



**Interim  
Financial  
Report**

as of June 30, 2017

## Overview of Key Figures

EUR m *	01 - 06/2017	01 - 06/2016	Change	
			million	%
Revenues *	1,218.7	1,094.9	+123.9	+11.3%
EBITDA *	282.5	287.2	-4.7	-1.6%
Operating profit (EBIT) *	104.2	141.4	-37.2	-26.3%
Profit for the period *	56.3	79.6	-23.3	-29.3%
EBITDA margin (EBITDA /revenues)	23.2%	26.2%		
Free cash flow before acquisitions *	25.5	32.8	-7.3	-7.8%
Free cash flow after acquisitions *	-95.7	-107.3	+11.6	-10.8%

EUR m *	6/30/2017	12/31/2016	Change	
			million	%
Balance sheet total *	3,714.1	3,677.7 <sup>1</sup>	+36.4	+1.0%
Equity *	1,359.1	1,376.7 <sup>1</sup>	-17.6	-1.3%
Equity ratio (equity/balance sheet total)	36.6%	37.4%		
Number of employees (average)	25,025	23,391		+7.0%

<sup>1)</sup> Adjustment of previous year's figures according to IFRS 3 "Business combinations"

## Contents

<b>Consolidated Management Report</b>	<b>3</b>
<b>Consolidated Interim Financial Statements</b>	<b>17</b>
<b>Consolidated Balance Sheet</b>	<b>17</b>
<b>Consolidated Income Statement</b>	<b>18</b>
<b>Consolidated Statement of Comprehensive Income</b>	<b>18</b>
<b>Consolidated Cash Flow Statement</b>	<b>19</b>
<b>Consolidated Statement of Changes in Equity</b>	<b>20</b>
<b>Selected Explanatory Notes</b>	<b>21</b>
<b>Statement by the Executive Board</b>	<b>35</b>

# Consolidated Management Report

## 1. Purpose of the Business and Strategy

NOVOMATIC<sup>1</sup> 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 nearly 2,100 gaming facilities worldwide, which include casinos, electronic casinos, 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.

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 Group'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

The International Monetary Fund (IMF) expects the pace of global economic growth to pick up noticeably in the current year. According to updated forecasts<sup>2</sup> for 2017, an increase in global economic output of 3.5 percent is expected, against 3.2 percent in 2016.

However, the IMF sees risks to this development. Low commodity prices and the looming change of course in the monetary policy of large central banks in the West carry risks for many emerging and developing markets. Moreover, China's high level of credit financing comes with risks to stability that could reduce the growth of 6.7 percent in the current year. Similarly, the rise in protectionism could have serious implications for global trade.

The outlook for many European countries has brightened considerably, while at the same time darkening for the USA and the UK. The IMF revised downwards forecast US growth for this year by 0.2 percent to 2.1 percent. The United Kingdom, which is currently negotiating its exit from the European Union, will see its growth rate slow to 1.7 percent this year, 0.3 percent slower than in April, according to current IMF expectations.

Most recent forecasts point to a steady return to economic growth in the eurozone. The IMF raised its growth forecast for the eurozone by 0.2 percent to 1.9 percent for the current year. This clear, more optimistic assessment is supported by positive economic data of all major economies in the eurozone. In addition to stable German economic growth, the countries of France, Italy, Spain, which until recently were tending more towards stagnation, began showing signs of growth.

The Austrian economy is currently experiencing an upswing driven by both domestic and foreign demand. Real GDP growth is anticipated to be 2.2 percent for the current year, thereby stronger than that of the eurozone for the first time since 2013. In addition to net exports, persistently strong domestic demand in 2017 is driving growth. Private consumption also benefits this year from the income tax reform that came into effect in January 2016, along with the recent improvement in employment.

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### 3. Business Performance

#### Significant Events during the First Half of 2017

For NOVOMATIC, the first half of 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 six-month high of EUR 1,218.7 million, compared to EUR 1,094.9 million in the first half of 2016. This development is primarily the result of a sharp increase in the number of electronic casinos operated by NOVOMATIC around the world. Compared to the same period last year, the number of self-operated locations (including casinos, sports betting outlets, and bingo facilities) rose from around 1,800 to nearly 2,100. It was also possible to achieve a new all-time high for the number of gaming devices operated. An increase of around 9,000 devices to around 70,700 devices was achieved in the reporting period compared to the first half of 2016.

The Group has recently been faced with a challenging regulatory environment. Changes to taxation policy have led to significantly negative impacts on the earnings situation in the core markets of Austria and Italy in the first half of 2017.

In Germany, the most important market for NOVOMATIC, significantly 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. Despite a decline in the number of leased gaming devices in Germany, the lease stock at the Group level actually increased slightly from around 191,200 devices in the same period last year to around 193,700 devices in the first half of 2017.

Despite these positive key performance indicators, ordinary earnings before interest, taxes, depreciation and amortization (including impairment and reversal of impairment) (EBITDA) stagnated and the operating profit (EBIT) fell. In addition to the aforementioned tax hikes in Italy and Austria, numerous one-time effects had a major impact on profitability. In particular, the preproduction for the legally required conversion of all gaming devices in Germany in 2018 led to additional costs in the upper single digit million range in the first half of 2017. Further, earnings were weighed down by negative foreign currency effects linked to a weaker US dollar and British pound. A further decrease in earnings resulted from a worsening of the earnings position for companies in the I-New Group as well as from an increase in start-up losses for the Novo Lottery Group.

#### Acquisitions of Corporate Shares

On the one hand, the objective of acquisitions is to achieve or solidify a market-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 Gaming Industries GmbH (NGI), a subsidiary of NOVOMATIC AG, acquired a majority stake in four Polish companies (including two additional Polish subsidiaries). Even before the share acquisition, the business purpose of the company 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 sale, 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.

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 Group company Admiral Operations Spain S.L. 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 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 S.L. was subject to various conditions precedent, which were ultimately met in March 2017.

The acquisition of around 53 percent of the shares in Ainsworth Game Technology Ltd. (Ainsworth), signed in 2016 and for which closing has not yet been performed due to approval requirements of various international licensing and regulatory bodies, is currently expected to be completed at the end of 2017. 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.

Furthermore, during 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.

#### **Concessions and Other Important Events**

With the legally binding decision of the Lower Austrian Provincial Court of July 21, 2017, the Group company Admiral Casinos & Entertainment AG (ADMIRAL) has now permanently secured its operations in Lower Austria. From November 2017, ADMIRAL will be able to operate 1,165 gaming devices in Lower Austria's electronic casinos for a period of 15 years, i.e. until July 21, 2032.

In a recent decision on an individual case, the Supreme Court (OGH) found that some of the gaming variants offered by NOVOMATIC in the province of Vienna were not covered by the concessions issued. This decision could lead to a new round of legal actions by customers demanding back their losses incurred in the corresponding period. A provision in the low single figure million range was created in this connection.

In March 2017, NOVOMATIC AG concluded a revolving credit line in 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.

#### **Earnings Position**

In the first half of 2017, NOVOMATIC Group's sales revenue was EUR 1,218.7 million, compared to EUR 1,094.9 million in the same period of 2016. The largest increase in sales revenues in absolute figures was achieved in the area of income from slot machines, which increased by 25.5 percent. A major factor driving this development was the acquisitions of Talarius Ltd. in the United Kingdom (acquired back in June 2016) and Casino Royal GmbH in Germany. Moreover, numerous smaller acquisitions of casino operators in Germany, Italy, and Spain contributed to the rise in income from slot machines.

Significant revenue increases were also achieved for betting income, up 9.1 percent over the previous year. This increase is largely attributable to the home market of Austria. The improvement of 8.3 percent over the previous year in e-business revenues is primarily due to substantial growth of B2B customers.

