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# WINNING

## INDIVIDUAL FINANCIAL STATEMENT

# TOGETHER

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# NOVOMATIC AG MANAGEMENT REPORT

Details on the 2018 Annual Financial Statement, NOVOMATIC AG, Gumpoldskirchen

## 1. Purpose of the Business and Strategy

The NOVOMATIC<sup>1</sup> Group 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 Group furthermore operates around 2,200 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 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.

NOVOMATIC AG, as an individual company, assumes key functions in this context: It is first of all a holding company, which is reflected in the definition and monitoring of Group standards, but also in the centralization of financing and exchange rate issues. In addition, it plays a central role in the development of gaming equipment and content by its own development departments, as well as by controlling the development centers around the world, and holds the majority of the intellectual property rights of the NOVOMATIC Group. It also has a major involvement in production through its own capacities, as well as through the integration of other production companies in the Group and the purchase of supplies and services from third parties and related parties. In addition, it is the owner of significant parts of the Group's property portfolio in Austria.

## 2. Economic Conditions

### Macroeconomic Development

**Stable growth:** After a global economic growth forecast of 3.9 percent<sup>2</sup> in April 2018, the economists of the International Monetary Fund (IMF) corrected their forecast for 2018 to 3.7 percent<sup>3</sup> in October 2018 and confirmed this growth in their World Economic Outlook (WEO) update in January 2019<sup>4</sup>. With this increase, the global economic growth is at the same level as in the previous year (2017). The reasons for the stagnating growth include newly implemented tariff barriers to trade, geopolitical tensions and increasingly unfavorable financing conditions.

Economic growth in the euro region fell significantly short of expectations in 2018. The 2.4 percent growth forecast by the IMF in April 2018 was revised to 1.8 percent in January 2019, when the WEO update was revised. Germany's weaker production output as a result of new emission standards as well as generally lower demand and high borrowing costs in Italy are seen by IMF economists

<sup>1</sup> In this management report, the terms "Group" and "NOVOMATIC Group" refer to the group of consolidated companies included in the consolidated financial statement for NOVOMATIC AG, the term "NOVOMATIC AG" however refers to the individual company.

<sup>2</sup> According to the World Economic Outlook, April 2018 provided by the International Monetary Fund (IMF)

<sup>3</sup> According to the World Economic Outlook, October 2018 provided by the IMF

<sup>4</sup> According to the World Economic Outlook Update, January 2019 provided by the IMF

as just as decisive for this as the continuing protests in France. Despite employment growth and higher consumer spending, the volume of imports in the eurozone also declined after a year of strong imports in 2017. While the low key interest rate is expected to remain unchanged until summer 2019, the European Central Bank (ECB) stopped its bond-buying program in December 2018, which prompted banks to grant more loans.

The Austrian economy was able to take the positive momentum of the previous year with it. According to estimates by the European Commission, GDP growth will be 2.7 percent<sup>5</sup> in 2018, slightly higher than in 2017 (2.6 percent<sup>6</sup>). This is primarily attributed to strong domestic demand, which benefits from attractive labor market developments, a falling unemployment rate to 4.8 percent and rising salaries. Rising exports, especially from the first half of the year, are also driving growth and are expected to settle at 4.6 percent, relatively unchanged from 2017 (4.7 percent). The European Commission expected GDP growth to slow in the second half of 2018, mainly as a result of external influences.

### Development of the Gaming Market

Global gaming revenues rose again in 2018, reaching USD 453 billion, according to the Global Gambling Report (GGR) of Global Betting and Gaming Consultants (GBGC). This is an increase of 3.9 percent over the previous year. The casino and lottery sectors again achieved the highest growth this year, with 6.4 percent and 6.0 percent, respectively, compared to 2017.

The fall of Macao's gambling monopoly in 2002 made the Asia-Pacific region the most important gaming metropolis in the world. However, campaigns by the People's Republic of China to combat corruption and money laundering resulted in massive slumps in 2015, from which the market was able to stabilize in the following years. With a gross gambling yield (GGY) of USD 172.9 billion in 2018, it is close to its 2014 peaks, representing an increase of 6.8 percent over the previous year.

