flow from operating, investing and financing activities is shown separately in the consolidated cash flow statement. The consolidated cash flow statement was prepared in accordance with the indirect method. Liquid funds correspond to cash and cash equivalents as well as bank balances stated on the balance sheet.

The Group undertook the following non-cash investing and financing activities that are not reflected in the cash flow statement: Receivables from the sale of consolidated companies of EUR 35 million (previous year: EUR 10.8 million) and liabilities or charges from the acquisition of companies of EUR 0.3 million (previous year: EUR 27.8 million).

(10) Notes on Segment Reporting

For management purposes, the NOVOMATIC Group is divided into two business segments. These strategic segments form the basis for the segment reporting.

The “Gaming Technology” segment includes the production, sale and rental of gaming and entertainment machines, and the online B2B business.

The “Gaming Operations” segment consists of the operation of casinos and electronic gaming machine casinos, the betting business (in particular sports and horse-racing betting), and the online B2C business.

The valuations for the segment reporting correspond to the accounting policies used for the IFRS consolidated financial statement. Those assets and liabilities that are not directly related to the gaming operation are summarized under the heading “Other”. Reconciliation comprises adjustments due to the consolidation.

The inter-segment exchange of goods and services shows the supply and service relationships between the operating segments. The charging is carried out at arm’s length. Intercompany expenses, income and profits are eliminated in the reconciliation of segment revenues and/or segment results to the amounts disclosed in the consolidated financial statement.

Segment assets consist mainly of intangible assets, property, plant and equipment, inventories, trade receivables and cash balances. Segment liabilities consist mainly of trade payables, provisions and deferred income. During the reconciliation of the segment assets and liabilities, intercompany receivables and liabilities are eliminated as part of the consolidation of debts.

Unallocated assets and/or debts comprise those items on the balance sheet that are not defined as segment assets or segment debts and are used for the reconciliation with the consolidated value.

As part of the Consolidated Financial Statement of NOVOMATIC AG, in coordination with the local management in Italy, the current operating activities as well as the operating activities planned in the budget period for Admiral Gaming Network S.r.l. were reevaluated. Admiral Gaming Network S.r.l. is one of 13 Italian concessionaires responsible for networking VLTs and AWP. The operating activity is therefore limited to the provision of licenses/concessions for the operation of gaming machines (AWP + VLT) in the Italian market.

Based on the findings of this new evaluation, it was decided to allocate the company to the Gaming Technology segment instead of the Gaming Operations segment.

Segment Revenues

01–12/2017

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
External revenues	939.5	1,587.2	0.6	0.0	2,527.3
Intra-segment revenues	154.2	15.2	7.6	-176.9	0.0
Total revenues	1,093.7	1,602.4	8.2	-176.9	2,527.3

01–12/2016

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
External revenues	947.3 ¹⁾	1,326.4 ¹⁾	0.3 ¹⁾	0.0	2,274.0
Intra-segment revenues	137.2 ¹⁾	9.3 ¹⁾	7.2	-153.8 ¹⁾	0.0
Total revenues	1,084.5	1,335.8	7.5	-153.8	2,274.0

¹⁾ Adjustment of previous year's figures according to IAS 8 or IFRS 3 “Business combinations”

Segment Result

01–12/2017

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
Segment result (EBIT)	110.6	97.3	-6.0	7.9	209.8
Financial result					-21.5
Earnings before taxes					188.3
Tax expenses					-102.1
Net income from continued operations					86.2

01–12/2016

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
Segment result (EBIT)	185.1¹⁾	101.3¹⁾	-11.6¹⁾	-9.5	265.3
Financial result					-34.6
Earnings before taxes					230.7
Tax expenses					-75.0
Net income from continued operations					155.7

¹⁾ Adjustment of previous year's figures according to IAS 8 or IFRS 3 “Business combinations”

Segment Assets and Liabilities

2017

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Non-allocated assets/liabilities	Total
Segment assets	1,501.7	1,282.5	76.0	-89.1	1,328.6	4,099.7
Segment liabilities	375.3	304.5	6.5	-89.1	2,173.6	2,770.8

2016

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Non-allocated assets/liabilities	Total
Segment assets	1,393.2 ¹⁾	1,007.7 ¹⁾	98.4	-84.1 ¹⁾	1,270.6 ¹⁾	3,685.9
Segment liabilities	328.0 ¹⁾	269.9 ¹⁾	15.5	-80.9 ¹⁾	1,777.2 ¹⁾	2,309.7

¹⁾ Adjustment of previous year's figures according to IAS 8 or IFRS 3 "Business combinations"

Other Segment Information

2017

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
Scheduled depreciation/amortization	-192.4	-135.1	-3.6	0.0	-331.0
Impairment	-23.1	-31.1	-1.5	0.0	-55.7
Impairment reversals	0.2	9.1	0.5	0.0	9.7
Investments	264.2	162.0	15.0	0.0	441.2
Investments through business combinations	20.3	283.8	0.0	0.0	304.1
Income from associates	0.0	0.0	0.2	0.0	0.2
Carrying amount of associated companies	0.0	0.0	1.4	0.0	1.4

2016

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
Scheduled depreciation/amortization	-192.5 ¹⁾	-100.8 ¹⁾	-3.2 ¹⁾	0.0	-296.4
Impairment	-9.1	-24.2	0.0	0.0	-33.3
Impairment reversals	0.7	7.9	0.0	0.0	8.6
Investments	253.7 ¹⁾	168.4 ¹⁾	12.2	0.0	434.3
Investments through business combinations	44.9 ¹⁾	277.3 ¹⁾	0.0	0.0	322.2
Carrying amount of associated companies	0.0	0.0	0.2	0.0	0.2

¹⁾ Adjustment of previous year's figures according to IAS 8 or IFRS 3 "Business combinations"

Geographical Information

The Group recorded the following revenues and assets in the individual regions:

01-12/2017

EUR m	Austria	Germany	Italy	United Kingdom	Spain	Eastern Europe	Other countries	Online	Total segment assets	Not assigned assets	Total
Revenues	335.9	722.4	352.5	265.0	126.4	396.4	161.5	167.1	0.0	0.0	2,527.3
Assets	239.8	418.6	384.9	321.7	188.9	254.6	77.2	37.3	1,923.1	2,176.6	4,099.7

01-12/2016

EUR m	Austria	Germany	Italy	United Kingdom	Spain	Eastern Europe	Other countries	Online	Total segment assets	Not assigned assets	Total
Revenues	299.7 ¹⁾	656.9 ¹⁾	316.8 ¹⁾	254.7	80.4 ¹⁾	353.6 ¹⁾	163.2 ¹⁾	148.7 ¹⁾	0.0 ¹⁾	0.0	2,274.0
Assets	270.9 ¹⁾	249.1 ¹⁾	344.4 ¹⁾	334.0	106.2 ¹⁾	247.2 ¹⁾	85.5 ¹⁾	38.3 ¹⁾	1,675.6 ¹⁾	2,010.3	3,685.9

¹⁾ Adjustment of previous year's figures according to IAS 8 or IFRS 3 "Business combinations"

Revenues are allocated to the individual regions based on the domicile of the company recording such revenues. The geographical region Online covers all companies whose business activity is mainly or exclusively Online-Area.

(11) Notes on Financial Instruments

12/31/2017 EUR m	Category acc. to IAS 39				Classification acc. to IFRS 7											
	Loans and receivables	Financial assets available for sale	Financial liabilities at amortized costs	Derivatives and financial liabilities at fair value	Fair value				Amortized costs							
					Securities	Financial investments	Derivatives	Purchase obligations	Cash and cash equivalents	Trade and lease receivables	Loans	Bonds	Bank and lease liabilities	Trade payables	Other receivables and liabilities	Investments in non-consolidated companies and shares
Financial assets																
Financial assets		271.2			5.2	234.9										31.1
Other non-current assets	121.2									15.5	61.3				44.5	
Trade receivables, other receivables and assets	272.4									228.4					44.0	
Current financial assets	13.5	11.4		0.0	11.4		0.0			8.8	2.9				1.8	
Cash and cash equivalents	899.7								899.7							
TOTAL	1,306.8	282.6	0.0	0.0	16.6	234.9	0.0	0.0	899.7	252.6	64.2	0.0	0.0	0.0	90.3	31.1
Financial liabilities																
Non-current financial liabilities			1,829.0								3.2	939.2	880.1		6.5	
Other non-current liabilities			7.9	44.2				44.2							7.9	
Current financial liabilities			65.4	6.6			6.6				2.2	0.0	63.3			
Trade payables and other liabilities			157.5	16.2				16.2						110.2	47.3	
TOTAL	0.0	0.0	2,059.9	67.0	0.0	0.0	6.6	60.4	0.0	0.0	5.4	939.2	943.4	110.2	61.8	0.0

12/31/2016 EUR m	Category acc. to IAS 39				Classification acc. to IFRS 7											
	Loans and receivables	Financial assets available for sale	Financial liabilities at amortized costs	Derivatives and financial liabilities at fair value	Fair value				Amortized costs							
					Securities	Financial investments	Derivatives	Purchase obligations	Cash and cash equivalents	Trade and lease receivables	Loans	Bonds	Bank and lease liabilities	Trade payables	Other receivables and liabilities	Investments in non-consolidated companies and shares
Financial assets																
Financial assets		237.8 ¹			10.0	196.6										31.2
Other non-current assets	105.6 ¹									17.8	52.5				35.2 ¹	
Trade receivables, other receivables and assets	258.5 ¹									229.6					28.9 ¹	
Current financial assets	16.1 ¹	9.2		6.1	9.2		6.1			10.8	3.6				1.7 ¹	
Cash and cash equivalents	877.8								877.8							
TOTAL	1,257.9	246.9	0.0	6.1	19.1	196.6	6.1	0.0	877.8	258.3	56.1	0.0	0.0	0.0	65.8	31.2
Financial liabilities																
Non-current financial liabilities			1,395.1 ¹								2.5	937.8	449.1		5.7 ¹	
Other non-current liabilities			3.8 ¹	14.6 ¹				14.6 ¹							3.8 ¹	
Current financial liabilities			209.9 ¹	0.9			0.9				0.9	147.7	61.3			
Trade payables and other liabilities			165.0 ¹	19.6 ¹				19.6 ¹						114.7 ¹	50.3 ¹	
TOTAL	0.0	0.0	1,773.8	35.2	0.0	0.0	0.9	34.2	0.0	0.0	3.4	1,085.5	510.4	114.7	59.8	0.0

¹⁾ Adjustment of previous year's figures due to changed presentation

Valuation of Financial Instruments

a. Fair Value of Financial Assets and Liabilities Carried at regularly evaluated Fair Value

Some of the Group’s assets and liabilities are measured at fair value for financial reporting purposes.

EUR m	12/31/2017	12/31/2016	Hierarchy
Assets			
Securities	16.6	19.1	Level 1
Financial investments	234.9	196.6	Level 3
Derivatives (positive market values)	0.0	2.1	Level 2
Derivatives (options)	0.0	4.0	Level 3
Liabilities			
Purchase price obligations	60.4	34.2 ¹⁾	Level 3
Derivatives (negative market values)	6.6	0.9	Level 2

¹⁾ Adjustment of previous year’s figures according to IFRS 3 “Business Combinations”

Securities classified as financial assets available for sale include listed equity instruments such as shares and/or debt instruments such as bonds. For the valuation, the bid prices quoted on an active market are used.

The financial investments include the indirectly held 11.56 percent interest in Österreichische Lotterien Gesellschaft mbH (ÖLG) and the directly held 17.19 percent in Casinos Austria Aktiengesellschaft (CASAG). For the market value measurement of both financial investments, internally created company valuations were used applying recognized multiplier methods.

Österreichische Lotterien Gesellschaft mbH is the authorized concessionaire of the federal government as part of the gaming monopoly until September 30, 2027, performing the games Lotto “6/45”, Euromillionen, Toto, Score Bets, number games 1-90, the additional game “Joker”, raffle and instant scratch games, electronic lotteries (online gaming) at www.win2day.at and in video lottery terminal outlets, Keno, class lottery, Bingo and the numbers lottery “Toi Toi Toi”.

For the market value measurement, an industry multiple derived from a peer group of six international lottery companies was applied. The main input factor for this is the average ratio of enterprise value to EBITDA or to EBIT for the selected peer group which is based on current market data and represents the average market capitalization. At the time of submitting the offer or acquiring the interest, the EV/EBITDA multiplier was 7.83 and the EV/EBIT multiplier 8.89. The updated determination of the stated multipliers led to an EV/EBITDA multiplier of 7.89 and an EV/EBIT multiplier of 9.50 for the 2017 fiscal year. Firstly, the pro-rated EBITDAs and EBITs of ÖLG and its (sub-)subsidiaries from the most recent publicly available financial information were calculated using these two multipliers. The entity value so calculated was increased by the net financial assets or reduced by the net financial liabilities, and adjusted for the special value of the investments. This equity value for 100 percent shares was adjusted for the share acquisition taking into account an unchanged premium of 12.36 percent on the EBITDA basis or 13.17 percent on the EBIT basis and amounts to around EUR 996.0 million. This resulted in a current market value of EUR 115.1 million for the 11.56 percent investment as of the balance sheet date. This subsequent measurement was recorded in equity, resulting in a revaluation of EUR 12.5 million, which had no impact on income.

An increase in the multiplier of 0.5x would lead to an increase in the fair value of EUR 5.9 million or an increase in the underlying EBITDA/EBIT of the valuation item of 10 percent to an increase in the fair value of around EUR 10.2 million.

Casinos Austria AG is the authorized concessionaire of the federal government within the framework of the gaming monopoly until December 31, 2027, and December 31, 2030, operating twelve casinos in Austria with day and evening games. It has locations in Baden, Bregenz, Graz, Innsbruck, Kitzbühel, Kleinwalsertal, Linz, Salzburg, Seefeld, Velden, Vienna and Zell am See. The casinos offer games such as roulette, various kinds of classic poker, baccarat chemin de fer, blackjack, Double Hit, Forty-one,

Seven Eleven, Wheel of Fortune, Punto Banco, Red Dog, Sic Bo, Nevada, Tropical Stud Poker, Easy Poker, Easy Black Jack and gaming machines.

A two-step weighted industry multiplier was used to measure the market value. When measuring the CASAG shares, the contribution of ÖLG (68% majority stake of CASAG) and the contribution of the other CASAG companies were considered separately. A comparison group of 10 international casino companies served to calculate the industry multiplier for the other CASAG companies. At the time of submitting the offer or acquiring the interest, the EV/EBITDA multiplier was 9.11 and the EV/EBIT multiplier 13.35. The updated determination of the stated multipliers led to an EV/EBITDA multiplier of 10.29 and an EV/EBIT multiplier of 14.46 for the 2017 fiscal year. The multipliers from the ÖLG valuation and the other CASAG companies were weighted in accordance with the EBITDA/EBIT contribution, which has resulted in an average EV/EBITDA multiplier of 8.64 and EV/EBIT multiplier of 10.83 for the 2017 fiscal year. Firstly, the EBITDA and EBIT extrapolated from the most recent publicly available financial information of the CASAG Group using these two multipliers. The entity value so calculated was increased by the net financial assets or reduced by the net financial liabilities, and adjusted for non-controlling interests. The resulting equity value for 100 percent interests was adjusted in consideration of an unchanged discount of 24.4 percent based on EBITDA and 18.2 percent based on EBIT for the acquisition of the interest, and comes to around EUR 696.4 million. This resulted in a current market value of EUR 119.8 million for the 17.2 percent investment as of the balance sheet date. This subsequent measurement was recorded in equity, resulting in a revaluation of around EUR 25.7 million, which had no impact on income.

An increase in the multiplier of 0.5x would lead to an increase in the fair value of EUR 10.3 million or an increase in the underlying EBITDA/EBIT of the valuation item of 10 percent to an increase in the fair value of EUR 19.1 million.

The derivative financial instruments mainly comprise interest rate swaps, interest rate options and forward currency contracts, the fair value of which is ascertained using the discounted cash flow method. For this, the future cash flows determined as of the valuation date are discounted using suitable discount rates with matching maturities (observable interest curves on the balance sheet date, or the most recently applicable interest curve before the balance sheet date (December 27, 2017)). Market valuations of derivative financial instruments are carried out by the Group’s own treasury management system, as well as the banks involved. The market value of derivatives corresponds to the value that the individual company would receive or have to pay if the contract was settled as of the balance sheet date. Changes in fair value are recorded in profit and loss unless hedge accounting is applied.