Rental revenues remained virtually unchanged, showing a small increase of 0.1 percent compared to the same period last year. A sharp rise in rental revenues in Italy is contrasted with a decline in Germany.

At minus 13.9 percent, sales revenues for gaming devices and other gaming equipment in the first half of 2017 were below the level of the previous year. The markets of Italy and the United Kingdom contributed materially to this development, while sales revenues in the core market of Spain rose by nearly 40 percent.

Gaming taxes and betting fees, which depend largely on income from slot machines and betting income, increased in 2017 to EUR 136.9 million, compared to EUR 104.6 million in the previous year. The substantial increase of EUR 30.9 percent is mainly due to the recent acquisitions of casino operators in Germany (in particular Casino Royal GmbH) and the United Kingdom (in particular Talarius Ltd.). Another reason for the considerable increase in these costs is the recently introduced fees on betting terminals, which led to a sharp increase in betting fees in the Austrian provinces of Vienna and Upper Austria.

Total other operating income rose by EUR 9.0 million compared to the same period in 2016. The positive change is not attributable to one particular effect, but is rather due to a number of companies and countries, with the most significant rise being seen in the Italian market.

The rise in own work capitalized of EUR 30.1 million stems in large part from the core market of Germany. Similarly, the increase in the cost of materials of EUR 29.9 million, as well as the inventory build-up of finished goods and work in progress of EUR 4.7 million are largely due to the German market (the latter is also attributable to Austria). All positions reflect the preproduction of self-produced 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 any more in the future. As a result, from November 11, 2018, only devices corresponding to the new technical directive 5.0 may be operated.

Personnel costs in the NOVOMATIC Group came in at EUR 374.3 million in the first half of the year compared to EUR 316.2 million in the previous year. The rise is largely due to the numerous recent acquisitions, with particular emphasis on the acquisition of Talarius Ltd. in the United Kingdom and the acquisition of Casino Royal GmbH in Germany. Personnel costs also saw a significant increase at Löwen Entertainment GmbH in Germany. As a result of the preproduction of gaming devices in connection with the new Gaming Ordinance, 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 companies ATSI S.A. and Fortress Gaming Technologies S.A. are specialized in development and programming activities within the Group.

Other operating expenses (excluding gaming taxes) increased to EUR 413.7 million, compared to EUR 361.5 million during the previous year. This increase is connected to the expansion of business activities and stems mainly from the countries in which there was a high level of acquisition activity (in particular of casino operators). The biggest increases stem from rental, lease and operating expenses, up EUR 17.3 million over the previous year. However, other cost categories showing increases, such as legal, audit and consulting costs or advertising costs are directly related to the expansion.

Earnings for the first half of 2017 were significantly weighed down by negative foreign currency effects linked to a weaker US dollar and British pound. Foreign currency losses at the end of June amounted to EUR -15.7 million. This corresponds to a year-on-year increase of EUR 9.6 million. The foreign currency losses 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.

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the first half year came in at EUR 282.5 million, which is EUR 4.7 million under the result achieved in the first half of 2016. The operating profit (EBIT) declined by EUR 37.2 million, due to higher scheduled depreciation and impairment, and amounted to EUR 104.2 million. As part of an impairment test pursuant to IAS 36, an impairment of EUR 12.4 million was calculated for the company I-New Unified Mobile Solutions AG and accordingly accounted for in the reporting period.

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 including impairments and impairment reversals.

The financial result improved from EUR -22.6 million in the previous year to EUR -7.1 million in the first half of 2017. In addition to higher financial income (among other things due to higher income from financial assets and an increase in income from investments), positive foreign currency effects from intra-Group financing contributed to the improved earnings.

The earnings before taxes decreased to EUR 97.1 million during the reporting period. This corresponds to a decrease of EUR 21.7 million. After taking income tax amounting to EUR 40.8 million into consideration, the Group was able to record a profit of EUR 56.3 million for the first half of 2016, compared to EUR 79.6 million for the previous year.

## Adjusted EBITDA

Adjusted EBITDA constitutes a key business indicator which is not defined in the International Financial Reporting Standards (IFRS) and instead represents an alternative key performance indicator. In the view of the management of NOVOMATIC, this indicator makes it possible to make a more accurate assessment of the development of earnings. Adjusted EBITDA is calculated from EBITDA, which is adjusted for operating realized and unrealized foreign currency gains and losses. Similarly, negative EBITDA arising in connection with the new Lottery Technology business division is considered in adjusted EBITDA. The new business Lottery Technology is a typical project business involved with high costs and investments in the first years.

	01-06/2017	01-06/2016	Diff.	Diff.
	EUR m	EUR m	EUR m	in %
EBIT (Operating profit)	104.2	141.4	-37.2	-26%
Amortization & depreciation (incl. impairment and reversal of impairment for intangible assets, property, plant and equipment, and investment property)	178.3	145.8	32.5	22%
<b>EBITDA</b>	<b>282.5</b>	<b>287.2</b>	<b>-4.7</b>	<b>-2%</b>
Foreign currency losses (operating)	15.7	6.1	9.6	157%
Foreign currency gains (operating)	-2.3	-2.9	0.6	-22%
Negative EBITDA for lottery technology	12.7	9.8	2.9	30%
<b>Adjusted EBITDA</b>	<b>308.6</b>	<b>300.2</b>	<b>8.5</b>	<b>3%</b>



Adjusted EBITDA increased by EUR 8.5 million or 3 percent to EUR 308.6 million in the first half of 2017. The main reason for this improvement is due to the adjustment for operating foreign currency losses resulting from a weaker US dollar.

## Net Assets

The balance sheet total increased against December 31, 2016 by EUR 36.4 million to EUR 3,714.1 million. In terms of non-current assets, intangible assets increased by EUR 123.3 million to EUR 837.4 million. The increase was mainly related to licenses and concessions (up EUR 72.2 million) and is in large parts due to the acquisition of Casino Royal GmbH in Germany. A further cause behind the change in intangible assets is the rise in goodwill (up EUR 68.0 million), resulting from the acquisition of Casino Royal GmbH and the recently acquired companies in the markets of Spain, Italy, and the Netherlands.

Property, plant and equipment increased against December 31, 2016 from EUR 953.3 million to EUR 1,022.1 million. The largest differences can be found in devices (in particular gaming machines and betting terminals) and in prepayments and property under construction, with investments of established German companies making a key contribution to this rise.

Financial assets, mainly comprising financial investments in Austrian gaming companies, increased from EUR 237.8 million to EUR 270.9 million compared with December 31, 2016.

As regards current assets, inventories increased by EUR 25.1 million to EUR 250.6 million, with the increase stemming in similar parts from the core markets of the United Kingdom, Germany, Italy, and Austria. At 3.4 percent, the position trade receivables and other receivables was virtually on a par with the end of 2016.

Another major change regarding current assets was in relation to cash and cash equivalents. Compared to the previous year, cash and cash equivalents decreased by EUR 226.1 million to EUR 651.7 million. The cause for this decline is attributable to acquisition activities (in particular the acquisition of Casino Royal GmbH), investment in property, plant, and equipment (such as in connection with the preproduction of self-produced gaming devices in Germany) as well as dividend payments.

On the other side of the balance sheet, equity decreased by EUR 17.6 million to EUR 1,359.1 million. Non-current liabilities remained virtually unchanged, increasing by 1.4 percent to EUR 1,611.3 million. There were no significant changes either in respect of current liabilities. Compared to December 31, 2016, these increased from EUR 712.2 million to EUR 743.6 million, corresponding to a rise of 4.4 percent.

## Financial Position

At EUR 212.7 million, cash flow from operating activities in the first half of 2017 was up EUR 18.5 million on the value of the previous year. This was due in part to lower cash outflows against 2016 from the change in net working capital, which contains the changes to inventories, receivables, business-related liabilities, and other provisions. The reason for this was, above all, the reduction of receivables (from existing companies) in 2017.