To hedge financial risks, the NOVOMATIC Group entered into the following derivative contracts:

EUR m	12/31/2017		12/31/2016	
	Nominal amount	Market value	Nominal amount	Market value
USD forward contract (positive)	0.0	0.0	88.8	2.1
USD forward contract (negative)	85.5	-5.9	0.0	0.0
Option right	0.0	0.0	0.0	4.0
Interest rate swap	77.5	-0.8	77.5	-0.9
Total	163.0	-6.6	166.3	5.2

Through an option, the NOVOMATIC Group secured the right to acquire shares in an unlisted company. This was measured at EUR 4.0 million in the prior year due to the agreed transfer of the option to an independent contracting partner. The transfer was successfully completed in the current reporting period.

The purchase price obligations consist of contingent purchase prices and written put options for non-controlling interests.

The contingent considerations from business combinations result from the contractual obligations of the acquiring Group company to pay an additional purchase price to the seller if certain contractually agreed financial performance indicators (e.g. revenue or EBITDA goals) are reached within a certain period after closing. The valuation of the obligations from contingent purchase prices is based on updated revenue and/or EBITDA estimates. The contingent considerations are shown in the balance sheet with EUR 3.0 million (previous year: EUR 0.0 million) under the other non-current liabilities (purchase price obligations) and with

EUR 0.0 million (previous year: EUR 14.9 million) under trade payables and other liabilities (purchase price obligations). The change in the contingent consideration from business combinations by EUR -11.9 million is the result of an addition amounting to EUR 3.0 million from acquisitions and a disposal amounting to EUR -14.9 million from settlement or discharge. Purchase price obligations have a residual term of around three years.

The obligations resulting from the written put options for non-controlling interests are accounted for as liabilities. The valuation of liabilities is dependent on the underlying agreement. The put options are shown in the balance sheet with EUR 41.2 million (previous year: EUR 14.6 million) under the other non-current liabilities (purchase price obligations) and with EUR 16.2 million (previous year: EUR 4.8 million) under trade payables and other liabilities (purchase price obligations). The change of EUR 38.0 million is the result of an addition amounting to EUR 39.7 million from acquisitions and a disposal amounting to EUR -1.7 million from lapse or value adjustment. The put options may be exercised at any time or after the expiry of a specific contractual term (maximum of three years).

Regarding the expected acquisition of Ainsworth Game Technology Ltd., which is payable in AUD, derivative financial instruments (forward exchange transactions) and non-derivative financial instruments (bank deposits) as hedging instruments in the context of a cash flow hedge were used to hedge the FX cash flow risk from the expected purchase price payment (underlying transaction). The purchase price payment was expected for the beginning of 2018. At this point in time, the effective portion of the hedging relationship is allocated to goodwill as part of the basic adjustment and thus only leads to an effect on the income statement if the goodwill is changed accordingly with effect on profit and loss. As at December 31, 2017, bank balances of EUR 300.2 million were designated as hedging instruments. In 2017, EUR -12.5 million from changes in the hedging instruments were recognized in other comprehensive income.

b. Fair Value of Financial Assets and Liabilities not Carried at Fair Value Regularly, Whereby the Fair Value Has to be Disclosed

For financial instruments valued at cost, the following table provides an overview of the book values as well as the corresponding fair values:

EUR m	12/31/2017		12/31/2016		Hierarchy
	Carrying amount	Fair value	Carrying amount	Fair value	
Financial liabilities					
Bonds	939.2	989.3	1,085.5	1,145.0	Level 1
Bank and leasing liabilities	943.4	946.0	510.4	517.0	Level 2

For the fair value of the bonds, the stock market price on the valuation date or the last valid market price before the balance sheet date (December 27, 2017) was used. The market value of bank and leasing obligations is determined by discounting future fixed cash flows related to these obligations at the market interest rate on the balance sheet date.

For cash, trade receivables, trade payables, other current receivables and other current liabilities, the fair value roughly corresponds to the carrying amount due to the short residual maturities.

For loans and borrowings, as well as other non-current financial receivables and liabilities, no major deviations between fair value and carrying amount are assumed. The default risk is taken into consideration through the application of valuation allowances.

Net Result by Category According to IAS 39

12/31/2017		Subsequent measurement			
EUR m	Allowances	At fair value through profit or loss	At fair value through other comprehensive income	Disposal result	Net result
Loans and Receivables	-13.9				-13.9
Derivatives and financial liabilities at fair value		-7.8	0.4		-7.4
Available-for-sale financial assets			39.3	5.0	44.3

12/31/2016		Subsequent measurement			
EUR m	Allowances	At fair value through profit or loss	At fair value through other comprehensive income	Disposal result	Net result
Loans and Receivables	-10.2				-10.2
Derivatives and financial liabilities at fair value		4.2	-0.3		3.9
Available-for-sale financial assets			15.2	0.2	15.4

Capital Risk Management

The purpose of capital risk management is the active control of the capital structure of the Group as well as the individual companies. It ensures the maintenance of an appropriate equity ratio in order to reduce debt costs and the safeguarding of sustained high profitability so that all Group companies are able to operate under the going concern principle.

The development of the capital structure is supervised by means of the equity ratio and the ratio of net indebtedness to EBITDA. These ratios are regularly quantified and reported on a biannual basis to the executive board, which uses those ratios, in addition to other key figures, to guide further corporate development.

The equity ratio is calculated as the ratio of equity to balance sheet total. Equity consists of the issued capital, capital reserves, retained earnings, as well as the revaluation reserve plus currency translation adjustments and non-controlling interests.

Net debt is calculated as the sum of current and non-current financial liabilities less cash and cash equivalents. The debt ratio is calculated accordingly as the ratio of net debt to earnings before interest, taxes, depreciation and amortization (EBITDA).

Due to its contractually agreed financial covenants, the NOVOMATIC Group is required to maintain an equity ratio of at least 20.0 percent and net debt in relation to the EBITDA of not more than 3.75x.

The equity ratio and the ratio of net indebtedness to EBITDA as per December 31, 2017, and as per December 31, 2016, are calculated as follows:

	2017	2016
Equity ratio (equity/balance sheet total)	32.4 %	37.3 %
Net debt to EBITDA (net debt/EBITDA)	1.7	1.2

In October 2015, NOVOMATIC AG received a rating for the first time from the ratings agency Standard & Poor's (S&P) and, at the time of preparation of the Consolidated Financial Statement, holds a BBB-rating with a stable outlook.

Financial Risk Management

The NOVOMATIC Group controls, monitors and limits the financial risks associated with the business segments in which it is active. Control of financial risks is supported by a treasury management system that is established in the industrial and bank sector. The financial risks relevant to the Group are monitored on a regular basis and, if necessary, collateralized via suitable measures and instruments (e.g. derivative financial instruments such as interest rate swaps and forward currency contracts) to reduce the risk resulting from the underlying transaction.

The identification, analysis and assessment of financial risks as well as the decision on the use of hedging measures and the selection of the relevant hedging instruments are generally performed by the Group Treasury. Any use of derivative instruments at the Group company level is coordinated in advance with Group Treasury in accordance with the Group policy.

Liquidity Risk

Liquidity or financing risk is the risk associated with remaining solvent at any given moment and/or having the ability to obtain the necessary funds from investors at arm’s length so as to fulfill any due obligations on time and to provide intercompany financing and guarantees for internal Group purposes. Furthermore, the need for cash in the gaming industry is high, especially in terms of cash in the company’s own gaming arcades. Therefore, part of the indicated cash comprises base filling of the slot machines and cash reserves in the gaming arcades.

A short-term and a long-term continuous liquidity plan is compiled based on the results of the Group’s strategy and planning processes in order to provide an up-to-date impression of the expected development of liquidity at the Group level. Medium-term and long-term liquidity and financing needs of the NOVOMATIC Group are determined based on projected cash flows.

Thanks to the Group’s conservative financing and debt policy, as well as the conservative investment policy, the NOVOMATIC Group’s liquidity risk is limited. Even so, the NOVOMATIC Group accords high priority to the topic of liquidity risk and its control. In order to guarantee the Group’s solvency and financial flexibility at all times, the group maintains a liquidity reserve in the form of revolving usable credit lines.

Following this purpose, a syndicated revolving credit facility with a term of five years (including the option to extend twice by one year) was concluded in March 2017 with 13 banks. The three existing revolving credit lines amounting to EUR 440.0 million were bundled in a credit line and refinanced by them. To additionally reduce the liquidity risk, the NOVOMATIC Group always seeks to secure financing through an investor base that is as internationally diversified as possible. Banks from all significant core markets participated in the financing. As at December 31, 2017, the credit line was utilized to the amount of EUR 460 million.

The bond (ISIN AT0000A0KSM6) of EUR 150.0 million issued in October, 2010 was repaid as agreed on October 27, 2017.

The following table shows all payments for redemptions and interest from financial liabilities including derivative financial instruments that had been contractually fixed as of the consolidated balance sheet date. Derivative instruments are shown at their market value, whereas the other liabilities are shown in the amount of the non-discounted cash flows for the following financial years:

EUR m	2018	2019-2022	2017	2018-2021
Bonds	24.0	494.2	177.9	510.0
Bank loans	69.5	820.2	66.1	371.6
Lease liabilities	0.8	2.4	2.5	6.3
Trade payables	110.2	0.0	114.7	0.0
Credits	2.2	3.2	0.9	2.5
Derivatives	6.6	0.0	0.9	0.0
Purchase price obligations	16.2	44.2	19.6	14.6
Other liabilities	47.3	14.4	50.3	9.5

Due to the high level of cash and cash equivalents, readily available investments and the revolving utilizable credit lines, on-time payment of the liabilities is guaranteed at all times.

Counterparty Risk

Counterparty risk constitutes the risk of delay or default in payment by any contractual partners. In the NOVOMATIC Group’s financing activities, credit relationships with banks and insurance companies that can boast appropriately high ratings (at least an investment grade rating from S&P, Moodys or Fitch) predominate.

To screen the default risk for investments (bank balances, money market investments, capital market investments, securities) and for derivatives (positive market value of derivatives), the NOVOMATIC Group monitors the limits, with the aim of evenly distributing funds and avoiding non-diversification risks. Each financial counterparty is assigned a credit rating (rating classification, CDS spreads, common equity tier 1 ratio) on a regular basis and a limit is assigned according to the rating class. In exceptional cases, where the pooling of balances is necessary for larger payments (for example, purchase price payment in the context of M&A transactions), the limits may be exceeded in the short term. If a transaction exceeds its limit, measures to meet the defined target figures are promptly initiated.

Apart from financing, the NOVOMATIC Group is also exposed to counterparty credit risk in the area of sales, since customers might not fulfill their payment obligations in full or when they are due. The default risk is in some cases reduced even further via additionally demanded collateral such as e.g. received deposits or documentary letters of credit for exports. This applies in particular to new customers. Additionally, contractually secured reservations of title, advance payment in part or in full, direct debiting and requiring shorter payment terms, further minimize the risk to which the NOVOMATIC Group is exposed. Thanks to the high number of external customers, there is currently no material concentration of default risk.

The maximum risk in cases of default on receivables from customers to third parties and loans to business partners is limited to their carrying amount. For other financial assets (cash and cash equivalents, financial instruments available for sale and other financial instruments with the exception of derivatives), the maximum credit risk in the event of counterparty default is likewise the carrying amount of these financial instruments. For derivative financial instruments, the maximum credit risk in cases of default is equivalent to the positive fair value of the derivative as of the valuation date.

Market Risk

a. Interest Rate Risk

In the context of its financing and investment activities, the NOVOMATIC Group is exposed to risk related to changes in interest rates. Interest rate fluctuations can have a positive or negative effect on the value of financial instruments (present value risk) as well as on the resulting cash flows (cash flow risk). For risk reasons, attention is paid to a balanced fixed interest rate balance sheet or a balanced mix of variable and fixed interest rates with short and long-term interest rates in order to avoid non-diversification risks.

In order to limit interest rate risks, current interest rate developments are monitored on an ongoing basis and, if necessary, interest rate risks are hedged with suitable measures, including derivative instruments such as interest rate swaps. Due to the high share of fixed-interest liabilities (approximately 70 percent) in the NOVOMATIC Group’s financing portfolio, the cash flow risk due to increasing interest rates is limited. Variable-interest deposits exceed variable-interest financing vehicles, which structurally limits the cash flow risk due to increasing interest rates for financing. The surplus of variable rate financial assets via the floating rate financial liabilities, combined with the prevailing low interest rates and the fact that most variable rate loans have a contractual floor (minimum reference rate of 0.0 percent), led to an increase in the cash flow risk on the asset side over the period. Commercial banks pass on the negative deposit rates mostly of the ECB for balances above certain thresholds to their business customers, resulting in increased demands on cash management and efficient management of the NOVOMATIC Group’s liquidity reserves.

The basis for the use of derivative hedging instruments is a Group-wide guideline defined by the Executive Board. Derivative financial instruments are only used to hedge against financial risks arising from an existing or highly probable future underlying transaction, such as a variable rate loan, and not for speculative purposes or to generate a business contribution.

The following schedule shows the impact of potential interest rate changes (+/-50 basis points or +50/-0 basis points) on earnings before taxes and on equity based on reasonable judgment. The interest rate sensitivity analysis includes the effects of variable-interest bank liabilities and bank deposits, as well as the payments due under concluded derivatives contracts. The calculation simulated an interest rate increase of 50 basis points for variable rate bank liabilities, variable interest bank deposits and variable payments from derivatives. Furthermore, when calculating the impact of a potential 50 basis point interest rate cut, only the impact on floating rate bank deposits and variable payments from derivatives was simulated as the majority of floating rate bank debt has a contractual floor and thus is not affected by further reductions in interest rates. The payments from interest rate derivatives as of balance sheet date are not affected by a reduction of interest.

EUR m	2017		2016	
Change in basis points	+50 basis points	0/-50 basis points	+50 basis points	0/-50 basis points
Change in earnings before taxes	1.2	-3.6	3.5	-3.7
Change in equity	1.0	-2.7	2.6	-2.8

The average weighted reference rate for variable funding was 2.39 percent in 2017 (2016: 2.29 percent) and the average 3M-EURIBOR for 2017 was -0.329 percent (2016: -0.265 percent).

Many banks in the euro area have passed the negative interest rates or the negative deposit rate at the ECB to their bank customers as “negative interest rates” on customer deposits that exceed a certain threshold.

A further reduction of the 0.5 percent interest rate is unrealistic at the time of writing, in particular because the ECB is slowly curbing monetary policy measures. For example, the bond purchase program will be gradually reduced from the beginning of January 2018. However, the ECB’s first possible rate hikes are currently expected by market participants in 2019 at the earliest. Continued low inflation in the eurozone, a further appreciation of the EUR against the USD and other major currencies, negative impact on the economy in the euro area as well as further economic and cyclical aspects, could push any anticipated increase in the ECB interest rate, and subsequently the EUR loan and deposit rates, further into the future.

Although current money market interest rates remain significantly negative, forward interest rates for the short-term (FRA up to one year) show a slight upward trend. Long-term interest rates (swap rates from 1 to 50 years) have been rising since the fourth quarter of 2017.

b. Foreign Exchange Risk

The risk resulting from fluctuations in the value of financial instruments, other balance sheet positions (e.g. receivables and liabilities), and/or cash flows denominated in foreign currencies due to exchange rate fluctuations, is called currency risk or exchange risk. This risk exists in particular where business transactions, such as the purchase of materials, merchandise or purchase price payments for company acquisitions, are in a currency other than the accounting currency (foreign currency) of a company indirect currency risk and where prices for products and services depend on a currency other than the invoicing currency (indirect currency risk). For example, materials and merchandise are invoiced by suppliers in EUR or USD, although pricing is indirectly dependent on a third currency.

In order to limit foreign currency risks, the risk is calculated regularly on a rolling basis for business transactions made in foreign currencies or where the transaction price depends on foreign currencies. A net foreign currency position at the beginning of the planning period, planned foreign currency deposits and disbursements and existing derivative hedging instruments are determined over the planning period, and a relevant foreign currency risk is hedged using corresponding hedging transactions to mitigate the risk of exchange rate movements in future periods. An initial hedge for currency risk is provided through foreign currency items that are naturally self-contained (natural hedge), for instance, the payments received from deliveries and services in USD are balanced by payments made for deliveries and services in USD. For the remaining net foreign currency exposure, currency risk is usually hedged through forward currency contracts. With regard to exchange rate risks from the operating business, the NOVOMATIC Group is currently and in the medium term in a USD net payer position due to the materials and merchandise which are purchased and invoiced in USD.

In the 2017 reporting period, USD forward foreign exchange contracts with a net value of approximately USD 71 million were due for the operating business. As of the reporting date, subsequent periods have USD forward currency contracts of approximately USD 98 million, with approximately USD 62 million being re-contracted in the 2017 reporting period.

The hedging of the purchase price payment for the Australian gaming group Ainsworth Game Technology Ltd. in the amount of AUD 463 million was carried out using forward currency contracts. The result from the change in the hedging instruments is recorded in other comprehensive income as described in detail above.

In addition to the USD and AUD forward currency contracts mentioned above, no further derivative hedging instruments were contracted in the NOVOMATIC Group in the 2017 reporting period to reduce foreign currency risk.

The relevant foreign currencies in the NOVOMATIC Group as at the reporting date include the USD, AUD and GBP. Exchange rate fluctuations of these three foreign currencies have a potential effect on the income statement and equity.

Within the framework of the analysis to measure the sensitivity towards exchange rate movements, the impacts of a change in the exchange rate of +/- 10 percent on bank balances denominated in a foreign currency (“FX”), time deposits in FX, loans or credits received or given in FX as at the reporting date, and on market values are analyzed per relevant foreign currency (USD, AUD, GBP).

The following schedule, which is based on reasonable judgment, shows the effects of possible EUR/USD exchange rate movements by +/- 10 cents on earnings before taxes and on equity:

EUR m	2017		2016	
Exchange rate fluctuation, foreign currency to EUR	+10 % (Appreciation USD)	-10 % (Depreciation USD)	+10 % (Appreciation USD)	-10 % (Depreciation USD)
Change in earnings before taxes	2.6	-2.3	0.3	-0.1
Change in equity	1.9	-1.7	0.2	-0.1

The following schedule, which is based on reasonable judgment, shows the effects of possible EUR/AUD exchange rate movements by +/- 10 percent on equity:

Mio. EUR	2017		2016	
Exchange rate fluctuation, foreign currency to EUR	+10 % (Appreciation AUD)	-10 % (Depreciation AUD)	+10 % (Appreciation AUD)	-10 % (Depreciation AUD)
Change in equity	25.1	-20.6	0.0	0.0

The following schedule, which is based on reasonable judgment, shows the effects of possible EUR/GBP exchange rate movements by +/- 10 percent on earnings before taxes and on equity:

EUR m	2017		2016	
Exchange rate fluctuation, foreign currency to EUR	+10 % (Appreciation GBP)	-10 % (Depreciation GBP)	+10 % (Appreciation GBP)	-10 % (Depreciation GBP)
Change in earnings before taxes	3.5	-2.9	1.9	-1.5
Change in equity	2.7	-2.2	1.4	-1.1

In the reporting period, average financial liabilities in the NOVOMATIC Group were mainly denominated in EUR (around 99 percent), and otherwise in USD or other currencies (around one percent). Group companies with an accounting currency other than their financing currency were hence exposed to foreign exchange risk in terms of the financing currency (mainly EUR and USD).

c. Capital Investments

Risks in capital investments essentially cover market price and valuation risks. The capital investments held by the NOVOMATIC Group are comprised mainly of precious metals as well as exchange-traded shares and were hence exposed to price fluctuations during the fiscal year.

In order to diversify the investment portfolio, especially against the backdrop of anticipated negative interest rates, shares with a total value of around EUR 10 million were acquired in the months of May and June 2017. In November 2017, shares with a total value of around 14.7 million were sold.

In August of the 2017 reporting year, the stock of precious metals was increased by one third.

There were no further significant capital investment-related events in 2017.

(12) Notes on Leases and Contingent Liabilities

Finance Lease

NOVOMATIC Group as lessee:

The carrying amounts of intangible assets held under finance leases come to EUR 0.0 million (previous year: EUR 5.5 million).

The carrying amounts of the Group's property, plant and equipment held under finance leases totals EUR 1.1 million (previous year: EUR 0.9 million). The property, plant and equipment held under finance lease comprise of plant and machinery, office equipment and vehicles. The terms of the leases lie between 3 and 5 years.

The carrying amounts of the Group's investment property held under finance lease add up to EUR 9.5 million (previous year: EUR 10.0 million). After the expiration of the agreement, ownership of the property will be transferred to the Group.

EUR m	Minimum lease payments		Present value of minimum lease payments	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Within one year	0.8	2.5	0.7	2.4
Between one and five years	2.4	6.3	2.2	6.0
Over five years	0.0	0.0	0.0	0.0
Total	3.2	8.9	2.9	8.4
Minus prospective financing costs	-0.2	-0.4		
Present value of lease obligations	2.9	8.4		

NOVOMATIC Group as lessor:

The Group concludes finance lease agreements for slot machines. The term of the concluded finance lease agreements is between 1 and 5 years.

EUR m	Minimum lease payments		Present value of minimum lease payments	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Within one year	10.3	12.5	8.8	10.8
Between one and five years	18.2	21.5	15.5	17.8
Over five years	0.0	0.0	0.0	0.0
Total	28.6	34.0	24.2	28.6
Minus prospective financing income	-4.4	-5.4		
Present value of lease receivables	24.2	28.6		

Operating Lease

NOVOMATIC Group as lessee:

The Group has mainly entered lease agreements regarding the use of property (gaming arcades). The following obligations arise from irredeemable agreements:

EUR m	12/31/2017	12/31/2016
For the next year	68.8	63.8
For the following two to five years	151.3	143.2
Over five years	107.3	68.1

NOVOMATIC Group as lessor:

The Group concluded contracts for the rental of gaming machines with mainly irredeemable terms between 12 and 24 months. The gaming machines are shown under property, plant and equipment as plant and machinery. The rent payments during the reporting period are shown as sales revenue under income from rent and management services. Within the rent payments, conditional lease payments amount to EUR 250.7 million (previous year: EUR 242.9 million).

The claims for future minimum lease payments from operating leasing rates are as follows:

EUR m	12/31/2017	12/31/2016
For the next year	95.1	79.3
For the following two to five years	10.5	23.9
Over five years	2.6	5.5

Contingent Liabilities

EUR m	12/31/2017	12/31/2016
Bill commitments	0.0	0.9
Guarantees	6.9	7.7
Total	6.9	8.6

In Italy, payment guarantees amounting to EUR 6.8 million (previous year: EUR 7.5 million) were granted to the regulatory authority ADM (formerly AAMS).

(13) Other Disclosures

Group Audit Fees

The expenses for services provided by the Group auditor (including the network in accordance with Sec. 271b of the Austrian Company Code) are as follows:

EUR m	2017	2016
Group audit and audit of financial statements	2.5	2.1
Audit-related services	0.6	0.2
Tax advisory services	0.3	0.3
Other consulting services	0.5	1.0

Expenses for services provided by Deloitte Audit Wirtschaftsprüfungs GmbH in 2017 amounted to EUR 0.6 million for the Group audit and audit of financial statements and EUR 0.5 million for audit-related services.

Related Party Transactions

The parent company of NOVOMATIC AG is Novo Invest GmbH in Gumpoldskirchen. This consolidated financial statement of the NOVOMATIC AG is, therefore, included in the consolidated financial statements of Novo Invest GmbH being the ultimate parent company and is filed at the Regional Court of Wiener Neustadt under FN 381832v.

The related parties furthermore include the members of the bodies (Executive Board and Supervisory Board), non-consolidated affiliated subsidiaries, associated companies, as well as companies under the control of bodies or the shareholders of NOVOMATIC AG.

The following table summarizes the scope of business relationships with related parties for the individual financial years:

	Other		Management	
EUR m	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Receivables	6.1	16.0	0.0	0.0
Liabilities	2.9	5.4	0.3	0.2
Revenues	23.8	17.7	0.0	0.0
Cost of material	57.2	35.5	0.0	0.0
Consulting services	0.0	0.2	0.8	0.0
Research and Development	0.0	11.9	0.0	0.0
Other expenses	3.3	4.5	0.0	0.0
Interest income	0.0	0.2	0.0	0.0

The item "Management" comprises the Supervisory Board and the Executive Board of NOVOMATIC AG. The management's remuneration is disclosed in the note on "Company bodies."

The information provided for "Other" essentially relates to companies that are controlled by the management or by the shareholders of NOVOMATIC AG. The transactions result from the delivery of goods and services, rental fees, and research and development services. Accounts receivable are unsecured and settled in cash. Guarantees were neither given nor received.

The NOVOMATIC Group acquired stakes from a related party majority in four Polish companies as well as one Austrian company (including its Slovenian subsidiary) in 2017. The acquired companies primarily provide research and development services.

There were no transactions with associated companies during the two financial years.

Fully Consolidated Subsidiaries

IC code	Company, domicile	Superordinate company	Group share	Direct share
ABZOAT	AbZorba Games Betriebsges.m.b.H., Austria	GTA	100.00 %	100.00 %
ADMICS	Admira d.o.o., Serbia	NOVOCS	100.00 %	100.00 %
ACEAT	Admiral Casinos & Entertainment AG, Austria	NAG	100.00 %	100.00 %
ADCAES	Admiral Casinos S.A., Spain	NOGES	100.00 %	100.00 %
AGMIT	Admiral Entertainment S.r.l., Italy	ADRIT	100.00 %	100.00 %
SOGIT	Admiral Games S.r.l, Italy	ADRIT	100.00 %	100.00 %
ADGAES	Admiral Gaming Andalucia S.A., Spain	NOGES	100.00 %	100.00 %
ADCLES	Admiral Gaming Castilla y León S.L., Spain	ADGMES	100.00 %	100.00 %
ADOSES	Admiral Gaming Madrid S.L., Spain	SAMAES/ ADGMES	45.00 %/ 40.00 %	60.00 %/ 40.00 %
GMAIT	Admiral Gaming Network S.r.l., Italy	ADRIT	100.00 %	100.00 %
AIIT	Admiral Interactive S.r.l., Italy	ADRIT	100.00 %	100.00 %
ADLERO	Admiral Leisure SRL, Romania	NOVORO/ NMIIAT	99.00 %/ 1.00 %	99.00 %/ 1.00 %
ADGMES	Admiral Operations Spain S.L., Spain	NOGES	100.00 %	100.00 %
ALPDE	Admiral Play GmbH, Germany	NSMLDE	100.00 %	100.00 %
ADSLES	Admiral Slots S.A., Spain	NOGES	100.00 %	100.00 %
MILLIT	Admiral Sport S.r.l., Italy	ADRIT	100.00 %	100.00 %
ASWDE	Admiral Sportwetten GmbH, Germany	NSMLDE	100.00 %	100.00 %
ASW	Admiral Sportwetten GmbH, Austria	AGI	100.00 %	100.00 %
ADMILV	Admiralu Klubs SIA, Latvia	AGI	60.00 %	60.00 %
ADRIAL	Adriatik Game Sh.A., Albania	EAGAL	100.00 %	100.00 %
NLSTTN	AGI Novomatic Tunisia S.A.R.L., Tunisia	AGI/NLSAT	1.00 %/99.00 %	1.00 %/99.00 %
AINSUK	Ainsworth (UK) Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
AIRO	Airoline GmbH, Austria	AGI	100.00 %	100.00 %
COMEBA	AK "COMET" d.o.o. Zivinice, Bosnia and Herzegovina	HTLBA	100.00 %	100.00 %
ALLOAT	Albanisch Österreichische Lotterien Holding Gesellschaft m.b.H., Austria	AGI	100.00 %	100.00 %
ALFLV	Alfor SIA, Latvia	AGI	60.00 %	60.00 %
ALLIT	Allstar S.r.l., Italy	ADRIT	100.00 %	100.00 %
ALPSIT	ALP S.r.l., Italy	ADRIT	70.00 %	70.00 %
AMONBA	Amoniq d.o.o. Zenica, Bosnia and Herzegovina	HTLBA	100.00 %	100.00 %
ASTRAL	Astra Albania Sh.A., Albania	EAGAL	100.00 %	100.00 %
ASCOUK	Astra Casino Gaming (One) Ltd., United Kingdom	ASCGUK	100.00 %	100.00 %
ASTRUK	Astra Games Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
ATTPL	ATT S.A., Poland	AGI	100.00 %	100.00 %
AUSPDE	Automaten Service Playtime GmbH, Germany	EXTDE	100.00 %	100.00 %
AUSUES	Automáticos Surmatic S.L., Spain	ADGMES	60.00 %	60.00 %
BAGAES	Basque Gaming S.L., Spain	ADGMES	51.00 %	51.00 %
BEAMT	BeatYa Online Entertainment p.l.c., Malta	GTA	100.00 %	100.00 %
BEKUDE	BeKu Automaten & Gastronomie Service GmbH, Germany	EXTDE	100.00 %	100.00 %
BELLUK	Bell-Fruit Group Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
BEMARO	Bet Master SRL, Romania	NOVORO/ NMIIAT	99.89 %/ 0.11 %	99.89 %/ 0.11 %

BETWCS	Betware d.o.o., Serbia	BETWDK	100.00 %	100.00 %
BETWDK	Betware DK ApS., Denmark	BETHIS	100.00 %	100.00 %
BETWES	Betware S.L.U., Spain	BETHIS	100.00 %	100.00 %
BIERNL	Biermann's Bingo B.V., Netherlands	CAHONL	100.00 %	100.00 %
BLUECA	Bluebat Games Inc., Canada	GTCACA	70.00 %	70.00 %
BPAFDE	BPA Freizeit- und Unterhaltungsbetriebe GmbH, Germany	NSMLDE	100.00 %	100.00 %
NEWTUK	Brian Newton Leisure Ltd., United Kingdom	LUXLUK	100.00 %	100.00 %
CAPEIT	Capecod Gaming S.r.l., Italy	ADRIT	80.00 %	80.00 %
CAAPNL	Casino Admiral Appelscha B.V., Netherlands	CAHONL	100.00 %	100.00 %
CAHONL	Casino Admiral Holland B.V., Netherlands	JVHPNL	100.00 %	100.00 %
CAZENL	Casino Admiral Zeeland B.V., Netherlands	JVHPNL	100.00 %	100.00 %
CAALIT	Casino delle Alpi Srl, Italy	ADRIT	100.00 %	100.00 %
CAS1DE	Casino Deluxe Beteiligungsgesellschaft m.b.H. I, Germany	BPAFDE	100.00 %	100.00 %
CAS3DE	Casino Deluxe Beteiligungsgesellschaft m.b.H. III, Germany	BPAFDE	100.00 %	100.00 %
VIDDE	Casino Deluxe Beteiligungsgesellschaft m.b.H. IV, Germany	BPAFDE	100.00 %	100.00 %
CASKDE	Casino Entertainment GmbH & Co. KG, Germany	EXTDE	100.00 %	100.00 %
CARIDE	Casino Roxos GmbH, Germany	EXTDE	100.00 %	100.00 %
CARODE	Casino Royal GmbH, Germany	AGI	100.00 %	100.00 %
CER	Cervo Media GmbH, Austria	GTA	100.00 %	100.00 %
CITYDE	City Freizeitanlagen GmbH, Germany	EXTDE	100.00 %	100.00 %
COMEES	Comercial Txartel S.L., Spain	BAGAES	40.80 %	80.00 %
COSPDE	Conrad Spielautomaten GmbH, Germany	EXTDE	100.00 %	100.00 %
CROMX	Crown Gaming Mexico S.A. de C.V., Mexico	AGI/HTM	99.99 %/0.01 %	99.99 %/0.01 %
CROPE	Crown Gaming S.A.C., Peru	NOVOPE	100.00 %	100.00 %
AGIMX	Crown Gaming Services Mexico S. de R.L. de C.V., Mexico	AGI/ HTM	80.00 %/ 20.00 %	80.00 %/ 20.00 %
CRODE	Crown Technologies GmbH, Germany	NSMLDE	100.00 %	100.00 %
DOMIDE	Domino-Automaten-Betriebs-GmbH, Germany	EXTDE	100.00 %	100.00 %
EAGAL	Eagle Investment Sh.A, Albania	AGI	100.00 %	100.00 %
DORAES	El Dorado Derby S.L., Spain	BAGAES	40.80 %	80.00 %
ELAMNL	Elam Group Electronic Amusement B.V., Netherlands	EUCGNL	100.00 %	100.00 %
ELSYIT	Electro System S.p.A., Italy	ADRIT	75.00 %	75.00 %
EMPUK	Empire Games Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
EN61UK	Ensco 961 Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
EN62UK	Ensco 962 Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
ERGAES	Erreka Games S.L., Spain	BAGAES	51.00 %	100.00 %
ESTRPL	Estrada Polska Sp. z o.o., Poland	NPL	44.90 %	89.54 %
EUCGNL	Eurocoin Gaming B.V., Netherlands	JVHPNL	100.00 %	100.00 %
AWPDNL	Eurocoin Interactive B.V., Netherlands	JVHPNL	100.00 %	100.00 %
EXTDE	Extra Games Entertainment GmbH, Germany	NSMLDE	100.00 %	100.00 %
EXLGUK	Extreme Live Gaming Ltd., United Kingdom	ASTUK	92.50 %	92.50 %
EZEADE	EZEA GmbH, Germany	EXTDE	100.00 %	100.00 %
FECCIT	Fec S.p.A., Italy	ADRIT	80.00 %	80.00 %
FUNHUK	Funhouse Leisure Ltd., United Kingdom	PLAYUK	100.00 %	100.00 %