Cash flow from investing activities decreased from EUR -301.5 million in the previous year to EUR -308.4 million during the reporting period. The position "Acquisition of intangible assets, property, plant and equipment" is to be highlighted here, as it saw an increase in cash outflows of EUR 34.3 million, due in particular to the preproduction of self-produced gaming devices in the core market of Germany.

Cash flow from financing activities fell in a year-on-year comparison (EUR 157.6 million), amounting to EUR -133.9 million in the first half of 2017. The difference is a result of the capital increase by Gryphon Invest AG in April 2016 of EUR 85.0 million and the drawing down of a EUR 160 million credit line in the first half of 2016. Another reason for the negative difference compared to the previous year is a EUR 42.1 million higher repayment of non-current financial liabilities.

## 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 and 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.

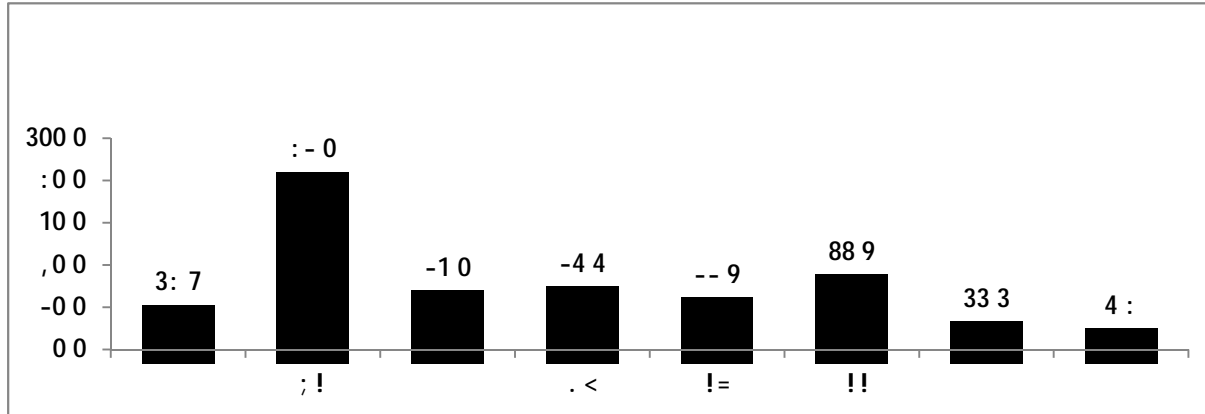
"Free cash flow before acquisitions" is positive and comes to EUR 25.5 million against EUR 32.8 million in the first half of 2016. "Free cash flow after acquisitions" improved over the previous year's level from EUR -107.3 million to EUR -95.7 million as a result of lower cash outflows for company acquisitions.

EUR m	01-06/2017	01-06/2016
Cash flow from operating activities	212.7	194.2
Cash flow from investing activities (excluding acquisitions) <sup>3</sup>	-187.2	-161.4
Free cash flow before acquisitions	25.5	32.8
Cash flow from acquisitions <sup>4</sup>	-121.2	-140.1
Free cash flow after acquisitions	-95.7	-107.3

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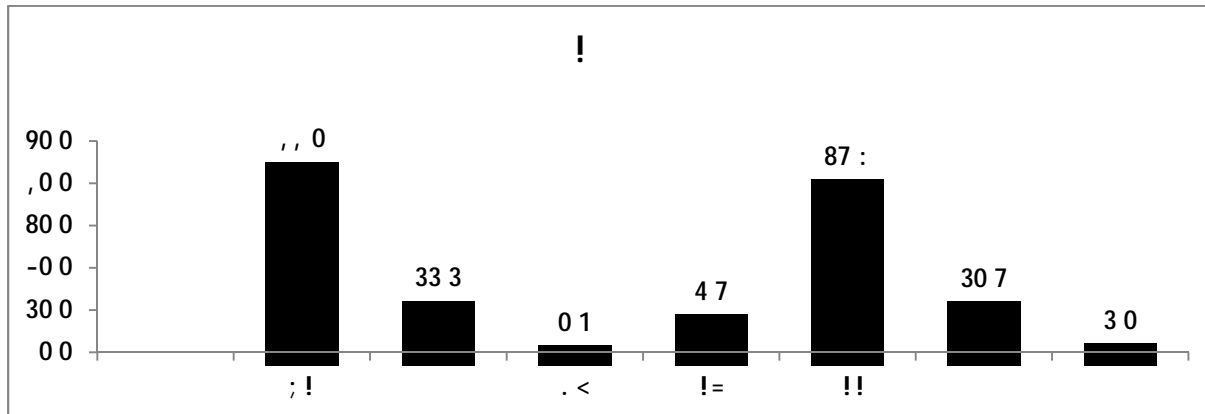
## Investments in Intangible Assets, and Property, Plant and Equipment

Investments in intangible assets, and property, plant and equipment came to a total of EUR 229.4 million in the first half of 2017. The largest investments were in the German market with EUR 82.0 million, followed by Eastern Europe (CEE) with EUR 33.5 million.



## Acquisitions (strategic & bolt-on)

Acquisitions came to a total of EUR 115.4 million in the first half of 2017. The largest acquisitions were in the German market with EUR 44.0 million, particularly as a result of Casino Royal, followed by Eastern Europe (CEE) with EUR 39.8 million, particularly as a result of the acquisition of majority shareholdings in four Polish companies.



## 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, rental, 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 electronic casinos, 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

The external revenues in the Gaming Technology segment amounted to EUR 439.4 million in the reporting period. This represents a year-on-year decline of EUR 13.6 million, resulting from lower sales revenues in the core markets of the United Kingdom and Italy, as well as lower rental revenues in Germany. An increase in e-business revenues as a result of a clear rise in B2B customers, along with an increase in sales revenues in Spain, could only partially compensate for this decline.

#### Germany

The First State Treaty amending the State Treaty on Gaming in Germany (Glücksspieländerungsstaatsvertrag, GlüÄndStV) came into effect in Germany on July 1, 2012, which 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 twelve gaming devices. A (basic) transition period of five years was granted to implement the new, restrictive regulations, and thus the conditions must be met as of July 1, 2017. The stricter legal environment resulted in muted willingness to invest on the part of the German gaming industry even before the end of the transition period. NOVOMATIC expects a declining market in the Gaming Arcades segment from July 1, 2017, meaning that the number of leased gaming devices will also see a significant decrease.

The focus of the German Group companies in the Gaming Technology segment is on the area of gaming machine rental. In the first half of 2017, revenues declined as a result of the tighter regulatory framework conditions by EUR 18.1 million to EUR 149.4 million. The number of rented gaming devices (to 3rd party) fell against the first half of 2016 by around 6,000 units to approximately 108,000 gaming devices (value at the end of the period).

The changes to the regulatory framework conditions also include the amendment to the German Gaming Ordinance. This stipulates that gaming devices that correspond to the old technical directive 4.1 may not be operated any more in the future. As a result, from November 11, 2018, only devices corresponding to the new technical directive 5.0 may be operated.

The German subsidiaries Löwen Entertainment GmbH and Crown Technologies GmbH 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. In particular, the preproduction for the legally required conversion of all gaming devices in Germany in 2018 led to additional costs in the upper single digit million range in the first half of 2017. In addition to significant rises in personnel costs, higher logistics costs and marketing costs (for customer loyalty) in particular are given as additional causes for a lower result in Germany. The project, referred to as the “Big Bang”, to convert all NOVOMATIC devices in the German market (except for casinos) will also lead to additional costs of a similar amount in the second half of the year. The peak of cost burden is expected in 2018, with sharply declining costs in the subsequent periods.