FUSAUK	Funhouse Leisure Sales Ltd., United Kingdom	PLAYUK	100.00 %	100.00 %
FST	Funstage Spielewebseiten Betriebsges.m.b.H., Austria	GTA	100.00 %	100.00 %
GAM	G.A.M.E. SYS Geldspiel-Automaten-Miet-Elektronik-System GmbH, Austria	AGI	100.00 %	100.00 %
GAMEUK	Gamestec Leisure Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
GIGAES	GiGames S.L., Spain	NOGES	80.00 %	80.00 %
GSM	Giochi San Marino S.p.A., San Marino	AGI	93.00 %	93.00 %
GRCAES	Gran Casino Aljarafe S.A., Spain	ADCAES	100.00 %	100.00 %
GALUK	Greentube Alderney Ltd., United Kingdom	GTMT	100.00 %	100.00 %
GTCACA	Greentube Canada Interactive Entertainment Corp., Canada	GTA	100.00 %	100.00 %
GTGIGI	Greentube Gibraltar Ltd., Gibraltar	GTA	100.00 %	100.00 %
GTA	Greentube Internet Entertainment Solutions GmbH, Austria	ASTUK	100.00 %	100.00 %
GTMT	Greentube Malta Ltd., Malta	GTA	100.00 %	100.00 %
FMASK	Greentube Slovakia s.r.o., Slovakia	FST/GTA	10.00 %/90.00 %	10.00 %/90.00 %
GTUKUK	Greentube UK Limited, United Kingdom	GTA	100.00 %	100.00 %
HIRDE	Hirscher Moneysystems GmbH, Germany	CRODE	100.00 %	100.00 %
HOCAPE	Hotel Carrera S.A.C., Peru	INKEPE	100.00 %	100.00 %
HPABDE	HP Automatenbetriebs GmbH, Germany	EXTDE	100.00 %	100.00 %
HTLBA	HTL d.o.o. Sarajevo, Bosnia and Herzegovina	AGI	100.00 %	100.00 %
HTLMK	HTL Makedonija DOOEL, Macedonia	AGI	100.00 %	100.00 %
HTLME	HTL Montenegro d.o.o., Montenegro	AGI	100.00 %	100.00 %
HTLUA	HTL Ukraine TOV, Ukraine	AGI	100.00 %	100.00 %
HTM	HTM Hotel- u. Tourismus Management GmbH, Austria	NAG	100.00 %	100.00 %
IDEADE	Ideal Entertainment GmbH, Germany	NWCKDE	100.00 %	100.00 %
IGROUA	Igrotech-Import TOV, Ukraine	AZARLT	80.00 %	100.00 %
INEWCL	I-New Chile S.p.A., Chile	INEWAT	76.81 %	100.00 %
INEWCO	I-New Colombia S.A.S., Colombia	INEWAT	76.81 %	100.00 %
INEWHU	I-New Hungary Kft., Hungary	INEWAT	76.81 %	100.00 %
INEWPE	I-New Peru S.A.C., Peru	INEWAT	76.05 %	99.00 %
INEWAT	I-New Unified Mobile Solutions AG, Austria	NAG	76.81 %	76.81 %
INEWMX	I-New Unified Mobile Solutions S.A. de C.V., Mexico	INEWAT	76.80 %	99.99 %
INTEHR	Interigre d.o.o., Croatia	NOGHR	100.00 %	100.00 %
INT7ES	Interseven Gaming Team S.L., Spain	GIGAES/NOGES	40.00 %/50.00 %	50.00 %/50.00 %
INTRO	Intertop S.r.l., Romania	NOVORO/NMIIAT	99.98 %/ 0.0174 %	99.98 %/ 0.0174 %
INKEPE	Inversiones Kerala S.A.C., Peru	CROPE	100.00 %	100.00 %
JANOE5	Juegos Automáticos Nacidos Para el ocio S.L., Spain	SAMAE5	60.00 %	80.00 %
JVHPDE	JVH gaming products GmbH, Germany	JVHPNL	100.00 %	100.00 %
KOENDE	Königstraße Spielstätten und Automaten UG, Germany	EXTDE	100.00 %	100.00 %
KSBKDE	Kurhessische Spielbank Kassel/BadWildungen GmbH & CO. KG, Germany	SIMKDE	100.00 %	100.00 %
LOTAAL	Lotaria Kombetare Sh.p.k., Albania	ALLOAT	100.00 %	100.00 %
NSMLDE	LÖWEN ENTERTAINMENT GmbH, Germany	AGI	100.00 %	100.00 %
ASCGUK	Luxury Leisure Holdings Ltd., United Kingdom	ASTUK	100.00 %	100.00 %

LUXLUK	Luxury Leisure Ultd., United Kingdom	ASCGUK	100.00 %	100.00 %
MAGMK	MA Gaming DOOEL, Macedonia	HTLMK	100.00 %	100.00 %
MAKOMK	Makoten DOOEL, Macedonia	AGI	100.00 %	100.00 %
MASTMK	Masterbet DOOEL, Macedonia	HTLMK	100.00 %	100.00 %
MEDHR	Mediteran Gaming d.o.o., Croatia	NOGHR	100.00 %	100.00 %
MNAME	MNA Gaming d.o.o., Montenegro	HTLME	100.00 %	100.00 %
MOISDE	Moislinger Spielstätten und Automaten UG, Germany	EXTDE	100.00 %	100.00 %
MICACS	MS&NS d.o.o., Serbia	NOVOC5	80.00 %	80.00 %
MUEHDE	Mühlenstraße Spielstätten und Automaten UG, Germany	EXTDE	100.00 %	100.00 %
NMIIAT	NMI Invest GmbH, Austria	NAG	100.00 %	100.00 %
NMN	NMN Immo GmbH, Austria	AGI/NAG	1.00 %/99.00 %	1.00 %/99.00 %
NORDDE	Norddeutsche Spielbanken GmbH, Germany	NAG	100.00 %	100.00 %
NOVAIT	Novarmatic S.r.l., Italy	GMAIT	100.00 %	100.00 %
NOVOCR	Novo Gaming CR Ltda., Costa Rica	NLAHES	100.00 %	100.00 %
NOGHR	Novo Gaming d.o.o., Croatia	AGI	100.00 %	100.00 %
NOVOGT	Novo Gaming GT Limitada, Guatemala	NLAHES/HTM	99.999 %/ 0.001 %	99.999 %/ 0.001 %
IKGDE	Novo Immobilien GmbH, Germany	NAG	100.00 %	100.00 %
NOVOBG	Novo Investment Bulgaria EOOD, Bulgaria	AGI	100.00 %	100.00 %
NOVOC5	Novo Investment d.o.o., Serbia	AGI	100.00 %	100.00 %
NOVORO	Novo Investment RO SRL, Romania	AGI/HTM	99.80 %/0.20 %	99.80 %/0.20 %
NOVOPA	Novo Panama S.de R.L., Panama	NLAHES/HTM	99.90 %/0.10 %	99.90 %/0.10 %
NOVOBA	NOVO RS d.o.o., Bosnia and Herzegovina	AGI	100.00 %	100.00 %
NVLTAT	Novo VLTech GmbH, Austria	AGI	100.00 %	100.00 %
NVLTRO	Novo VLTech Solutions SRL, Romania	AGI/NVLTAT	0.01 %/99.99 %	0.01 %/99.99 %
NOVOCL	Novochile Ltda., Chile	AGI/HTM	99.00 %/1.00 %	99.00 %/1.00 %
NEE	Novoloto OÜ, Estonia	ADMILV	60.00 %	100.00 %
AGISA	Novomatic Africa (Pty) Ltd., South Africa	AGI	100.00 %	100.00 %
NAG	NOVOMATIC AG, Austria	NIG	89.96 %	89.96 %
NAHUS	Novomatic Americas Holdings Inc., USA	NAG	100.00 %	100.00 %
NAINUS	Novomatic Americas Investments Inc., USA	NAHUS	100.00 %	100.00 %
NASUS	Novomatic Americas Sales LLC, USA	NAHUS/NAINUS	99.00 %/1.00 %	99.00 %/1.00 %
AGIAR	Novomatic Argentina Limitada S.r.l., Argentina	AGI/HTM	90.00 %/10.00 %	90.00 %/10.00 %
JVHMNL	Novomatic Development NL B.V., Netherlands	JVHPNL	100.00 %	100.00 %
NGEXNL	Novomatic Exploitation NL I B.V., Netherlands	JVHPNL	100.00 %	100.00 %
JVHENL	Novomatic Exploitation NL II B.V., Netherlands	JVHPNL	100.00 %	100.00 %
LOONNL	Novomatic Exploitation NL III B.V., Netherlands	JVHPNL	100.00 %	100.00 %
OLACO	Novomatic Gaming Colombia S.A.S., Colombia	AGI	100.00 %	100.00 %
AGI	Novomatic Gaming Industries GmbH, Austria	NAG	100.00 %	100.00 %
NOGES	Novomatic Gaming Spain S.A., Spain	AGI	100.00 %	100.00 %
NHCCL	Novomatic Holdings Chile Ltda., Chile	NICCL	100.00 %	100.00 %
AGIHU	Novomatic Hungaria Kft., Hungary	AGI	100.00 %	100.00 %
NICCL	Novomatic Investment Chile S.A., Chile	NAG	100.00 %	100.00 %
ADRIT	Novomatic Italia S.p.A., Italy	NAG	100.00 %	100.00 %
AGSIT	Novomatic Italia Services S.r.l., Italy	ADRIT	100.00 %	100.00 %
NLAHES	Novomatic LatAm Holding S.L.U., Spain	AGI	100.00 %	100.00 %

BETHIS	Novomatic Lottery Solutions Iceland hf., Iceland	NLSAT/NAG	99.76 %/0.24 %	99.76 %/0.24 %
NLSAT	Novomatic Lottery Solutions GmbH, Austria	NAG	100.00 %	100.00 %
NOVONL	Novomatic Netherlands B.V., Netherlands	AGI	100.00 %	100.00 %
NOVOPE	Novomatic Peru S.A.C., Peru	AGI/HTM	99.99 %/0.01 %	99.99 %/0.01 %
NOSSES	Novomatic Services Spain S.L., Spain	NOGES	100.00 %	100.00 %
AINSFR	Novomatic Services FRA S.A.S., France	AGI	100.00 %	100.00 %
JVHPNL	Novomatic Services NL B.V., Netherlands	NOVONL	100.00 %	100.00 %
SBNKDE	NOVOMATIC Spielbanken Holding Deutschland GmbH & Co. KG, Germany	NAG	100.00 %	100.00 %
ATSIPL	NOVOMATIC Technologies Poland S.A., Poland	ATTPL/AGI	51.22 %/48.78 %	51.22 %/48.78 %
ASTUK	Novomatic UK Ltd., United Kingdom	AGI	100.00 %	100.00 %
NPL	NOVO-POLAND Sp. z o.o., Poland	AGI	50.14 %	50.14 %
NWCKDE	NWC Nord West Casino GmbH & Co. KG, Germany	EXTDE	100.00 %	100.00 %
ARGAR	Octavian de Argentina S.A., Argentina	AGI/HTM	90.00 %/10.00 %	90.00 %/10.00 %
ALSGRU	Octavian Game Art OOO, Russia	AGI/SBPRU	99.90 %/0.10 %	99.90 %/0.10 %
SBPRU	Octavian SPb Limited Partnership, Russia	AGI	100.00 %	100.00 %
UGIRU	OOO United Gaming Industries, Russia	AGI/NMIIAT	99.99 %/0.01 %	99.99 %/0.01 %
OTIUES	Otiungi S.L., Spain	AGI	60.00 %	60.00 %
PLANBY	Planeta IGR, Belarus	AZARLT	80.00 %	100.00 %
PLAAT	Platogo Interactive Entertainment GmbH, Austria	GTA	100.00 %	100.00 %
PLAYUK	Playnation Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
PLAYDE	Play-Point Spielhallen- und Automatenbetriebs-ges.m.b.H., Germany	EXTDE	100.00 %	100.00 %
RALLUK	RAL Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
LORZNL	Recreatieprojecten Zeeland B.V., Netherlands	CAZENL	100.00 %	100.00 %
RECRES	Recreativos del Este S.L., Spain	ADGMES	60.00 %	60.00 %
HISPES	Recreativos Hispajuegos S.L., Spain	ADGMES/ SAMAES	24.00 %/ 27.04 %	24.00 %/ 36.05 %
REDDDE	Red Devil Spielothek GmbH, Germany	EXTDE	100.00 %	100.00 %
RIVUNL	Rio Vught B.V., Netherlands	CAHONL	100.00 %	100.00 %
HTBLBA	RSA Gaming d.o.o., Bosnia and Herzegovina	NOVOBA	100.00 %	100.00 %
RUTAES	Ruta 777 S.L., Spain	NOGES	80.00 %	80.00 %
ASGOUK	S.A.L. Leisure Holdings Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
SALLUK	S.A.L. Leisure Ltd., United Kingdom	ASGOUK	100.00 %	100.00 %
S4GAES	S4Gaming S.L., Spain	OTIUES	60.00 %	100.00 %
SAMAES	Salones Macao S.L., Spain	ADGMES	75.00 %	75.00 %
SIMKDE	SIM Spielbanken Investitions-, Beteiligungs- und Management GmbH & CO. KG, Germany	NAG	100.00 %	100.00 %
MIBECS	SM&SM d.o.o., Serbia	NOVOCS	80.00 %	80.00 %
SBEKDE	Spielbank Berlin Entertainment GmbH & Co.KG, Germany	NAG	60.00 %	60.00 %
SBBKDE	Spielbank Berlin Gustav Jaenecke GmbH & Co.KG, Germany	NAG	59.50 %	59.50 %
SBMKDE	Spielbanken MV GmbH & Co.KG, Germany	SBNKDE	75.00 %	75.00 %
STAKNL	Stakelogic B.V., Netherlands	GTA	100.00 %	100.00 %
SUGANL	Super Game B.V., Netherlands	CAHONL	100.00 %	100.00 %
TALAUK	Talarius Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
TURHDE	Turhan Spielsalon GmbH, Germany	EXTDE	100.00 %	100.00 %
AZARLT	UAB Azarto Technika, Lithuania	AGI	80.00 %	80.00 %

NOVOLT	UAB Novogaming Vilnius, Lithuania	AGI	80.00 %	80.00 %
TAXILT	UAB Taxillus, Lithuania	AZARLT	80.00 %	100.00 %
VSGALT	UAB VSGA, Lithuania	AZARLT	80.00 %	100.00 %
VERAES	Verajuegos S.L., Spain	ADGMES/ SAMAES	24.00 %/ 27.04 %	24.00 %/ 36.05 %
VILLBG	Villox Group EOOD, Bulgaria	NOVOBG	100.00 %	100.00 %
WETTRO	Wettpunkt International S.r.l., Romania	NOVORO	100.00 %	100.00 %
ZSCADE	ZS Casino Emsland GmbH, Germany	EXTDE	100.00 %	100.00 %

Futhermore the Group owns the majority shores in four more consolidated companies.