## Italy

Revenues of the Italian companies falling into the Gaming Technology segment reached a level of EUR 78.5 million in the first half 2017, compared to EUR 83.5 million in the previous year.

The company acquired by NOVOMATIC in January 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, which made it necessary to convert certain gaming devices (AWP category). This made it possible to achieve particularly high sales revenues with CPU platforms in 2016.

The fall in sales revenues could be partially compensated for by a rise in rental revenues. The Italian companies were able to increase the number of leased gaming devices by around 5,000 devices to nearly 47,200 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.

## United Kingdom

Revenues of the companies in the United Kingdom falling into the Gaming Technology segment reached a level of EUR 57.7 million in the first half 2017, compared to EUR 68.2 million in the previous year. Sales revenues declined as a result of lower sales figures for casino gaming devices in the premium segment.

The pub market, a traditionally important sector in the British gaming industry, is going through changes. Analog gaming devices, such as the ones produced by Bell-Fruit Ltd., a Group company of NOVOMATIC, are increasingly being replaced by digital devices, meaning that sales revenues in this area were also lower.

Another factor contributing to the poorer earnings position in the United Kingdom is the raising of minimum wages by 4.2 percent and the introduction of an apprentice fee amounting to 0.5 percent of payroll costs.

## Spain

Revenues of the Spanish companies falling into the Gaming Technology segment reached a level of EUR 31.1 million in the first half 2017, compared to EUR 21.9 million in 2016. The rise is due in particular to higher sales revenues for the two companies NOVOMATIC Gaming Spain S.A. and GiGames S.L.. GiGames S.L., a Group company that produces gaming devices for placement in bars saw a major rise in sales figures thanks, above all, to the product “Woonsters Hotel”, which was newly launched on the Spanish market.

The company acquired in July 2016, S4Gaming S.L., which is specialized in the development and sale of platforms and games in the video bingo sector also contributed to the rise in revenues.

## 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 the first half of 2017, revenues of the companies of the NOVOMATIC Group allocated to the B2B area increased by EUR 4.8 million to EUR 28.7 million. The increase in e-business revenues is primarily attributable to significant growth in B2B customers, which increased from around 20 last year to around 30 in the first half of 2017.

## Gaming Operations

The external revenues in the Gaming Operations segment amounted to EUR 772.4 million in the reporting period, representing a further increase over the previous year (EUR 631.9 million). A major factor driving this development was the acquisitions of Talarius Ltd. in the United Kingdom (acquired back in June 2016) and Casino Royal GmbH in Germany. Moreover, numerous smaller acquisitions of casino operators in Germany, Italy, and Spain contributed to the rise in revenues, along with organic growth.

### Austria

Revenues of all Austrian gaming and betting companies of the NOVOMATIC Group reached a level of EUR 114.9 million in 2017, compared to EUR 109.1 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 Austrian provinces of Vienna and Upper Austria.

With its decision of May 2017, the Supreme Court (OGH) found that some of the gaming variants offered by NOVOMATIC in the province of Vienna were not in compliance with the Austrian Gaming Act applicable at an earlier point in time. This decision could lead to a new round of legal actions by customers demanding back their losses incurred in the corresponding period. A provision in the low single figure million range was created in this connection.

In respect of the legal discussions going on for several years now 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, the Group expects a clear improvement in the possibilities for the authorities and courts to act against illegal gaming operators in Austria.

### Germany

The NOVOMATIC Group has seven casinos in Germany. With the venerable Spielbank Berlin, NOVOMATIC operates one of Germany's gaming facilities with the highest revenues. In the first half of 2017, NOVOMATIC's German casinos were able to increase revenues by a total of around EUR 4 million to over EUR 38 million.

However, the overwhelming portion of sales revenues in the German market is generated by the operating companies in the area of commercial electronic gaming. In March 2017, NOVOMATIC Gaming Industries 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, since last year, a number of smaller companies were acquired, which also contributed to the increase in revenues of the German Group companies falling under the Gaming Operations segment. At the end of June 2017, NOVOMATIC increased the number of locations in the area of commercial electronic gaming (without casinos) to 565. Revenues from this area increased by around EUR 34 million to over EUR 164 million compared to the same period last year.

The First State Treaty amending the State Treaty on Gaming in Germany (Glücksspieländerungsstaatsvertrag, GlüÄndStV) came into effect in Germany on July 1, 2012, which 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 twelve gaming devices. A (basic) transition period of five years was granted to implement the new, restrictive regulations, and thus the conditions must be met as of 1 July 2017. NOVOMATIC expects a declining market in the Gaming Arcades segment from July 1, 2017, although higher device utilization should have a certain compensatory effect. If, however, gaming facilities are reduced in size or close, this will no doubt have a negative effect on revenues.

### 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 now. Since last year, several smaller operators of gaming facilities in Italy were acquired, primarily with the business purpose of operating gaming halls and bingo. With these acquisitions, the Group is enhancing its market position in this important core European market.

The NOVOMATIC Group's Italian gaming operations were able to increase both the number of own locations and the number of gaming machines operated during the first six months of the current financial year. Revenues of the Italian companies falling into the Gaming Operations segment reached a level of EUR 91.0 million in the first half 2017, compared to EUR 69.8 million in the previous year, thanks to organic growth and acquisitions.

### United Kingdom

After NOVOMATIC succeeded in entering the British market for electronic casinos (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. (Talarius) as well as its associated subsidiaries in June last year. Around 160 new locations were added to the Group of Companies through the acquisition of Talarius, and the companies falling into the Gaming Operations segment saw revenues rise from EUR 38.2 million to EUR 76.8 million in the first half of 2017.

### Spain

Following the opening of Gran Casino San Roque north of Gibraltar in July 2016, NOVOMATIC acquired another casino in Spain with the Gran Casino Aljarafe in Sevilla. Sales in the Gaming Operations segment in Spain rose from EUR 11.8 million in the first half of 2016 to EUR 32.0 million in the year under review thanks to organic growth and the acquisition of numerous smaller companies with a business purpose to operate electronic casinos.

## CEE

The geographical segment Eastern Europe comprises the regions of Central, Eastern and South-Eastern Europe. In summary, the companies falling into the Gaming Operations segment saw an increase in revenues of EUR 13.0 million to EUR 148.8 million. This increase is primarily the result of organic growth and was mainly generated in the markets of Latvia, Croatia, Serbia, and Macedonia.

## 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 under way 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 the internet to mobile devices (smartphones, tablets, etc.) so as to use games there. The disadvantage of using these platforms for B2C providers is that large platform operators (in particular Apple and Google) demand high fees for using their services, which has a clearly negative impact on revenues.

The Greentube Group belonging to the NOVOMATIC Group, as well as other companies in Italy and Latvia belonging to the NOVOMATIC Group were able to increase revenues slightly in the Gaming Operations segment to EUR 56.6 million in the first half of 2017, compared to EUR 55.5 million in the previous year.

## Other

The segment Other mainly includes the I-New Group, as well as smaller holding companies. Following a change in the management team of I-New in Q2/2017 the existing business model was evaluated and as a consequence plan assumptions had to be adjusted considerably compared to original budget figures. An impairment test pursuant to IAS 36 was performed in this context and resulted in an impairment in the amount of EUR 12.4 million which was accounted for in the reporting period.