Non-Consolidated Affiliated Companies

IC code	Company, domicile	Superordinate company	Group share	Direct share
CRVBA	"Crveno-Crno" d.o.o. Mostar, Bosnia and Herzegovina	HTLBA	100.00 %	100.00 %
ABZOGR	AbZorba Games I.K.E., Greece	ABZOAT	100.00 %	100.00 %
ABZOUK	AbZorba Games UK Ltd., United Kingdom	ABZOAT	100.00 %	100.00 %
CLUBUK	Admiral Club Ltd., United Kingdom	AGI	100.00 %	100.00 %
ADTIIT	Admiral Time S.r.l., Italy	ADRIT	70.00 %	70.00 %
ALEARO	Alea Investrom SRL, Romania	NOVORO/ NMIIAT	99.00 %/ 1.00 %	99.00 %/ 1.00 %
ABETUK	Astra Betting (One) Ltd., United Kingdom	GAMEUK	100.00 %	100.00 %
BAGYHU	Bagyi System Kft., Hungary	AGIHU	100.00 %	100.00 %
BAMUUK	Bell Amusements Ltd., United Kingdom	GAMEUK	100.00 %	100.00 %
BFGUK	Bell-Fruit Games Ltd., United Kingdom	BELLUK	100.00 %	100.00 %
BFSUK	Bell-Fruit Services Ltd., United Kingdom	GAMEUK	100.00 %	100.00 %
BETBMT	BetCave Betting Solutions Limited, Malta	BETHMT	100.00 %	100.00 %
BETHMT	BetMen Holding Limited, Malta	ASW	100.00 %	100.00 %
BETOMT	BetMen Operations Limited, Malta	BETHMT	100.00 %	100.00 %
BINGIT	Bingoland S.r.l., Italy	AGMIT	51.00 %	51.00 %
CAH1NL	Casino Admiral Holland I B.V., Netherlands	CAHONL	100.00 %	100.00 %
CAH2NL	Casino Admiral Holland II B.V., Netherlands	CAHONL	100.00 %	100.00 %
CAH3NL	Casino Admiral Holland III B.V., Netherlands	CAHONL	100.00 %	100.00 %
CAH4NL	Casino Admiral Holland IV B.V., Netherlands	CAHONL	100.00 %	100.00 %
CAWANL	Casino Admiral Waalwijk B.V., Netherlands	CAHONL	100.00 %	100.00 %
CASVDE	Casino Entertainment Verwaltungs-GmbH, Germany	EXTDE	100.00 %	100.00 %
CELIAT	celix Solutions GmbH, Austria	AGI	80.00 %	80.00 %
CPASPH	CP Asian Solutions Corporation, Philippines	ASTUK	51.00 %	51.00 %
GNETUK	Games Network Ltd., United Kingdom	GAMEUK	100.00 %	100.00 %
GTECUK	Gamestec Ltd., United Kingdom	GAMEUK	100.00 %	100.00 %
GTSEMT	Greentube Malta SEE Ltd., Malta	GTMT	100.00 %	100.00 %
ASGGUK	Harlequin Gaming Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
INEWBD	I-New Bangladesch Ltd., Bangladesh	INEWAT	76.81 %	100.00 %
INEWZA	I-New Unified Mobile Solutions Africa (PTY) Ltd., South Africa	INEWAT	76.81 %	100.00 %
INEWUS	I-New USA Inc., USA	INEWAT	76.81 %	100.00 %
INTLB	Interinvest Holding SAL, Lebanon	AGI	95.00 %	95.00 %

INLOLB	Interlog SAL, Lebanon	INTLB	95.00 %	100.00 %
KSBDE	Kurhessische Spielbank Kassel/BadWildungen Verwaltungs GmbH, Germany	SIMKDE	100.00 %	100.00 %
KWIKUK	Kwik Tan Ltd., United Kingdom	ASCGUK	100.00 %	100.00 %
VEGAHR	Las Vegas d.o.o., Croatia	NOGHR	100.00 %	100.00 %
LEISUK	Leisure Projects Ltd., United Kingdom	PLAYUK	100.00 %	100.00 %
MAZOUK	Mazooma Games Ltd., United Kingdom	BELLUK	100.00 %	100.00 %
MIGUK	Mazooma Interactive Games Ltd., United Kingdom	BELLUK	100.00 %	100.00 %
NLSHGR	NLS Novomatic Lottery Solutions Hellas S.A., Greece	NLSAT	100.00 %	100.00 %
NDSVDE	NOVO Data Solutions Verwaltungs GmbH, Germany	NDSKDE	100.00 %	100.00 %
NOVOHN	Novo Gaming Honduras S.de R.L. de C.V., Honduras	NLAHES/HTM	99.95 %/0.05 %	99.95 %/0.05 %
NGMTAT	Novo Gaming M Technologies GmbH, Austria	AGI	100.00 %	100.00 %
IVGDE	Novo Immobilien Verwaltungsges.m.b.H., Germany	IKGDE	100.00 %	100.00 %
NOINPL	NOVO Investment PL Sp.z.o.o., Poland	ATTPL	100.00 %	100.00 %
NOBEPL	NOVOBET.PL Sp.z.o.o., Poland	ATTPL	100.00 %	100.00 %
NLSUS	NOVOMATIC Lottery Solutions North America LCC, USA	NLSAT	100.00 %	100.00 %
NOVOZA	NOVOMATIC South Africa (Pty) Ltd., South Africa	AGISA	100.00 %	100.00 %
GIPDE	NOVOMATIC Spielbanken Holding Deutschland Verwaltungs GmbH, Germany	SBNKDE	100.00 %	100.00 %
NSBSAT	NOVOMATIC Sports Betting Solutions GmbH, Austria	NAG	100.00 %	100.00 %
NOVOUK	Novomatic UK (One) Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
ISPAIT	Novopay Istituto di Pagamento S.r.l, Italy	ADRIT	100.00 %	100.00 %
OTIUMX	Otium Mexico S.A.P.I. de C.V., Mexico	S4GAES	60.00 %	100.00 %
NDSKDE	Platin 1366. GmbH & Co. Verwaltungs KG, Germany	NSMLDE	100.00 %	100.00 %
RLMSUK	RLMS Sales Ltd., United Kingdom	BELLUK	100.00 %	100.00 %
SAYCO	Say:Hola ! SAS, Colombia	INEWAT	76.81 %	100.00 %
SIMDE	SIM Spielbanken Investitions- und Management GmbH, Germany	NAG	100.00 %	100.00 %
SMARAT	Smartspace GmbH, Austria	INEWAT	65.29 %	85.00 %
SBEVDE	Spielbank Berlin Entertainment Verwaltungs GmbH, Germany	SBEKDE	60.00 %	100.00 %
SBBVDE	Spielbank Berlin Verwaltungs GmbH, Germany	SBBKDE	59.50 %	100.00 %
SBMVDE	Spielbanken MV Verwaltungs-GmbH, Germany	SBMKDE	75.00 %	100.00 %
STAKMT	Stakelogic Malta Limited, Malta	STAKNL	100.00 %	100.00 %
TECHAT	Technoconsult, technisches Büro, Gesellschaft m.b.H., Austria	SBPRU	100.00 %	100.00 %
NOLOLT	UAB Novoloto Vilnius, Lithuania	AZARLT	80.00 %	100.00 %

Futhermore the Group owns the majority shores in one more none-consolidated company.

Companies Consolidated Using the Equity Method

IC code	Company, domicile	Superordinate company	Group share	Direct share
PRAGA	Pratergarage Errichtungs- und Betriebs-gesellschaft m.b.H., Austria	NAG	47.50 %	47.50 %
SMABDE	Spielbank Mainz Beteiligungs-GmbH, Germany	SBNKDE	40.00 %	40.00 %
SMAKDE	Spielbank Mainz GmbH & Co.KG, Germany	SBNKDE	40.00 %	40.00 %

Exemption from disclosure for Group companies

The following German companies are included in NOVOMATIC AG’s Consolidated Financial Statement as per IFRS as fully consolidated companies and avail themselves of the possibility of exemption from a disclosure of their financial statements as of December 31, 2017, as granted under Sec. 264 para 3 and Sec. 264 b of the German Commercial Code:

- LÖWEN ENTERTAINMENT GmbH, Bingen
- ADMIRAL Play GmbH, Düsseldorf
- Admiral Sportwetten GmbH, Rellingen
- Automaten Service Playtime GmbH, Pfullendorf
- Beku Automaten & Gastronomie Service GmbH, Pfullendorf
- BPA Freizeit- & Unterhaltungsbetriebe GmbH, Munich
- Casino Deluxe Beteiligungsgesellschaft mbH I, Munich
- Casino Deluxe Beteiligungsgesellschaft mbH III, Munich
- Casino Deluxe Beteiligungsgesellschaft mbH IV, Munich
- Casino Entertainment GmbH & Co. KG, Pfullendorf
- Casino Rixos GmbH, Pfullendorf
- City Freizeitanlagen GmbH, Pfullendorf
- Conrad Spielautomaten GmbH, Pfullendorf
- Crown Technologies GmbH, Rellingen
- Domino-Automaten-Betriebs-GmbH, Pfullendorf
- Extra Games Entertainment GmbH, Pfullendorf
- EZEA GmbH, Pfullendorf
- Hirscher Moneysystems GmbH, Walsrode
- HP Automatenbetriebs GmbH, Pfullendorf
- Ideal Entertainment GmbH, Pfullendorf
- Königstrasse Spielstätten und Automaten UG, Pfullendorf
- Moislinger Spielstätten und Automaten UG, Pfullendorf
- Mühlenstrasse Spielstätten und Automaten UG, Pfullendorf
- NWC Nord West Casino Beteiligungs GmbH, Pfullendorf
- Play-Point Spielhallen- u. Automatenbetriebsges.m.b.H., Pfullendorf
- Red Devil Spielothek GmbH, Pfullendorf
- Turhan Spielsalon GmbH, Pfullendorf
- ZS Casino Emsland GmbH, Pfullendorf

(14) Subsequent Events after the Balance Sheet Date

Completed acquisitions

The acquisition of around 52 percent of the shares in Ainsworth Game Technology Ltd. (Ainsworth), signed in 2016 and for which closing had not yet been performed due to formal approval requirements of various international licensing and regulatory bodies, was finally completed in January 2018.

The acquisition represents another milestone in the corporate history of NOVOMATIC and is of major strategic importance as it paves the way to access the enormously important North American market, a region with almost one million operated gaming machines. Ainsworth is also a market leader in gaming-enthusiastic Australia and has a strong presence in the Latin American market.

The agreed purchase price is AUD 473.3 million. A cash flow hedge was made for the majority of the purchase price. This hedging relationship resulted in a result of EUR -12.5 million, which was recognized in other comprehensive income. The total consideration – taking into account the hedging effects – amounts to approximately EUR 320.3 million for the acquisition of these shares.

The purchase price allocation in accordance with IFRS 3 has not yet been completed as of the reporting date, with the result that the following information is based on preliminary figures. In particular, trademarks, technology and customer relationship were identified and evaluated on a provisional basis with publicly available information. A final valuation of these intangible assets considering detailed internal information could lead to different values. In addition, potential fair value adjustments, especially in the area of property, plant and equipment, and inventories, have not yet been taken into account. No final analysis has yet been performed on the other assets acquired and liabilities assumed, but no material adjustments are to be expected.

Accordingly, the values in the opening balances have not yet been finally determined, and the allocation of the total purchase price to the assets acquired and liabilities assumed has also not yet been completed.

The provisional fair values are as follows:

EUR m	Provisional fair values
Intangible assets	190.3
Property, plant and equipment	74.0
Other non-current assets	27.7
Deferred tax assets	2.8
Inventories	57.5
Cash and cash equivalents	18.7
Other current assets	81.5
Non-current liabilities and provisions	-44.7
Deferred tax liabilities	-50.4
Current liabilities and provisions	-31.1
Net assets	326.3
Non-controlling interests	-157.6
Goodwill	151.6
Consideration	320.3

The preliminary goodwill resulting from the acquisition reflects the expected strategic advantages for the Group through access to the hugely important North American market. Based on a preliminary assessment, goodwill will not be tax-deductible.

(15) Company Bodies

The following members of the Executive Board were appointed for the 2017 fiscal year and beyond:

- Harald Neumann (CEO)
- Ryszard Presch (Deputy Chairman of the Executive Board until June 8, 2017, COO)
- Dr. Christian Widhalm (Deputy Chairman of the Executive Board since June 8, 2017, CIO)
- Thomas Graf (CTO)
- Peter Stein (CFO)

In the 2017 fiscal year and during the time of preparation of this report, the Supervisory Board consisted of the following members:

- Senator Herbert Lugmayr (Chairman of the Supervisory Board until March 28, 2017)
- Dr. Bernd Oswald (Chairman since March 28, 2017)
- Martina Flitsch (Deputy Chairwoman)
- Martina Kurz (member)
- Barbara Feldmann (member)
- Dr. Robert Hofians (member since March 28, 2017)

The current total remuneration of the members of the Executive Board of NOVOMATIC AG amounted to EUR 5.9 million (previous year: EUR 5.5 million). Of the expenses for severance payments and pensions, EUR 0.2 million (previous year: EUR 1.1 million) and EUR -0.3 million (previous year: EUR 0.8 million), respectively, were attributed to the Executive Board. The members of the Supervisory Board received EUR 0.5 million (previous year: EUR 0.2 million) for their function. No loans or contingencies were granted to members of the Supervisory Board or of the Executive Board in the 2017 fiscal year.



Dr. Bernd Oswald, Barbara Feldmann, Martina Flitsch, Martina Kurz, Dr. Robert Hofians

(16) Publication

The present Consolidated Financial Statement was released on April 25, 2018, by the Executive Board for examination by the Supervisory Board, for presentation at the general shareholders’ meeting, and for subsequent publication.

Gumpoldskirchen, April 25, 2018

The Executive Board of NOVOMATIC AG

Harald Neumann CEO	Dr. Christian Widhalm Deputy CEO CIO	Ryszard Presch COO	Thomas Graf CTO	Peter Stein CFO
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Statement by the Executive Board

We confirm that to the best of our knowledge the consolidated financial statement of NOVOMATIC AG as of December 31, 2017, gives a true and fair view of the nets assets, financial position and results of operations of the Group as required by the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and that the consolidated management report as of December 31, 2017, gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

We confirm that to the best of our knowledge the annual financial statement of NOVOMATIC AG as of December 31, 2017, gives a true and fair view of the net assets, financial position and results of operations of the company as required by the Austrian Commercial Code (UGB), and that the management report as of December 31, 2017, gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

Gumpoldskirchen, April 25, 2018

The Executive Board of NOVOMATIC AG

Harald Neumann CEO	Dr. Christian Widhalm Deputy CEO CIO	Ryszard Presch COO	Thomas Graf CTO	Peter Stein CFO
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NOVOMATIC AG

Auditor's Report

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Novomatic AG, Gumpoldskirchen, and its subsidiaries (the Group), comprising the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements under section 245a UGB.

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 and the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuing the assets of gaming operations – Germany

Description and Issue

Due to the German Gambling Treaty Amendment (GlüÄndStV) of July 1, 2012 and the supplementary implementing provisions of the German states, upon expiry of the transitional provisions since July 1, 2017, there has been a reduced number of gaming halls or licenses based on decisions by the authorities. The resulting new findings entered into the evaluation of the impairment of assets. On the reporting date, there was no decision by the authorities for roughly one-third of the licenses, and operations are being tolerated pending the administrative decision. For gaming halls on which no decisions have been made by the authorities, evaluation of the impairment of assets was conducted, taking into consideration the experiences up to the end of 2017. The future administrative practice may lead to additional impairments being performed for these gaming halls. The book values of the intangible assets and tangible fixed assets as of December 31, 2017 for gaming halls on which a regulatory decision was still pending, were EUR 45.0 million. For additional remarks, please refer to Chapter 7.3 "Impairments and Reversals" in the notes to the consolidated financial statements.

Our Response

We reviewed the documentation of the company with respect to the impairment of assets for the individual gaming halls and reconciled them with internal and external company data, in particular with the administrative decisions that have now been received. For the gaming halls on which no decision has been made on the licenses, we have taken into critical consideration the reasonableness of the assumptions with respect to ramifications of the legal amendments.

Loss orders of Novomatic Lottery Solutions

Description and Issue

Novomatic Lottery Solutions is a full-service supplier for international state-licensed lottery companies. Based on changed competitive framework conditions in 2017, the management has newly evaluated the future business trend. As a result, there were amended forecasts of the cost and sales development of existing orders, which lead to losses in the amount of EUR 23.9 million, for which a provision of the same amount was created. In this context, the forecast was also adjusted for the impairment test of intangible assets and tangible fixed assets. This led to extraordinary write-downs of EUR 10.5 million. For additional remarks, please refer to Chapter 7.3 "Impairments and Reversals" in the notes to the consolidated financial statements.

Our Response

We have taken into critical consideration the underlying forecasts for loss-free valuation of orders and for the impairment test of intangible assets and tangible fixed assets. In doing so, we reconciled in particular the forecast sales with the customer agreements. We validated assumptions for the forecast completion costs, along with the future maintenance and service costs for plausibility based on the past information, along with the actual costs of the first quarter of 2018. Furthermore, we evaluated the reasonableness of the allocation of costs to the individual customer orders.

Other Information

Management is responsible for the other information. The other information contain all information in the annual report but does not include the consolidated financial statements, the management report and our auditor’s report thereon. The annual report is expected to be made available to us after the date of the auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements under section 245a UGB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are 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 the Regulation (EU) No 537/2014 and Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 these consolidated financial statements.

The scope of the audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the management has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with Regulation (EU) No 537/2014 and Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- In conducting our audit in accordance with the applicable auditing standards, we are taking into account the applicable legal and regulatory framework of the Group but we are not responsible for preventing or detecting non-compliance with laws and regulations. Because of the inherent limitations of an audit, the inevitable risk of not detecting a material misstatement in the financial statements, although the audit is planned and performed in accordance with the applicable auditing standards, is higher with respect to non-compliance with other laws and regulations. This is, amongst others, owed to the fact that there are many laws and regulations, relating principally to the operating aspects of a group, that are not captured by the group’s information systems relevant to financial reporting, and that such non-compliance may involve conduct designed to conceal it.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that give a true and fair view.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Consolidated Management Report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and whether it has been prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the consolidated management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the consolidated management report.

Opinion

In our opinion, the consolidated management report is prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to section 243a UGB and is consistent with the consolidated financial statements.

Statement

In the light of the knowledge and understanding of the Group and its environment obtained in the course of our audit of the consolidated financial statements, we have not identified material misstatements in the consolidated management report.

Other Matters which we are required to address according to Article 10 of Regulation (EU) No 537/2014

We were appointed by the annual general meeting on July 18, 2017 and commissioned by the supervisory board on September 26, 2017 to audit the consolidated financial statements for the financial year ending December 31, 2017. We have been auditing the Group uninterrupted since the financial year ending December 31, 2004.

We confirm that our opinion expressed in the section “Report on the Audit of the Consolidated Financial Statements” is consistent with the additional report to the audit committee referred to in Article 11 of Regulation (EU) No 537/2014.

We declare that we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 and that we remained independent of the Group in conducting the audit.

Vienna, April 25, 2018

Deloitte Audit Wirtschaftsprüfungs GmbH

Dr. Christoph Waldeck m.p.
Certified Public Accountant

This English translation of the audit report was prepared for the client’s convenience only. It is not a legally binding translation of the German audit report. The consolidated financial statements and our auditor’s report may be published or transmitted together only if the consolidated financial statements and the management report are identical with the confirmed version. Section 281 para 2 Austrian Commercial Code applies to versions that differ



NOVOMATIC AG

Balance Sheet

as of December 31, 2017

Assets

A. FIXED ASSETS	12/31/2017	12/31/2016
	EUR	EUR
I. Intangible assets		
1. Industrial and similar rights and assets and licenses in such rights and assets	3,258,260.12	10,475
II. Property, plant and equipment		
1. Land, buildings and improvements to third-party buildings	125,820,392.82	131,915
2. Plant and machinery	73,157.55	84
3. Other equipment, plant and office equipment	1,769,763.33	1,746
4. Advance payments and assets under construction	44,402.92	45
	127,707,716.62	133,790
III. Financial assets		
1. Shares in affiliated companies	951,489,784.12	824,186
2. Loans to affiliated companies	267,898,859.41	332,515
3. Investments	24,175,444.55	24,176
4. Loans to associated companies	547,181.67	461
5. Securities held as fixed assets	94,705,243.74	99,909
6. Other loans	4,242,570.69	5,089
	1,343,059,084.18	1,286,336
	1,474,025,060.92	1,430,601
B. CURRENT ASSETS		
I. Receivables and other assets		
1. Trade receivables	177,268.18	133
2. Receivables from affiliated companies	285,373,668.46	95,845
3. Other receivables and assets becoming due and payable after more than one year EUR 65,914.88 (previous year: KEUR 66)	62,196,067.17	58,616
	347,747,003.81	154,594
II. Securities and interests		
Other securities and interests	10,245,095.82	9,141
III. Cash, bank deposits	358,078,844.01	363,677
	716,070,943.64	527,412
C. PREPAID EXPENSES		
	8,124,211.87	9,625
D. DEFERRED TAX ASSETS		
	0.00	7,317
	2,198,220,216.43	1,974,955

Shareholders' equity and liabilities

A. SHAREHOLDER'S EQUITY	12/31/2017	12/31/2016
	EUR	EUR
I. Called up and paid share capital	26,590,000.00	26,590
II. Capital reserves		
Tied up capital reserves	85,386,371.00	85,386
III. Retained earnings		
1. Legal reserve	1,623,629.00	1,624
2. Other reserves (free reserves)	15,395.39	15
	1,639,024.39	
IV. Retained profits		
thereof retained profits brought forward EUR 61,171,890.80 (previous year: KEUR 111,172)	77,541,488.97	111,172
	191,156,884.36	224,787
B. PROVISIONS		
1. Provisions for severance payments	1,957,813.00	1,827
2. Provisions for pensions	7,300,571.00	7,612
3. Provisions for taxes	248,000.00	0
4. Other provisions	13,109,059.38	6,903
	22,615,443.38	16,342
C. LIABILITIES		
becoming due and payable within one year EUR 171,852,280.75 (previous year: KEUR 360,759)		
becoming due and payable after more than one year EUR 1,812,590,750.44 (previous year: KEUR 1,373,067)		
1. Bonds		
becoming due and payable within one year EUR 0.00 (previous year: KEUR 150,000)		
becoming due and payable after more than one year EUR 950,000,000.00 (previous year: KEUR 950,000)	950,000,000.00	1,100,000
2. Due to banks		
becoming due and payable within one year EUR 20,479,791.46 (previous year: KEUR 23,476)		
becoming due and payable after more than one year EUR 862,246,512.29 (previous year: KEUR 422,730)	882,726,303.75	446,206
3. Trade payables		
becoming due and payable within one year EUR 1,708,146.59 (previous year: KEUR 1,536)	1,708,146.59	1,536
4. Payables to affiliated companies		
becoming due and payable within one year EUR 133.251.584,53 (previous year: TEUR 166.150)		
becoming due and payable after more than one year EUR 341.718,15 (previous year: TEUR 337)	133,593,302.68	166,488
5. Other liabilities		
becoming due and payable within one year EUR 16,412,758.17 (previous year: KEUR 19,586)		
becoming due and payable after more than one year EUR 2,520.00 (previous year: KEUR 0)		
of which taxes EUR 28,017.43 (previous year: KEUR 42)		
of which social security EUR 44,325.14 (previous year: KEUR 49)	16,415,278.17	19,596
	1,984,443,031.19	1,733,826
D. DEFERRED INCOME	4,857.50	0
	2,198,220,216.43	1,974,955

NOVOMATIC AG

Profit and Loss Account

for the period from January 1, 2017 to December 31, 2017

	01-12/2017	01-12/2016
	EUR	KEUR
1. Sales	78,464,315.35	76,624
2. Other operating income		
a. Income from the disposal of and additions to fixed assets, excluding financial assets	0.00	75
b. Income from the release of provisions	174,047.99	10
c. Other	2,280,821.82	4,010
	2,454,869.81	4,095
3. Expenses for material and other purchased manufacturing services		
Cost of purchased services	-352,739.35	-731
	-352,739.35	-731
4. Personnel expenses		
a. Salaries	-5,009,578.62	-6,212
b. Social Expenses		
aa. Pension expenses	345,392.00	-760
bb. Expenses for severance payments and contributions to external severance payments funds	-199,751.49	-135
cc. Cost of statutory social security, payroll-related taxes and mandatory contributions	-379,816.30	-253
dd. Other	-53,127.68	-24
	-287,303.47	-1,172
	-5,296,882.09	-7,384
5. Amortization and depreciation		
of intangible assets and of tangible assets thereof extraordinary depreciation EUR 798,008.60 (previous year: KEUR 6,500)	-14,028,240.31	-24,976
6. Other operating expenses		
a. Taxes not included in line 16	-168,800.21	-247
b. Other	-82,215,005.90	-73,927
	-82,383,806.11	-74,174
7. Subtotal of lines 1 to 6 (Operating profit)	-21,142,482.70	-26,546

8. Investment income thereof from affiliated companies EUR 208,947,255.24 (previous year: KEUR 58,620)	215,598,808.82	58,620
9. Income from other investments and long-term loans thereof from affiliated companies EUR 7,960,060.28 (previous year: KEUR 8,741)	8,778,442.69	9,720
10. Other interest and similar income thereof from affiliated companies EUR 300,551.04 (previous year: KEUR 25)	1,321,695.57	245
11. Income from disposal of and the appreciation to financial assets	12,940,251.81	2,839
12. Expenses from financial assets and securities held as current assets a. Depreciation EUR -121,359,182.59 (previous year: KEUR -2,597) b. Expenses from affiliated companies EUR -146,879,650.57 (previous year: KEUR -2,810)	-149,564,818.82	-4,399
13. Interest and similar expenses thereof from affiliated companies EUR -170,207.42 (previous year: KEUR -274)	-45,262,037.44	-38,161
14. Subtotal of lines 8 to 13 (Financial result)	43,812,342.63	28,864
15. Earnings before tax (Subtotal of lines 7 and 14)	22,669,859.93	2,318
16. Taxes on income thereof tax apportionment EUR 1,352,407.34 (previous year: KEUR 4,616) thereof deferred taxes EUR -7,317,044.22 (previous year: KEUR 2,420)	-6,300,261.76	6,940
17. Earnings after taxes = Net income of the year	16,369,598.17	9,258
18. Disposal of retained earnings	0.00	0
19. Allocation of retained earnings	0.00	0
20. Profits carried forward from the previous year	61,171,890.80	101,914
21. Retained profits	77,541,488.97	111,172

Notes

for the 2017 fiscal year

I. ACCOUNTING AND VALUATION PRINCIPLES

The accounting principles of the Austrian Commercial Code as amended have been applied to these financial statements as of December 31, 2017.

The annual accounts were prepared in compliance with the relevant requirements and generally accepted accounting principles to present a true and fair view, in all material respects, of the net asset and of the financial and earnings position of the company.

The principles of completeness and non-arbitrariness were applied. Valuation followed the principles of adequate and orderly accounting as well as the going concern assumption, and was based upon the valuation principles applied to last year's annual accounts, unless changes in the valuation principles are explicitly stated for individual items. Assets and liabilities were assessed individually as of the balance sheet date.

In accordance with the principle of prudence, only profits realized as of the balance sheet date are shown, and all apparent risks and impending losses that incurred during the current period or in previous periods were considered.

The profit and loss account was prepared according to the total expenditure format. Items of the balance sheet or the profit and loss account showing a zero balance for the current and the previous period were not listed in accordance with Sec. 223 para 7 of the Austrian Commercial Code.

The intangible assets, only if acquired against payment, as well as the property, plant and equipment were stated at cost of acquisition or production less the scheduled depreciation corresponding to the expected useful life and less any potentially necessary extraordinary depreciation. Low-value assets with cost of acquisition of less than EUR 400.00 are fully depreciated in the year of acquisition or production.

Receivables and other assets were stated at nominal value less necessary allowances. Overdue receivables were discounted and, for bad debts, a lump sum value adjustment was allowed.

In application of the principle of prudence, all identifiable risks and all liabilities of uncertain amount and/or origin were considered by setting up provisions according to reasonable commercial judgment.

Liabilities were valued at their redemption amount. Liabilities in foreign currency were valued at the foreign exchange rate offered at the balance sheet date or at a higher purchase rate at the date of transaction.

II. EXPLANATIONS CONCERNING THE BALANCE SHEET

ASSETS

A. Fixed Assets

1. Intangible Assets and Property, Plant and Equipment

Fixed assets are stated at cost of acquisition or production less planned linear depreciation corresponding to the estimated useful life.

The development of each item in the fixed assets and the breakdown of the annual depreciation are shown in the fixed assets schedule enclosed.

1.1. Intangible Assets

Intangible assets are stated at acquisition cost less planned linear depreciation according to a useful life of 4 to 10 years. Write-downs and write-ups are made if the corresponding conditions exist.

Additions of KEUR 440 are related primarily to patent transfers.

The book values of intangible assets acquired from affiliated companies add up to KEUR 2,571 (previous year: KEUR 9,876).

1.2. Property, Plant and Equipment

The real estate value of undeveloped and developed land amounts to KEUR 36,389 (previous year: KEUR 36,968).

Other property, plant and equipment items are stated at cost of acquisition or production less planned linear depreciation (spread over 25 to 50 years for buildings, 4 to 10 years for movable assets and structural investments). Low-value assets with a cost of acquisition of less than EUR 400.00 are fully depreciated in the year of acquisition or production.

2. Financial Assets

Financial assets are valued at their cost of acquisition.

Securities are valued at their cost of acquisition or at their lower market values as of the balance sheet date.

Carrying amounts of domestic and foreign investments will be written down in case of:

- a persistent deterioration of earnings
- the necessity of support from the shareholder
- deficient means and measures as a result of the acquisition
- reorganization measures that will not result in substantial profits in the foreseeable future and represent deficiencies that cannot be eliminated anytime soon
- losses that can no longer be absorbed by the affiliated company alone

Impairment is not made in cases of mere start-up losses.

Additions to the shares in affiliated companies amounting to KEUR 228,889 are mainly due to capital increases at Austrian and one Italian subsidiary.

Impairment losses on shares in affiliated companies amounted to EUR 100,630 in the reporting year and mainly related to NOVOMATIC Lottery Solutions GmbH with EUR 88,000 and I-New Unified Mobile Solutions AG with EUR 12,587.

For further details concerning the shares in affiliated companies, please refer to point IV.

Loans granted to affiliated companies amount to EUR 267,899 (previous year: EUR 332,515). Loans were reduced by EUR 20,089 due to a waiver of claims vis-à-vis NOVOMATIC Lottery Solutions GmbH. Furthermore, there was an impairment charge of EUR 14,861 for a loan to I-New Unified Mobile Solutions AG and EUR 3,600 for a loan to NOVOMATIC Lottery Solutions (Iceland) hf. The amounts are disclosed in the income statement under the item "Expenses from financial assets and securities held as current assets".

These additional changes concerned both disbursements to and repayments from subsidiaries in markets with promising growth prospects.

Other loans increased in the amount of EUR 463 on the one hand and, on the other, decreased by EUR 5,186 due to repatriations or reversals. Thus, the total acquisition costs as of December 31, 2017, amounted to EUR 15,753 (previous year: EUR 20,476).

The accumulated impairment loss decreased by EUR 5,186 due to the disposal of an allowance and increased by EUR 1,309 to EUR 11,510 (previous year: EUR 15,387) due to the critical assessment of the value of individual loans.

Of loans granted to affiliated companies, an amount of EUR 23,394 (previous year: EUR 30,462) is due within one year.

Of the other loans, an amount of EUR 1,191 (previous year: EUR 1,408) is due within one year.

The additions to securities held as current assets primarily relate to portfolio shares.

B. Current Assets

1. Receivables and Other Assets

1.1. Trade receivables

Trade receivables are stated at nominal value. In cases of apparent individual risk, the probable recoverable amount was recognized. Receivables are – as in the previous year – due within less than one year.

1.2. Receivables from Affiliated Companies

Receivables from affiliated companies mainly concern allocations with the subsidiaries NOVOMATIC Gaming Industries GmbH of EUR 246,508, HTM Hotel und Tourismus Management GmbH of EUR 10,000, Novo VLTech GmbH of EUR 730 and Novomatic Italia Srl of EUR 18,000. The balances particularly relate to the allocation accounts for tax allocations, dividends and cash pooling.

The receivables from affiliated companies include trade receivables in the amount of EUR 6,905 (previous year: EUR 19,557). The remaining time to maturity of the receivables – as in the previous year – is less than one year.

1.3. Other Receivables and Assets

Other receivables and assets amounting to EUR 62,196 (previous year: EUR 58,616) mainly concern a deposit related to precious metals amounting to EUR 52,125 (previous year: EUR 35,300) as well as credit balances with the tax authorities. The remaining other receivables of EUR 66 (previous year: EUR 66) are due in more than one year.

2. Cash and Bank Deposits

Bank deposits come to an amount of EUR 345,519 (previous year: EUR 363,676), of which EUR 0,00 (previous year: EUR 65,351) is not freely available. The bulk of bank deposits relates to an Australian dollar bank account with KAUD 463,833 earmarked for the acquisition of Ainsworth Game Technology Ltd.