## Important Key Figures

### Rented gaming devices to third parties (number at the end of the period)

	"	# "	\$	\$	%	&'	(	) *	" "	" +	#"! ' "
	3 87,	338 :77	, - 087		34 91-	8 08-	33 09:	- -94			, - .
	3 , -3	304 783	, 4 371		34 88-	, 093	38 031	- 40:			, /- 00

### Self-operated gaming devices (number at the end of the period)

	"	# "	\$	\$	%	&'	(	) *	" "	" +	#"! ' "
	- 840	30 -49	, : 9,		-0 909	780	31 0, 4	1 : -3			-1
	- 8 : 4	3, 8 : 4	1 880		-0 8 : ,	- : -8	34 91:	1 : 1,			- . /

### Gaming devices sold to third parties (during the period)

	#"! ' "
	3, 8, 0
	39 1-,

## 5. Non-Financial Performance Indicators – Employee Issues

As of June 30, 2017, 26,336 individuals were employed by the NOVOMATIC Group (headcount as of the balance sheet date). Compared to the end of 2016, this corresponds to an increase in the number of employees by 2,487. This rise is mainly due to the expansion.

The composition of employees is balanced and includes a high number of women working at all levels as well as a large number of individuals of different nationalities. All age groups are well represented.

## 6. Significant Risks and Uncertainties

NOVOMATIC's annual report for the financial year 2016 includes the main risks and uncertainties which could have a considerable negative impact on the NOVOMATIC Group's asset, financial and earnings position and reputation. During the first six months of the financial year 2017, no further significant risks and uncertainties were identified beyond those presented in the annual report for the financial year 2016.

The annual report for the financial year 2016 furthermore includes a detailed description of the structure of the risk management system, as well as the main characteristics of the internal controlling system regarding the accounting process.

# Consolidated Interim Financial Statements

## Consolidated Balance Sheet

EUR m	6/30/2017	12/31/2016
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	837.4	714.1 <sup>1</sup>
Property, plant and equipment	1,022.1	953.3 <sup>1</sup>
Investment Property	20.5	21.1
Investments in Associated Companies	0.2	0.2
Financial assets	270.9	237.8
Deferred tax assets	108.6	93.2
Other non-current assets	108.7	116.9
	<b>2,368.4</b>	<b>2,136.6</b>
<b>Current assets</b>		
Inventories	250.6	225.5
Trade Receivables, Other Receivables and Assets	385.3	372.5
Current tax receivables	32.5	34.0
Current financial assets	25.0	31.3
Cash and cash equivalents	651.7	877.8
Assets Held for Sale	0.6	0.0
	<b>1,345.7</b>	<b>1,541.1</b>
<b>Total ASSETS</b>	<b>3,714.1</b>	<b>3,677.7</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share Capital	26.6	26.6
Capital Reserves	85.4	85.4
Retained Earnings	1,221.8	1,247.6 <sup>1</sup>
Revaluation Reserve	9.7	5.2
Currency Translation Adjustment	-60.9	-52.4 <sup>1</sup>
	1,282.6	1,312.4
Non-controlling interests	76.5	64.3 <sup>1</sup>
	<b>1,359.1</b>	<b>1,376.7</b>
<b>Non-current liabilities</b>		
Non-current financial liabilities	1,387.4	1,395.1
Non-Current Provisions	69.7	66.1
Non-current tax liabilities	11.0	11.0
Deferred tax liabilities	119.6	96.9 <sup>1</sup>
Other Non-Current Liabilities	23.7	19.6
	<b>1,611.3</b>	<b>1,588.8</b>
<b>Current liabilities</b>		
Current Financial Liabilities	219.4	210.8
Current Provisions	64.7	68.7
Current tax liabilities	38.5	33.9
Trade Payables and Other Liabilities	421.0	398.8 <sup>1</sup>
	<b>743.6</b>	<b>712.2</b>
<b>Total EQUITY AND LIABILITIES</b>	<b>3,714.1</b>	<b>3,677.7</b>

<sup>1)</sup> Adjustment of previous year's figures according to IFRS 3 "Business combinations"

## Consolidated Income Statement

EUR m	01 - 06/2017	01 - 06/2016
Revenues	1,218.7	1,094.9
Gaming taxes and betting fees	-136.9	-104.6
<b>Revenues less gaming taxes and betting fees</b>	<b>1,081.8</b>	<b>990.3</b>
Changes in inventories of finished goods and work in progress	14.7	9.9
Own work capitalized	120.9	90.8
Other Operating Income	57.3	48.3
Cost of Material and Other Purchased Services	-204.2	-174.4
Personnel costs	-374.3	-316.2
Amortization, Depreciation, Impairment and Reversal of Impairment for Intangible Assets, Property, Plant and Equipment, and Investment Property	-178.3	-145.8
Other operating expenses	-413.7	-361.5
<b>Operating profit</b>	<b>104.2</b>	<b>141.4</b>
Interest income	6.4	4.1
Other Financial Income	15.6	0.3
Interest expenses	-20.8	-17.0
Other financial expenses	-7.2	-3.9
Currency exchange gains/losses from intra-group financing	-1.1	-6.1
<b>Financial result</b>	<b>-7.1</b>	<b>-22.6</b>
<b>Earnings before taxes</b>	<b>97.1</b>	<b>118.8</b>
Income taxes	-40.8	-39.2
<b>Profit for the period</b>	<b>56.3</b>	<b>79.6</b>
thereof attributable to non-controlling interests	0.2	4.2
thereof attributable to shareholders of the parent (net profit)	56.1	75.5

## Consolidated Statement of Comprehensive Income

EUR m	01 - 06/2017	01 - 06/2016
<b>Profit for the period</b>	<b>56.3</b>	<b>79.6</b>
<b>Amounts that will be reclassified to profit and loss account in subsequent periods</b>		
Currency translation	-8.4	-30.2
Cash flow Hedge	-11.4	0.0
Market value of financial assets available for sale	21.1	-8.4
Apportionable income tax	-5.3	2.1
<b>Amounts that will not be reclassified to profit and loss account in subsequent periods</b>		
Revaluation of the net defined benefit liability	0.3	0.0
Apportionable income tax	-0.1	0.0
<b>Other comprehensive income after taxes</b>	<b>-3.7</b>	<b>-36.5</b>
<b>Total comprehensive income</b>	<b>52.6</b>	<b>43.1</b>
thereof attributable to non-controlling interests	0.4	4.2
thereof attributable to shareholders of the parent (net profit)	52.2	39.0

## Consolidated Cash Flow Statement

EUR m	01 - 06/2017	01 - 06/2016
<b>Operating profit</b>	<b>104.2</b>	<b>141.4</b>
Loss (+) / Gain (-) from the disposal of fixed assets	-6.6	-7.3
Depreciation (+) / Appreciation (-) of fixed assets	178.4	145.8
Other non-cash income and expenses	-13.5	-14.8
Interest received and interest-related income	11.8	4.4
Taxes paid	-46.6	-42.8
	<b>227.7</b>	<b>226.7</b>
Increase (-) / Decrease (+) in inventories	-26.4	-14.3
Increase (-) / Decrease (+) in receivables	8.4	-22.0
Increase (+) / Decrease (-) in provisions	-4.8	1.5
Increase (+) / Decrease (-) in liabilities	7.8	2.4
<b>Cash flow from operating activities</b>	<b>212.7</b>	<b>194.2</b>
Proceeds from the disposal of fixed assets (excluding financial assets)	42.2	33.7
Proceeds from the disposal/repayment of financial assets	3.6	0.4
Proceeds from the sale of consolidated companies, net of cash	12.7	33.7
Acquisition of intangible assets, property, plant and equipment	-229.4	-195.1
Acquisition of financial assets and other financial investments	-26.3	-42.0
Acquisition of consolidated companies, net of cash	-115.4	-132.2
Income from other investments	4.2	0.0
<b>Cash flow from investing activities</b>	<b>-308.4</b>	<b>-301.5</b>
Proceeds from capital increase	0.0	85.0
Dividend payments	-56.2	-50.0
Proceeds from bank loans and financial liabilities	11.4	162.8
Payouts from bank loans and financial liabilities	-61.7	-19.6
Interest paid and interest-related expenses	-27.4	-20.6
<b>Cash flow from financing activities</b>	<b>-133.9</b>	<b>157.6</b>
<b>Net change in cash and cash equivalents</b>	<b>-229.6</b>	<b>50.3</b>
Currency translation adjustments	1.3	-10.3
Changes in cash and cash equivalents due to changes in scope of consolidation	2.2	0.0
<b>Net change in cash and cash equivalents</b>	<b>-226.1</b>	<b>40.0</b>
Cash and cash equivalents at the beginning of the period	877.8	502.5 <sup>1</sup>
Cash and cash equivalents at the end of the period	651.7	542.5
<b>Net change in cash and cash equivalents</b>	<b>-226.1</b>	<b>40.0<sup>1</sup></b>

<sup>1)</sup> The cash and cash equivalents shown on the balance sheet amounted to EUR 585.4 million in 2015. The deviation of EUR 82.9 million against the cash and cash equivalents disclosed in the cash flow statement was the result of funds tied up for tax liabilities. Further details are provided in the consolidated financial statements 2015 and 2016.

## Consolidated Statement of Changes in Equity

EUR m	Shares of shareholders of NOVOMATIC AG					Total	Non-controlling interests	Equity
	Share Capital	Capital reserve	Retained Earnings	Revaluation reserves	Currency Translation Adjustment			
<b>As of 1/1/2017</b>	<b>26.6</b>	<b>85.4</b>	<b>1,247.6<sup>1</sup></b>	<b>5.2</b>	<b>-52.4<sup>1</sup></b>	<b>1,312.4</b>	<b>64.3<sup>1</sup></b>	<b>1,376.7</b>
1) Total comprehensive income								
Profit for the period	0.0	0.0	56.1	0.0	0.0	56.1	0.2	56.3
Other comprehensive income	0.0	0.0	0.1	4.5	-8.5	-3.9	0.2	-3.7
2) Dividend payments	0.0	0.0	-50.0	0.0	0.0	-50.0	-6.2	-56.2
3) Change in non-controlling interests	0.0	0.0	1.6	0.0	0.0	1.6	-1.5	0.0
4) Changes in the scope of consolidation	0.0	0.0	-33.5	0.0	0.0	-33.5	19.5	-14.0
<b>As of 6/30/2017</b>	<b>26.6</b>	<b>85.4</b>	<b>1,221.8</b>	<b>9.7</b>	<b>-60.9</b>	<b>1,282.6</b>	<b>76.5</b>	<b>1,359.1</b>

EUR m	Shares of shareholders of NOVOMATIC AG					Total	Non-controlling interests	Equity
	Share Capital	Capital reserve	Retained Earnings	Revaluation reserves	Currency Translation Adjustment			
<b>As of 1/1/2016</b>	<b>26.0</b>	<b>1.0</b>	<b>1,172.5<sup>1</sup></b>	<b>-8.6</b>	<b>-24.1<sup>1</sup></b>	<b>1,166.9</b>	<b>48.4<sup>1</sup></b>	<b>1,215.3</b>
1) Total comprehensive income								
Profit for the period	0.0	0.0	75.5	0.0	0.0	75.5	4.2	79.6
Other comprehensive income	0.0	0.0	0.0	-6.3	-30.2	-36.5	0.0	-36.5
2) Dividend payments	0.0	0.0	-50.0	0.0	0.0	-50.0	0.0	-50.0
3) Change in non-controlling interests	0.0	0.0	-0.2	0.0	0.0	-0.2	0.2	0.0
4) Changes in the scope of consolidation	0.0	0.0	0.3	0.0	0.0	0.3	4.6	4.9
5) Obligation from written put options for non-controlling interests	0.0	0.0	-6.3	0.0	0.0	-6.3	0.0	-6.3
6) Capital increase	0.6	84.4	0.0	0.0	0.0	85.0	0.0	85.0
<b>As of 6/30/2016</b>	<b>26.6</b>	<b>85.4</b>	<b>1,191.8</b>	<b>-14.9</b>	<b>-54.3</b>	<b>1,234.6</b>	<b>57.4</b>	<b>1,292.0</b>

<sup>1)</sup> Adjustment of previous year's figures according to IFRS 3 "Business combinations"

## Selected Explanatory Notes

### (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.

### (2) Accounting Principles

The present consolidated interim financial statements of NOVOMATIC AG as of June 30, 2017, were prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU applicable for interim financial reports. The condensed reporting scope of the consolidated interim financial statements is in conformity with IAS 34, "interim financial reporting." The consolidated interim financial statements were prepared under going concern.

The accounting and valuation methods used in compiling the consolidated interim financial statements are the same as those used in compiling the consolidated financial statements dated December 31, 2016. For more information, please refer to the consolidated financial statements of NOVOMATIC AG as of December 31, 2016.

No new or amended standards were adopted by the NOVOMATIC Group for the financial year commencing on January 1, 2017.

The consolidated interim financial statements are prepared in Euros (EUR). All amounts are, if not stated otherwise, shown in millions of Euros (EUR m).

### (3) Scope of Consolidation

This consolidated interim financial statement covers NOVOMATIC AG and the companies that it controls. The following companies were included in the consolidation scope of the interim reporting period for the first time:

- Casino Royal GmbH, Germany (Sub-Group)
- ALP S.r.l., Italy
- Novarmatic S.r.l., Italy
- Basque Gaming S.L., Spain
- Erreka Games S.L., Spain
- Recreativos del Este S.L., Spain
- Super Game B.V., the Netherlands
- Biermann's Bingo B.V., the Netherlands
- Casino Admiral Holland Appelscha B.V., the Netherlands
- Advanced Technology Systems International S.A. (ATSI S.A.), Poland
- Fortress Gaming Technologies S.A., Poland
- Advanced Technology Trust S.A. (ATT S.A.), Poland
- Novo Poland Sp.z.o.o., Poland
- Greentube UK Ltd., United Kingdom
- Inversiones Kerala S.A.C., Peru

As a result, the scope of consolidation 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	15	0	0
Disposed of in 2017	-3	0	0
Merged in 2017	-5	0	0
Switched from valuation using the equity method to fully consolidated in 2017	0	0	0
As of 6/30/2017	224	1	1
thereof non-Austrian companies	205	0	1

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.

## (4) Company Acquisitions 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 preliminary fair values for the acquired assets and assumed liabilities. In particular, usage rights for the operation of approved gaming arcades (licenses) were identified and valued during the acquisition accounting. The allocation of the total purchase price has not yet been completed, meaning that there may be changes in particular regarding intangible assets, provisions, and goodwill.

The preliminary fair values at the acquisition date are as follows:

EUR m	Fair values
Intangible assets	67.4
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	-19.9
Current liabilities and provisions	-10.7
<b>Net assets</b>	<b>23.9</b>
Goodwill	32.8
<b>Consideration</b>	<b>56.7</b>

The consideration of EUR 56.7 million comprises a share of EUR 53.0 million already paid in cash and a contingent consideration of EUR 3.7 million, which was deposited in a trust account. The contingent purchase price depends on the future interpretation of the legal framework conditions for the operating companies. The legal costs for this acquisition amounted to EUR 0.4 million.

Preliminary 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 goodwill resulting from this acquisition is not tax-deductible.

Revenue amounts to EUR 21.9 million since the acquisition date, whereas the result for the period since the acquisition date amounts to EUR 1.2 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 gaming arcades together in the Marche and Abruzzo regions with 170 VLTs and 5 roulette tables.

Furthermore, Novarmatic S.r.l, placing 925 AWP's in hospitality establishments in Tuscany, was consolidated.

With these acquisitions, the Group enhances its activities as an operator in various Italian regions.

### 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 itself operates a total of 13 gaming arcades in the Basque Country. Basque Gaming S.L. also has a wholly owned subsidiary Erreka Games S.L., which also operates one gaming arcade in the Basque Country.