Regarding the expected acquisition of Ainsworth Game Technology Ltd., which is payable in AUD, derivative financial instruments (forward exchange transactions) and non-derivative financial instruments (bank deposits) as hedging instruments in the context of a cash flow hedge, were used to hedge the FX cash flow risk from the expected purchase price payment (underlying transaction). The purchase price was paid in early 2018. As at December 31, 2017, bank balances of EUR 300,230,046.40 were designated as hedging instruments. In 2017, EUR 12,557,938.88 of the change in the hedging instruments was recognized directly in equity.

C. Prepaid Expenses

The prepaid expenses amounting to EUR 8,124 (previous year: EUR 9,625) consist of capitalized discounts and expenditures pertaining to 2018 and the following years.

D. Deferred Tax Assets

Deferred tax assets are reported using the balance sheet liability method for all temporary differences between the tax valuation amounts of assets and liabilities and the book values in the individual financial statement.

Since a tax relief due to reversal of the above-mentioned temporary differences in the foreseeable future cannot be reliably predicted at the balance sheet date, the deferred tax assets of previous years in the amount of EUR 7,317 are released as a precautionary measure and no new formation is made.

As the Group parent, NOVOMATIC AG has tax losses of EUR 213,883, for which no deferred tax assets were recognized.

The non-capitalized deferred taxes from temporary differences amount to EUR 30,447. This amount mainly relates to items of property, plant and equipment, shares in affiliated companies and provisions.

EQUITY AND LIABILITIES

A. Shareholders' Equity

The share capital of the company amounts to EUR 26,590 in the 2017 fiscal year (previous year: EUR 26,590).

The tied-up capital reserves of EUR 85,386 and retained earnings of EUR 1,639 remained unchanged compared to the previous year.

At the Annual General Meeting on April 5, 2017, a disbursement of EUR 50,000 was approved and subsequently paid to the shareholders.

B. Provisions

In compliance with the principle of prudence, all identifiable risks and liabilities of an uncertain amount and/or origin at the balance sheet date were accounted for by setting up provisions according to reasonable commercial judgment.

The provisions for severance payments were calculated applying actuarial principles according to IAS 19 using the projected unit credit method with a discount rate of 1.89 percent (previous year: 1.58 percent) and assuming a pay increase of 2.5 percent (previous year: 2.5 percent). The minimum legal retirement age according to ASVG regulations was assumed. Discounts due to fluctuations or other circumstances were not included.

The expenses for severance payments, at KEUR 131 (previous year: KEUR 81), concern changes in provisions.

Due to irrevocable pension commitments, a pension provision was formed. The calculation was conducted applying actuarial principles in accordance with IAS 19 using the projected unit credit method with an interest rate of 1.89 percent (previous year: 1.58 percent) and value adjustments of 3 percent. Pension expenses, at KEUR -312 (previous year: KEUR 799), concern changes in provisions.

Other provisions primarily related to audit and consultancy costs, expenses for annual reports, a provision for anticipated losses for the future liquidity needs of NOVOMATIC Lottery Solutions GmbH in the amount of KEUR 7,700, bonus payments to the Executive Board, unconsumed vacation for employees and the jubilee payments. The provisions for jubilee payments were calculated applying actuarial principles according to IAS 19 using the projected unit credit method with a discount rate of 1.89 percent (previous year: 1.58 percent) and assuming a pay increase of 2.5 percent (previous year: 2.5 percent).

The provision for unused vacation is calculated under the assumption of a divider of 18 working days per month.

Please refer to the enclosed supplement showing the development of provisions.

C. Liabilities

Maturity

KEUR	Total amount of liabilities		
	With a residual term of less than one year	With a residual term of 1 to 5 years	With a residual term of over 5 years
Bond	0	450,000	500,000
(previous year)	150,000	450,000	500,000
Due to banks	20,480	789,122	73,125
(previous year)	23,476	331,355	91,375
Trade payables	1,708	0	0
(previous year)	1,536	0	0
Payables to affiliated companies	133,252	342	0
(previous year)	166,150	337	0
Other liabilities	16,413	3	0
(previous year)	19,596	0	0

2010, 2013 to 2015 and 2016, bonds with a total value of KEUR 1,100,000 were issued to support further growth in the areas of development, production and gaming operations. In 2017, the bond issued in 2010 with a volume of KEUR 150,000 and an interest rate of 5 percent was repaid as scheduled.

Liabilities to affiliated companies amounting to KEUR 133,385 (previous year: KEUR 143,657) concern other liabilities. Of this sum, a significant amount of KEUR 132,998 (previous year: KEUR 131,776) is due to the implementation of cash pooling agreements with Austrian and foreign subsidiaries in 2013. Other liabilities include expenses in the amount of KEUR 14,950 (previous year: KEUR 17,885) that will become only cash-effective after the balance sheet date.

D. Contingent Liabilities

At the balance sheet date, there are contingent liabilities amounting to KEUR 163,925 (previous year: KEUR 154,990), of which KEUR 163,925 (previous year: KEUR 154,990) concerns affiliated companies.

Contingent liabilities comprise comfort letters or guarantees for bank loans for affiliated companies, and are composed as follows:

a) Contingent liabilities

KEUR				
Bank	Beneficiary company	Security	Ceiling	As of 12/31/2017
UniCredit Bank Austria AG Vienna	HTM Hotel- und Tourismus Management GmbH	Comfort letter	7,000	7,000
UniCredit Bank Austria AG Vienna	I-New Unified Mobile Solutions AG	Guarantee	500	0
Raiffeisenlandesbank OOE	HTM Hotel- und Tourismus Management GmbH	Comfort letter	630	630
Raiffeisenlandesbank OOE	ADMIRAL Casinos & Entertainment AG	Comfort letter	581	581
Erste Group Bank AG	ADMIRAL Casinos & Entertainment AG	Guarantee	3,153	3,153
Oberbank Leasing	I-New Unified Mobile Solutions AG	Comfort letter	9,471	9,471
Oberbank AG	I-New Unified Mobile Solutions AG	Comfort letter	4,500	4,282
Hypo Bank Burgenland	ADMIRAL Casinos & Entertainment AG	Guarantee	176	176
Hypo Bank Burgenland	I-New Unified Mobile Solutions AG	Guarantee	1,800	1,646
Hypo Bank Burgenland	Admiral Sportwetten GmbH	Guarantee	12,000	12,000
UniCredit Bank Austria AG Vienna	Crown Gaming S.A.C.	Guarantee	16,638	13,643
Kensington Business Center	Novomatic Americas Sales LLC	Guarantee	940	940
Nord LB	Admiral Sportwetten GmbH, Deutschland	Guarantee	1,500	1,500
UniCredit S.p.A., Rome	NOVOMATIC Italia S.p.A.	Guarantee	97,278	97,278
Raiffeisenlandesbank NÖ-Wien	Admiral Sportwetten GmbH	Comfort letter	1,500	0
Raiffeisenlandesbank NÖ-Wien	I-New Unified Mobile Solutions AG	Guarantee	374	374
Barclays Bank PLC	NOVOMATIC UK Ltd.	Comfort letter	11,251	11,251
TOTAL				163,925

b) Off-balance-sheet transactions

In 2017, comfort letters were issued to an Austrian subsidiary and an Icelandic subsidiary.

c) Information regarding the nature of provided physical securities

No physical securities were provided for liabilities in the 2017 fiscal year.

E. Other Financial Obligations

Obligations from current lease contracts comprise:

KEUR	of the following fiscal year	of the next five fiscal years
Obligations from current lease contracts	1,131	5,656
(In the previous year)	1,118	5,589

III. EXPLANATIONS CONCERNING THE PROFIT AND LOSS ACCOUNT

1. Breakdown of Sales

1.1. by segments:

KEUR	Year under review	Previous year
Income from trademarks and licenses	60,061	59,024
Provision of personnel	1,262	1,137
Income from rental and operating costs	13,659	12,967
Other sales	3,482	3,496
Total	78,464	76,624

1.2. by geographical markets:

KEUR	Year under review	Previous year
Domestic income	69,172	66,533
International income (EU)	9,226	10,091
Third-country income	66	0
Total	78,464	76,624

2. Personnel costs

Expenses for severance payments and contributions to external severance payment funds include payments to external severance payment funds amounting to KEUR 69 (previous year: KEUR 54).

3. Extraordinary Depreciation

In the 2017 fiscal year, an impairment loss was recognized on a property in Baden in the amount of KEUR 798 where the sale price has already been determined.

4. Taxes on Income

Taxes only affect results from ordinary business activities.

NOVOMATIC AG has taken the opportunity of forming a tax group pursuant to Sec. 9 of the Austrian Corporate Income Tax Act (KStG).

Group members are:

- HTM Hotel- und Tourismus Management GmbH, Austria
- ADMIRAL Casinos & Entertainment AG, Austria
- NMN Immo GmbH, Austria
- NOVOMATIC Gaming Industries GmbH, Austria
- Admiral Sportwetten GmbH, Austria
- Novo VLTech GmbH, Austria
- NOVOMATIC Italia S.p.A., Italy

In the tax apportionment contract with the domestic tax group members, negative as well as positive tax apportionments within the tax group were stipulated. The profits allocated by the tax group member to the parent company are, depending on the usability of the losses, to be compensated at 21.5 percent or 25 percent (tax rate pursuant to Sec. 22 para 1 of the Austrian Corporate Income Tax Act [KStG]) by the tax group member. A symmetrical agreement exists for the allocated losses, whereby losses that cannot be allocated are to be credited as "internal tax loss carried forward" at 21.5 percent of the assessment basis if they are usable.

No tax apportionment contracts were concluded with the foreign group members.

Taxes on income is broken down specifically as follows:

KEUR	
Corporate income tax expense in 2017	14
Corporate income tax expense in previous years	20
Corporate income tax expense for deferred taxes	7,317
Foreign withholding tax expense	53
Corporate income tax expense in Germany	248
Income from tax apportionment "tax group"	-1,352
Total	6,300

IV. INFORMATION ON SIGNIFICANT INVESTMENTS

Company, domicile	Share	Carrying amount as of 12/31/2017	Equity	Result for the year
		EUR	EUR	EUR
NOVOMATIC Italia S.p.A, Rimini (IT)	100 %	368,369,429	275,877,509	-15,206,514
ADMIRAL Casinos & Entertainment AG, Wr.Neudorf (AT)	100 %	65,000,000	47,103,402	4,327,620
NOVOMATIC Gaming Industries GmbH, Gumpoldskirchen (AT)	100 %	394,304,397	1,071,991,176	73,052,264
HTM Hotel- und Tourismus Management GmbH, Gumpoldskirchen (AT)	100 %	1,072,607	47,962,780	-4,934,497
NMN Immo GmbH, Gumpoldskirchen (AT)	99 %	611,726	607,833	-55,199
NMI Invest GmbH, Gumpoldskirchen (AT)	100 %	1,000,000	994,210	-5,790
NOVOMATIC Sports Betting Solutions GmbH, Gumpoldskirchen (AT)	100 %	1,000,000	942,253	-57,747
Novomatic Investment Chile S.A., Santiago (CL)	100 %	1,344,421	3,192,227	-292,085
Novo Immobilien GmbH, Bingen/Rhein (DE)	100 %	3,000,000	21,241,358	2,658,677
Norddeutsche Spielbanken GmbH, Berlin (DE)	100 %	25,000	20,342	320
NOVOMATIC Americas Holdings Inc., Illinois (US)	100 %	21,384,591	27,220,686	-973,213
Spielbank Berlin G.Jaenecke GmbH & Co.KG, Berlin (DE)	59,5 %	8,619,917	14,200,832	1,361,482
Spielbank Berlin Entertainment GmbH & Co.KG, Berlin (DE)	60 %	48,840	-2,625,722	-19,037
NOVOMATIC Spielbanken Holding Deutschland GmbH & Co.KG (formerly Spielbank Berlin nationale Beteiligungsges mbH & Co.KG), Berlin (DE)	100 %	6,438,002	5,219,574	-540,534
I-New Unified Mobile Solutions AG, Mattersburg (AT)	76,814 %	1	-17,146,518	-15,736,636
NOVOMATIC Lottery Solutions GmbH, Vienna (AT)	100 %	0	12,232,292	-60,894,890
NOVOMATIC Lottery Solutions (Iceland) hf, Kopavogur (IS)	0,24 %	245.56	17,157,722	35,698,127
SIM Spielbanken Investitions- und Management GmbH, Kassel (DE)	100 %	25,619	52,759	5,559
SIM Spielbanken Investitions-, Beteiligungs- und Management GmbH & Co.KG, Kassel (DE)	100 %	6,914,017	7,732,678	812,027
RSV Beteiligungs GmbH, Vienna (AT)	100 %	72,330,974	8,776,736	8,245,000
LTB Beteiligungs GmbH, Vienna (AT)	33,33 %	23,937,945	8,791,157	8,240,000
Pratergarage Errichtungs- und Betriebsgesellschaft m.b.H., Vienna (AT)	47,5 %	237,500	416,740	34,897

Statements concerning intragroup relationships are omitted in accordance with Sec. 242 para 3 of the Austrian Commercial Code (UGB).

The equity and annual results presented are preliminary values determined in accordance with applicable local law.

V. INFORMATION ON FINANCIAL INSTRUMENTS

On October 16, 2015, an interest rate swap with a nominal value of KEUR 77,500 and maturity date of October 8, 2020, was concluded. Its net present value, including interest, amounts to KEUR 754 as of December 31, 2017.

The market value corresponds to the value that would be received or paid if the contract were settled as of the balance sheet date. Past cash flows (interest payments) are not taken into consideration. Future cash flows from variable payments as well as discount rates are determined based on generally accepted financial mathematical models. The negative market values are recorded in the other provisions for impending losses.

VI. MANDATORY INFORMATION CONCERNING MANAGEMENT BODIES AND EMPLOYEES

1.1. Average Number of Employees during the Financial Year

Number of employees: 14 (previous year: 8)

1.2. Members of the Executive Board and the Supervisory Board during the Financial Year

- Executive Board:
- Harald Neumann, Chairman, CEO
 - Ryszard Presch, Deputy Chairman (until June 8, 2017)
 - Ryszard Presch, COO (since June 8, 2017)
 - Peter Stein, CFO
 - Thomas Graf, CTO
 - Dr. Christian Widhalm, CIO (until June 8, 2017)
 - Dr. Christian Widhalm, Deputy Chairman (since June 8, 2017)

- Supervisory Board:
- Senator Herbert Lugmayr, Chairman of the Supervisory Board (until March 28, 2017)
 - Dr. Bernd Oswald, Chairman of the Supervisory Board (since March 28, 2017)
 - Barbara Feldmann, member
 - Martina Kurz, member
 - Martina Flitsch, Deputy Chairwoman
 - Dr. Robert Hofians, member (since March 28, 2017)

1.3. Other Information

During the 2017 fiscal year, gross payments of KEUR 5,644 (previous year: KEUR 4,977) and payments from affiliated companies of KEUR 250 (previous year: KEUR 486) were made to members of the Executive Board. No advances, loans or guarantees were granted to members of the Executive Board. Payments made to members of the Supervisory Board during the year under review amounted to KEUR 518 (previous year: KEUR 263).

Expenses for severance payments and pensions for the members of the Executive Board amounted to KEUR 182 (previous year: KEUR 1,076) and KEUR -345 (previous year: KEUR 799), respectively.

1.4 Consolidated Financial Statement

NOVOMATIC AG is required by law to prepare and disclose a subgroup consolidated financial statement according to Sec. 246 para 3 of the Austrian Commercial Code (UGB). The financial statement for the subgroup NOVOMATIC AG is included in the consolidated financial statement of Novo Invest GmbH with its registered office in Gumpoldskirchen – as head of the Group – and is filed at the Regional Court of Wiener Neustadt under FN 381832v.

1.5 Audit Fees

Fees for the audit of the financial statement and expenses for other services of the auditor are presented in the subgroup consolidated financial statement of NOVOMATIC AG.

1.6 Appropriation of Earnings

An amount totaling KEUR 20,000 is to be appropriated from the balance sheet profit of KEUR 77,541 comprising the profit of the 2017 fiscal year amounting to KEUR 16,369 and profit carried forward of KEUR 61,172. The remaining amount of KEUR 27,541 is to be carried forward.

1.7 Subsequent Events after the Balance Sheet Date

The acquisition of around 52 percent of the shares in Ainsworth Game Technology Ltd. (Ainsworth), signed in 2016 and for which closing had not yet been performed due to formal approval requirements of various international licensing and regulatory bodies, was finally completed in January 2018.

The acquisition represents another milestone in the corporate history of NOVOMATIC and is of major strategic importance as it paves the way to access the enormously important North American market, a region with almost one million operated gaming machines. Ainsworth is also a market leader in gaming-enthusiastic Australia and has a strong presence in the Latin American market. The agreed purchase price is around AUD 473 million.