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, furthermore a 60 percent of the shares in Recreativos del Este S.L. was acquired. The company operates 6 gaming arcades in Valencia, through which the Group expanded its activities in this region.

### 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.

The individual aforementioned company acquisitions in Italy, Spain and the Netherlands according to IFRS 3 have been accounted partially with preliminary values as of the reporting date. Consequently, 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. Changes are possible, in particular in the area of intangible assets. The inclusion of these acquired companies in the consolidated interim financial statements is therefore partially based on preliminary fair values.

In the following overview, the preliminary fair values for these further business combinations (i.e. excluding the separately disclosed acquisitions in Germany and Poland) are presented in summary:

EUR m	Fair values
Intangible assets	24.1
Property, plant and equipment	7.9
Other non-current assets	0.4
Deferred tax assets	12.5
Cash and cash equivalents	10.0
Other current assets	1.1
Non-current liabilities and provisions	-1.5
Deferred tax liabilities	-6.3
Current liabilities and provisions	-17.2
<b>Net assets</b>	<b>31.1</b>
<b>Non-controlling interests</b>	<b>-15.2</b>
Goodwill	41.0
<b>Consideration</b>	<b>56.9</b>

The consideration of EUR 56.9 million comprises a share of EUR 43.6 million to be paid in cash (thereof EUR 43.3 million already paid) and a contingent consideration of EUR 13.2 million. The contingent purchase price is dependent on the development of underlying earnings figures during future periods. The legal costs relating of EUR 2.4 million were expensed.

Preliminary goodwill resulting from these acquisitions reflects expected strategic advantages for the Group due to the further expansion of operational business activities and further potential growth through synergies. The goodwill resulting from these acquisitions is not tax-deductible.

Non-controlling interest have been valued at their respective shares of the recognized identifiable net assets of the acquisition date.

Revenue amounts to EUR 10.4 million since the acquisition date, whereas the result for the period since the acquisition date amounts to EUR 2.7 million.

## Poland

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 sale, 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.

This acquisition constitutes a transaction of companies under common control. Since there are no specific rules in IFRS, the accounting of such transactions follow the internal group accounting policy. Consequently the acquired assets and assumed liability are accounted of their book value and the results of operations and cash flows are reflected from the date of the transaction. The Polish companies were included without retrospective adjustment. The difference of EUR 33.6 million between the purchase price and acquired net assets, at book values less shares of non-controlling shareholders is offset against the retained earnings in the Group.

The acquired book values of the assets and liabilities identified are as follows:

EUR m	Book values
Intangible assets	0.1
Property, plant and equipment	4.8
Other non-current assets	1.3
Deferred tax assets	0.2
Inventories	1.2
Cash and cash equivalents	27.4
Other current assets	5.0
Non-current liabilities and provisions	-0.5
Deferred tax liabilities	-0.7
Current liabilities and provisions	-2.1
<b>Net assets</b>	<b>36.9</b>
<b>Non-controlling interests</b>	<b>-3.3</b>
<b>Acquired net assets</b>	<b>33.6</b>

#### Further Comments on the Acquisitions

The disclosures of revenues and results or losses of the acquired companies under the assumption that the acquisition date for all business combinations is the beginning of the reporting period was omitted, since it would require considerable additional effort and its information value in terms of the consolidated interim financial statements would be insignificant.

## (5) Company Acquisitions 2016

The individual company acquisitions are detailed in NOVOMATIC AG's consolidated financial statement as of December 31, 2016.

### Talarius Group, United Kingdom

As of the time of preparation of the 2016 Consolidated Financial Statements, the Talarius Group was included based on preliminary 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 retrospectively:

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
<b>Net assets</b>	<b>105.6</b>	<b>123.2</b>
Goodwill	20.1	2.4
<b>Consideration</b>	<b>125.7</b>	<b>125.7</b>

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. The goodwill resulting from this acquisition is not 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 preliminary fair values had been used. The final values for the business combinations Verajuegos S.L., Recreativos Hispajuegos S.L., El Dolar de Plata Linense S.L., OTIUMGI S.L. and S4Gaming S.L. are now available and have been retrospectively accounted for. However, the Spanish business acquisitions Comercial Txartel S.L. and El Dorado Derby S.L. are still recognized using preliminary values.

In the following overview, the updated preliminary fair values for these further business combinations (i.e. excluding the separately disclosed Talarius Group) are presented in summary:

EUR m	Preliminary fair values	Updated preliminary fair values
Intangible assets	76.9	90.5
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	-24.7
Current liabilities and provisions	-24.6	-24.8
<b>Net assets</b>	<b>63.0</b>	<b>71.3</b>
<b>Non-controlling interests</b>	<b>-10.4</b>	<b>-12.3</b>
Goodwill	62.4	56.0
Received surpluses recognized in profit and loss	-1.4	-1.4
<b>Consideration</b>	<b>113.6</b>	<b>113.6</b>

Non-controlling interests have been valued at their respective shares of the recognized identifiable net assets at the acquisition date.

Preliminary 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 a preliminary assessment, goodwill will not be tax-deductible.

The other disclosures from 2016 remained unchanged.

## (6) Intangible Assets

Goodwill developed as follows:

EUR m	Goodwill
Acquisition costs	
As of 1/1/2017	227.8 <sup>1</sup>
Currency translation adjustments	-1.0
Acquisitions through business combinations	73.8
Disposals	-0.5
<b>As of 6/30/2017</b>	<b>300.1</b>
EUR m	Goodwill
Cumulative impairment	
As of 1/1/2017	42.5
Impairment	4.4
<b>As of 6/30/2017</b>	<b>46.8</b>
<b>Book value as of 1/1/2017</b>	<b>185.3<sup>1</sup></b>
<b>Book value as of 6/30/2017</b>	<b>253.3</b>

<sup>1)</sup> Adjustment of previous year's figures according to IFRS 3 "Business combinations"

The increase in goodwill is due to the aforementioned company acquisitions. As of the reporting date, the accounting of the company acquisitions, and therefore the determination of the goodwill resulting therefrom, is partly preliminary.

## (7) Impairments and reversal of impairments

In Germany, the regulations of the First State Treaty amending the State Treaty regarding gaming (Glücksspieländerungsstaatsvertrag, GlüÄndStV) effective on July 1, 2012, are after a transitional period now applicable from July 1, 2017. Consequently, a revaluation of the assets of the German operating companies was carried out for the half year 2017. The updated impairment tests resulted in an impairment of EUR -4.7 million as well as a reversal of impairments of EUR 3.6 million in the current reporting period.

Following a change in the management team of I-New in Q2/2017 the existing business model was evaluated and as a consequence plan assumptions had to be adjusted considerably compared to original budget figures. Based on these indicators, the impairment test performed led to an impairment loss of EUR -12.4 million (thereof EUR -4.4 million impairment on goodwill).

## (8) Taxes

Income taxes are calculated using the applicable tax rate for the respective jurisdiction. The interim income tax expense of EUR -40.8 million (previous year: EUR -39.2 million) comprise current tax expense of EUR -48.2 million (previous year: EUR -47.7 million), current tax relating to other periods of EUR -1.5 million (previous year: EUR 1.2 million) and deferred tax income of EUR 8.9 million (previous year: EUR 7.3 million)

## (9) Disclosures on Financial Instruments

The valuation methods and processes as well as the classification of financial instruments are described in detail in the consolidated financial statements as of December 31, 2016.

### a) Fair Value of Financial Assets and Liabilities carried at Fair Value regularly

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes.