VII. SPECIAL INFORMATION FOR STOCK CORPORATIONS

The share capital of EUR 26,590,000.00 is fully paid up and divided into 26,590,000 registered no-par value shares. The nominal value per share amounts to EUR 1.00.

Gumpoldskirchen, April 25, 2018

NOVOMATIC AG

Harald Neumann Chairman, CEO	Dr. Christian Widhalm Deputy Chairman, Chief Investment Officer, CIO	Ryszard Presch Chief Operating Officer, COO
Thomas Graf Chief Technology Officer, CTO	Peter Stein Chief Financial Officer, CFO	

NOVOMATIC AG

Fixed Assets

as of December 31, 2017

EUR	Development at cost of acquisition and production						Development of Amortization/Depreciation								Book Values	
	Balance as of 1/1/2017	Additions	Transfers	Reallocation	Disposals	Balance as of 12/31/2017	Balance as of 1/1/2017	Additions	thereof extraordinary depreciation	Transfers	Reallocation	Disposals	Write-ups	Balance as of 12/31/2017	Balance as of 12/31/2016	Balance as of 12/31/2017
A. FIXED ASSETS																
I. Intangible assets																
1. Industrial and similar rights and assets and licenses in such rights and assets																
Rights	12,455,172.03	250,000.00	150,000.00	0.00	0.00	12,855,172.03	11,861,656.11	341,106.04	0.00	0.00	0.00	0.00	0.00	12,202,762.15	593,515.92	652,409.88
Technical software	123,400,219.21	0.00	0.00	0.00	0.00	123,400,219.21	113,524,543.97	7,304,825.00		0.00	0.00	0.00	0.00	120,829,368.97	9,875,675.24	2,570,850.24
Software	281,948.48	20,000.00	20,000.00	0.00	0.00	321,948.48	275,679.35	11,269.13		0.00	0.00	0.00	0.00	286,948.48	6,269.13	35,000.00
Advance payments	0.00	170,000.00	-170,000.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
	136,137,339.72	440,000.00	0.00	0.00	0.00	136,577,339.72	125,661,879.43	7,657,200.17	0.00	0.00	0.00	0.00	0.00	133,319,079.60	10,475,460.29	3,258,260.12
II. Property, plant and equipment																
1. Land, buildings and improvements to third-party buildings																
Land	9,293,159.41	0.00	0.00	0.00	0.00	9,293,159.41	0.30	0.00		0.00	0.00	0.00	0.00	0.30	9,293,159.11	9,293,159.11
Buildings – real estate value	32,164,056.07	0.00	0.00	0.00	0.00	32,164,056.07	4,489,540.57	577,693.67	47,694.98	0.00	0.00	0.00	0.00	5,067,234.24	27,674,515.50	27,096,821.83
Buildings – value of building	134,347,665.14	6,800.00	0.00	0.00	0.00	134,354,465.14	42,429,179.58	5,335,602.29	750,313.62	0.00	0.00	0.00	0.00	47,764,781.87	91,918,485.56	86,589,683.27
Structural investments in leased property	2,796,160.66	0.00	0.00	0.00	0.00	2,796,160.66	2,790,167.32	922.05		0.00	0.00	0.00	0.00	2,791,089.37	5,993.34	5,071.29
Buildings on non-owned land	24,742,062.68	37,205.09	0.00	0.00	0.00	24,779,267.77	21,719,264.09	224,346.36	0.00	0.00	0.00	0.00	0.00	21,943,610.45	3,022,798.59	2,835,657.32
	203,343,103.96	44,005.09	0.00	0.00	0.00	203,387,109.05	71,428,151.86	6,138,564.37	798,008.60	0.00	0.00	0.00	0.00	77,566,716.23	131,914,952.10	125,820,392.82
2. Plant and machinery																
Plant and machinery	212,930.38	0.00	0.00	0.00	0.00	212,930.38	129,195.58	10,577.25		0.00	0.00	0.00	0.00	139,772.83	83,734.80	73,157.55
Tools and tool costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
	212,930.38	0.00	0.00	0.00	0.00	212,930.38	129,195.58	10,577.25		0.00	0.00	0.00	0.00	139,772.83	83,734.80	73,157.55
3. Office fixtures, fittings and equipment																
Office fixtures, fittings and equipment	4,829,249.40	20,336.07	1,665.00	0.00	0.00	4,851,250.47	4,240,493.45	199,173.67		0.00	0.00	0.00	0.00	4,439,667.12	588,755.95	411,583.35
Car pool	1,630,952.55	247,000.00	0.00	0.00	24,500.00	1,853,452.55	484,793.12	16,000.00		0.00	0.00	0.00	0.00	500,793.12	1,146,159.43	1,352,659.43
Low-value assets	43,021.42	717.02	0.00	0.00	0.00	43,738.44	31,493.04	6,724.85		0.00	0.00	0.00	0.00	38,217.89	11,528.38	5,520.55
	6,503,223.37	268,053.09	1,665.00	0.00	24,500.00	6,748,441.46	4,756,779.61	221,898.52	0.00	0.00	0.00	0.00	0.00	4,978,678.13	1,746,443.76	1,769,763.33
4. Advance payments and tangible assets in course of construction																
Tangible assets in course of construction	6,335,074.76	1,165.00	-1,665.00	0.00	0.00	6,334,574.76	6,290,171.84	0.00		0.00	0.00	0.00	0.00	6,290,171.84	44,902.92	44,402.92
	6,335,074.76	1,165.00	-1,665.00	0.00	0.00	6,334,574.76	6,290,171.84	0.00	0.00	0.00	0.00	0.00	0.00	6,290,171.84	44,902.92	44,402.92
	216,394,332.47	313,223.18	0.00	0.00	24,500.00	216,683,055.65	82,604,298.89	6,371,040.14	798,008.60	0.00	0.00	0.00	0.00	88,975,339.03	133,790,033.58	127,707,716.62
III. Financial Assets																
1. Shares in affiliated companies	835,142,963.31	228,889,429.00	0.00	0.00	955,350.00	1,063,077,042.31	10,957,599.47	100,629,658.72		0.00	0.00	0.00	0.00	111,587,258.19	824,185,363.84	951,489,784.12
2. Loans to affiliated companies	332,515,279.79	21,427,873.28	0.00	0.00	67,582,859.50	286,360,293.57	0.00	18,461,434.16		0.00	0.00	0.00	0.00	18,461,434.16	332,515,279.79	267,898,859.41
3. Investments	24,412,944.55	0.00	0.00	0.00	0.00	24,412,944.55	237,500.00	0.00		0.00	0.00	0.00	0.00	237,500.00	24,175,444.55	24,175,444.55
4. Loans to associated companies	922,605.25	85,879.07	0.00	0.00	0.00	1,008,484.32	461,302.65	0.00		0.00	0.00	0.00	0.00	461,302.65	461,302.60	547,181.67
5. Securities held as fixed assets	101,498,250.77	10,284,154.20	0.00	0.00	16,927,199.38	94,855,205.59	1,588,926.85	84,153.69		0.00	0.00	1,523,118.69	0.00	149,961.85	99,909,323.92	94,705,243.74
6. Other loans	20,476,289.71	462,425.44	0.00		5,185,617.00	15,753,098.15	15,387,208.44	1,308,936.02		0.00	0.00	5,185,617.00	0.00	11,510,527.46	5,089,081.27	4,242,570.69
	1,314,968,333.38	261,149,760.99	0.00	0.00	90,651,025.88	1,485,467,068.49	28,632,537.41	120,484,182.59	0.00	0.00	0.00	6,708,735.69	0.00	142,407,984.31	1,286,335,795.97	1,343,059,084.18
TOTAL FIXED ASSETS	1,667,500,005.57	261,902,984.17	0.00	0.00	90,675,525.88	1,838,727,463.86	236,898,715.73	134,512,422.90	798,008.60	0.00	0.00	6,708,735.69	0.00	364,702,402.94	1,430,601,289.84	1,474,025,060.92

NOVOMATIC AG

Provisions

as of December 31, 2017

EUR

PROVISIONS	Balance as of 1/1/2017	Consumption	Release	Allocation	Balance as of 31/12/2017
1. Provisions for severance payments					
Provision for severance payments	1,826,737.00	0.00	0.00	131,076.00	1,957,813.00
2. Provisions for pensions					
Provision for pensions	7,612,376.00	0.00	311,805.00	0.00	7,300,571.00
3. Provisions for taxes					
Provision for corporate income tax	0.00	0.00	0,00	248,000.00	248,000.00
4. Other provisions					
Provisions for auditing and consulting fees	532,453.00	425,354.01	29,668.99	1,139,435.12	1,216,865.12
Provisions for damage cases	100,000.00	0.00	100,000.00	0.00	0.00
Provision for unconsumed vacation	1,054,751.99	1,054,751.99	0.00	1,290,230.69	1,290,230.69
Other provisions for personnel	4,137,000.00	4,137,000.00	0.00	1,900,000.00	1,900,000.00
Provision for jubilee payments	77,746.00	0.00	19,262.00	4,510.00	62,994.00
Other provisions	1,000,943.59	175,000.00	171,974.02	7,985,000.00	8,638,969.57
	6,902,894.58	5,792,106.00	320,905.01	12,319,175.81	13,109,059.38
TOTAL PROVISIONS	16,342,007.58	5,792,106.00	632,710.01	12,698,251.81	22,615,443.38

NOVOMATIC AG

Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Novomatic AG, Gumpoldskirchen, which comprise the statement of financial position as at December 31, 2017, the statement of profit and loss and notes to the financial statements.

In our opinion, the accompanying financial statements comply with legal requirements and give a true and fair view of the financial position as at December 31, 2017 and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accounting Principles.

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 and the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

NOVOMATIC Lottery Solutions GmbH

Description and Issue

NOVOMATIC Lottery Solutions GmbH is a full-service supplier for international state-licensed lottery companies. Based on changed competitive framework conditions in 2017, the management has newly evaluated the future business outlook. This resulted in amended estimates of the future cost and sales outlook.

In this context, adjustments were also made to the planning for the impairment test of the participation, as well as loans receivable to NOVOMATIC Lottery Solutions GmbH and its subsidiary in Iceland. This resulted in a total impairment of the participation in the amount of EUR 88 million and a total impairment of the loans receivable in the amount of EUR 23.7 million. To safeguard the future liquidity of NOVOMATIC Lottery Solutions GmbH, NOVOMATIC AG issued a letter of comfort. From the forecast, there is a financing gap of some EUR 7.7 million, for which a provision was made under other provisions. For additional remarks, please refer to Chapter II "Notes on the items in the balance sheet (2. Financial investment assets)" and IV. "Details on significant participations" as well as B. "Provisions" in the Annex.

Our Response

We have taken the underlying forecast into critical consideration. In doing so, we reconciled in particular the forecast sales with the customer agreements. We validated assumptions for the forecast completion costs, along with the future maintenance and service costs for plausibility based on the past information, along with the actual costs of the first quarter of 2018.

I-New Unified Mobile Solutions AG

Description and Issue

The subsidiary I-New Unified Mobile Solutions AG offers software technologies for “Mobile (Virtual) Network Operators”. The Management Board of NOVOMATIC AG made the decision in the financial year to sell all shares in the I-New Unified Mobile Solutions AG. Indicative offers were tendered up until December 2017. The anticipated sales revenues, less cost of sales, were applied to the valuation of the participation as well as the book value of loans receivable. This resulted in a complete impairment of the participation in the amount of EUR 12.6 million, as well as an impairment of loans receivable in the amount of EUR 14.9 million. The residual book value of the loans receivable are EUR 8.3 million. For additional remarks, please refer to Chapter II “Notes on the items in the balance sheet (2. Financial investment assets)” and IV. “Details on significant participations”.

Our Response

We evaluated the approval by the Supervisory Board for the planned sale of the participation. In addition, we validated the anticipated sales revenue for plausibility on the basis of the indicative offers tendered, took the anticipated cost of sales into critical consideration, and evaluated the assumptions concerning the anticipated planning interval of the sales transaction.

Other Information

Management is responsible for the other information. The other information contain all information in the annual report but does not include the financial statements, the management report and our auditor’s report thereon. The annual report is expected to be made available to us after the date of the auditor’s report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with Austrian Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee are responsible for overseeing the Company’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 the Regulation (EU) No 537/2014 and Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 these financial statements.

The scope of the audit does not include assurance on the future viability of the Company or on the efficiency or effectiveness with which the management has conducted or will conduct the affairs of the Company.

As part of an audit in accordance with Regulation (EU) No 537/2014 and Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- In conducting our audit in accordance with the applicable auditing standards, we are taking into account the applicable legal and regulatory framework of the Company but we are not responsible for preventing or detecting non-compliance with laws and regulations. Because of the inherent limitations of an audit, the inevitable risk of not detecting a material misstatement in the financial statements, although the audit is planned and performed in accordance with the applicable auditing standards, is higher with respect to non-compliance with other laws and regulations. This is, amongst others, owed to the fact that there are many laws and regulations, relating principally to the operating aspects of a company, that are not captured by the company’s information systems relevant to financial reporting, and that such non-compliance may involve conduct designed to conceal it.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that give a true and fair view.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Management Report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and whether it has been prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the management report.

Opinion

In our opinion, the management report are prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to section 243a UGB and is consistent with the financial statements.

Statement

In the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit of the financial statements, we have not identified material misstatements in the management report.

Other Matters which we are required to address according to Article 10 of Regulation (EU) No 537/2014

We were appointed by the annual general meeting on July 18, 2017 and commissioned by the supervisory board on September 26, 2017 to audit the financial statements for the financial year ending December 31, 2017. We have been auditing the Company uninterrupted since the financial year ending December 31, 2004.

We confirm that our opinion expressed in the section "Report on the Audit of the Financial Statements" is consistent with the additional report to the audit committee referred to in Article 11 of Regulation (EU) No 537/2014.

We declare that we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 and that we remained independent of the Company in conducting the audit.

Vienna, April 25, 2018

Deloitte Audit Wirtschaftsprüfungs GmbH

Dr. Christoph Waldeck m.p.
Certified Public Accountant

This English translation of the audit report was prepared for the client's convenience only. It is not a legally binding translation of the German audit report. The consolidated financial statements and our auditor's report may be published or transmitted together only if the consolidated financial statements and the management report are identical with the confirmed version. Section 281 para 2 Austrian Commercial Code applies to versions that differ.

NOVOMATIC AG

Report of the Supervisory Board

for the fiscal year 2017



In its nine meetings held during the course of financial year 2017, the Supervisory Board was regularly informed by the Executive Board on the business policy and dealt thoroughly with business developments and the position of the company. In addition, the Audit Committee heard reports from the Executive Board and the auditor during the five meetings.

In addition, the Supervisory Board met four times during its CR Committee to report on the company's non-financial activities. The legal representatives of the Company have prepared a separate non-financial report, which has been audited by the Supervisory Board. No objections were found. Furthermore, on April 25, 2018, the auditor submitted a

report on the auditing of selected, non-financial performance indicators or topics and the disclosure of the information required in section 267a (6) UGB in conjunction with section 267a (2-5) of the Austrian Commercial Code in the consolidated non-financial report for the year 2017, from which no complaints emerged.

The annual financial statements of December 31, 2017, and the Management Report of the Executive Board, to the extent that it explains the annual financial statements, have been examined with regard to accounting by Deloitte Audit Wirtschaftsprüfungs GmbH, which was appointed as auditor by the Annual General Meeting and has been charged with providing an unqualified audit opinion. The examination of the annual financial statements by the Supervisory Board did not give rise to any objections. The Supervisory Board agrees with the proposal of the Executive Board regarding the use of the net profits from 2017. The annual financial statements drawn up by the Executive Board were approved by the Supervisory Board and hence adopted in accordance with the Aktiengesetz (AktG – Austrian Stock Corporation Act).

The Supervisory Board acknowledges and thanks the Executive Board and all employees of NOVOMATIC AG's companies for their work during the financial year of 2017.

Gumpoldskirchen, April 2018
The Supervisory Board

Dr. Bernd Oswald
Chairman

Space for Notes

Symbols used in this report

- In order to improve readability, some terminology is used only in its masculine form. Nevertheless, all passages refer equally to members of both genders.

This report includes forward-looking statements based on information currently available to us. These forward-looking statements are usually identified by expressions such as “expect”, “estimate”, “plan”, “calculate”, etc. Please note that various factors could cause actual circumstances – and therefore also actual results – to deviate from the expectations outlined in this report. Statements referring to people apply to both men and women.

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