EUR m	6/30/2017	12/31/2016	Hierarchy
<b>Assets</b>			
Securities	30.6	19.1	Level 1
Financial investments	215.5	196.6	Level 3
Derivatives (positive market values)	0.0	2.1	Level 2
Derivatives (options)	0.0	4.0	Level 3
<b>Liabilities</b>			
Contingent considerations company acquisitions	19.4	7.4	Level 3
Derivatives (Cash flow Hedge)	9.8	0.0	Level 2
Derivatives (negative market values)	4.8	0.9	Level 2

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. The increase of the market value of EUR 18.9 million has been considered in other comprehensive income. An increase in the multiplier of 0.5x would lead to an increase in the fair value of EUR 14.3 million or an increase in the underlying EBITDA/EBIT of the valued item of 10 percent to an increase in the fair value of EUR 27.2 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). 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 for derivatives corresponds to the value which the individual company would receive to sell the asset or have to pay to transfer the liability at the balance sheet date.

To hedge financial risks, the NOVOMATIC Group entered into the following derivative contracts:

EUR m	6/30/2017		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)	97.2	-4.1	0.0	0.0
Interest rate swap	77.5	-0.7	77.5	-0.9
AUD forward contract (negative)	163.9	-9.8	0.0	0.0

Changes in fair value of USD forward contracts and of interest rate swap are recorded in profit and loss.

In February 2016, NOVOMATIC entered into a purchase agreement with Len Ainsworth regarding the acquisition of approximately 53 percent of the shares of Ainsworth Game Technology Ltd. (Ainsworth). Ainsworth is a publicly traded company listed in Australia and headquartered in Newington, Sydney. The company is one of the most renowned players in the international gaming industry. The company is a leading producer and provider of high-quality, innovative gaming solutions in Australia as well as North and South America. Due to suspensive conditions, in particular, the required approvals by various international licensing and regulatory authorities, the closing of this transaction is currently expected for the year end 2017. The agreed purchase price is AUD 473.3 million. A cash flow hedge was concluded for an amount of AUD 230 million of the purchase price. The valuation of the hedging instrument led to a liability of EUR 9.8 million; whereas the spot component of EUR -11.4 million was recorded in other comprehensive income and the interest component of EUR 1.5 million under interest income.

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 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 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 16.4 million (previous year: EUR 7.4 million) under trade payables and other liabilities (purchase price obligations). The change in the contingent consideration from business combinations by EUR 12.1 million is the result of an addition amounting to EUR 13.2 million from acquisitions and a disposal amounting to EUR -1.1 million from settlement. Purchase price obligations have residual terms of one to three years.

An increase of the underlying revenue or EBITDA amounts by +10.0 percent would result in an increase of the obligation by EUR 2.7 million, whereas a reduction of these amounts by -10.0 percent would result in a decrease of the obligation by EUR 2.9 million.



**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	6/30/2017		12/31/2016		Hierarchy
	Book value	Fair value	Book value	Fair value	
<b>Financial liabilities</b>					
Bonds	1,086.6	1,137.5	1,085.5	1,145.0	Level 1
Bank and leasing liabilities	494.2	498.3	510.4	517.0	Level 2

The fair value of bonds is the price listed on the stock market as of the valuation date. The market value of the bank and leasing liabilities was determined by discounting the future fixed cash flows related to these liabilities using the current market interest rate.

For financial assets and financial liabilities not listed above, it is assumed that their carrying value constitutes a reasonable approximation of the fair value.

For cash, trade receivables, trade payables, other current receivables and other current liabilities, the fair value roughly corresponds to the book value 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 book value are assumed. The default risk is taken into consideration through the application of valuation allowances.

## (10) Segment Reporting

01 - 06/2017

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
External revenues	439.4	772.4	6.9	0.0	1,218.7
Intra-segment revenues	75.6	4.5	3.5	-83.7	0.0
<b>Total revenues</b>	<b>515.0</b>	<b>777.0</b>	<b>10.5</b>	<b>-83.7</b>	<b>1,218.7</b>
Depreciation, amortization, impairment, reversal of impairment	-92.8	-69.9	-15.6	0.0	-178.3
<b>Segment result (EBIT)</b>	<b>66.8</b>	<b>59.7</b>	<b>-19.5</b>	<b>-2.8</b>	<b>104.2</b>
Financial result					-7.1
Earnings before taxes					97.7
Tax expenses					-40.8
<b>Profit for the period</b>					<b>56.3</b>

01 - 06/2016

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
External revenues	453.0	631.9	9.9	0.0	1,094.9
Intra-segment revenues	65.5	4.4	3.5	-73.4	0.0
<b>Total revenues</b>	<b>518.5</b>	<b>636.3</b>	<b>13.5</b>	<b>-73.4</b>	<b>1,094.9</b>
Depreciation, amortization, impairment, reversal of impairment	-93.4	-49.2	-3.2	0.0	-145.8
<b>Segment result (EBIT)</b>	<b>86.6<sup>1</sup></b>	<b>66.0<sup>1</sup></b>	<b>-4.5</b>	<b>-6.7</b>	<b>141.4</b>
Financial result					-22.6
Earnings before taxes					118.8
Tax expenses					-39.2
<b>Profit for the period</b>					<b>79.6</b>

<sup>1)</sup> Adjustment of previous year's figures according to IAS 8

The revenues are distributed among the individual regions as follows:

01 - 06/2017

EUR m	Austria	Germany	Italy	UK	Spain	CEE	Other markets	Online	Total
Revenues	118.9	351.6	169.5	134.6	63.1	192.7	103.2	85.3	1,218.7

01 - 06/2016

EUR m	Austria	Germany	Italy	UK	Spain	CEE	Other markets	Online	Total
Revenues	113.5	331.9	153.3	106.8	33.7	174.9	101.2	79.4	1,094.9

There were no significant changes in the total asset values in the segments.

## (11) Other Disclosures

### Related party transactions

The NOVOMATIC Group acquired from a related party the majority of shares in four Polish companies which already mainly provided research and development services to Group.

There were no other material changes in related party transactions.

### Seasonality of the business

The business performance of the NOVOMATIC Group is not characterized by any significant seasonal fluctuations.

### Contingent Liabilities

Contingent liabilities have been explained in more detail in the Consolidated Financial Statement as of December 31, 2016. There were no other material changes to the listed contingent liabilities from 2016.

On 5 April 2017 Novomatic Italia Spa (wholly-owned subsidiary of NOVOMATIC AG) passed a tax audit by the Italian Tax Police (Guardia di Finanza), which ended with the issue of a corresponding tax audit report on 22 June 2017. During this tax investigation, the amount of the royalties paid to NOVOMATIC Gaming Industries GmbH for the use of game software was questioned and the related tax deductibility of the expenses. The Italian tax authority requested the company to submit additional documents and information on the allocation of license fees. At the time of the preparation of the interim financial report, there was no legally valid tax assessment from the Italian tax authority was issued confirming the result of the audit performed by the Italian Tax Police. Due to ongoing investigation of the facts by the Italian tax authority, currently management does not deem a negative outcome to be probable and therefore concluded that a provision is currently not necessary.

### Dividends

The General Meeting on April 5, 2017 agreed the payment of a dividend totaling EUR 50.0 million to the shareholders. The payment of the agreed dividends was made in April 2017.

### Compulsory statement on the review by an auditor

The interim financial report 2017 was subject to neither a complete audit nor a review by an auditor.

## (12) Subsequent Events after the Balance Sheet Date

No significant events occurred after the end of the interim reporting period.

## Statement by the Executive Board

We confirm to the best of our knowledge that the consolidated interim financial statements as of June 30, 2017 give a true and fair view of the financial position, financial performance and cash flows 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 of June 30, 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 which the Group faces.

Gumpoldskirchen, August 30, 2017

The Executive Board of NOVOMATIC AG

**Harald Neumann m.p.**  
Chairman, CEO

**Dr. Christian Widhalm m.p.**  
Deputy CEO,  
CIO

**Thomas Graf m.p.**  
CTO

**Peter Stein m.p.**  
CFO

**Ryszard Presch m.p.**  
COO