At 5.9 percent, the Latin American gaming market continues to show the highest average growth rate worldwide (2018 to 2022). In particular, the lottery and gaming equipment sectors outside casinos (video lottery terminals, fixed odds betting terminals, and classic AWP<sup>7</sup> equipment) show strong potential with 7.0 percent and 7.8 percent, respectively. Gaming revenues increased by 4.8 percent against the previous year. In absolute terms, however, Latin America remains subordinate to the other regions. With a GGY of USD 26.1 billion in 2018, the market accounts for only 5.8 percent of global gaming revenues.

Gross gaming revenues in the North American gaming market amounted to USD 132.3 billion in 2018, representing a growth of 2.9 percent. The gaming devices sector outside of casinos and lottery also achieved a significant increase of 3.4 percent, respectively, in this market. The casino sector accounts for 57.5 percent of the total volume of the market and is divided into commercial casinos (USD 42.7 billion) and tribal casinos (USD 33.4 billion) operated by Native Americans. For the average growth between 2018 and 2022, the GGR predicts the weakest average increase (2.4 percent) of all gaming markets to be the US gaming market.

In the combined European/African gaming market, gaming revenue of USD 139.6 billion was achieved in 2018. The lottery sector represents the highest revenue at USD 39.9 billion and increased its share of total revenues by USD 1.6 billion compared to 2017. The gaming devices sector outside casinos continues to be the sector with the second-highest revenues in Europe/Africa but is expected to lose 8.1 percent of revenues in 2018, partly due to changes in the legal framework. According to the GBGC report, the European/African market will record an increase in revenue of 0.9 percent against the previous year. Nevertheless, average growth from 2018 to 2022 is expected to be around 2.8 percent.

According to the GBGC, global online gaming revenues will reach USD 48.61 billion in 2018, representing 10.7 percent of global gross gaming revenues. Despite steady growth, the growth rates of the last five years (3.7 percent) cannot tie in with the previous five years (9.1 percent) and now show a stable annual change of around 11 percent.

<sup>5</sup> According to the Winter 2019 Economic Forecast for Austria of the Directorate-General for Economic and Financial Affairs (DG ECFIN) of the European Union

<sup>6</sup> According to the Autumn 2018 Economic Forecast for Austria of DG ECFIN of the European Union

<sup>7</sup> Amusement with prizes



### 3. Business Performance

#### General business development in the reporting period

For NOVOMATIC AG, 2018 was characterized in particular by the registration of the merger of NOVOMATIC Gaming Industries GmbH into NOVOMATIC AG on October 5, 2018, with retroactive effect from December 31, 2017. For this reason, the management report does not compare the figures with those of the previous year due to their lack of informative value and only lists individual items where they can be compared.

There were two major one-off effects in 2018. Initially – as already started in 2017 – there was a considerable demand for corresponding equipment in Germany as of November 11, 2018, as a result of the legally prescribed conversion to Technical Guideline 5.0, which led to high sales revenues. In addition, the previous license agreement with an Italian group of company was terminated by means of a one-time payment, which led to unusually high license revenues.

#### 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.

The acquisition of around 52 percent of the shares in Ainsworth Game Technology Ltd. (Ainsworth), signed in 2016 was, after receipt of the approval requirements of various international licensing and regulatory bodies, completed on January 5, 2018. Ainsworth Game Technology Ltd. is a publicly traded Australian company with headquarters in Newington and Sydney, as well as global locations in both North and South America. The company was founded by Len Ainsworth in 1995 and is a leading producer and provider of high-quality, innovative gaming solutions in Australasia as well as North and South America. This acquisition is of major strategic importance for NOVOMATIC as it paves the way to access the enormously important North American market, a region with almost one million operated gaming machines. Ainsworth is a major provider in gaming-enthusiastic Australia and has a strong presence in the Latin American market. The agreed purchase price is AUD 473.3 million.

Moreover, during the financial year 2018, several smaller operators of gaming facilities in Germany, the Netherlands, Italy, Spain, and Eastern Europe 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.

At the end of June, an investment with a majority stake in the United Kingdom was sold since this investment did not meet the previous economic expectations. At the end of the year, the decision was also taken to sell the Croatian investments.

#### EARNINGS POSITION

EUR m	2018
<b>Revenues</b>	<b>534.4</b>
Inventories movement	4.7
Capitalized services	7.6
Other operating incomes	9.2
Cost of material and other purchased services	-288.5
Personnel costs	-91.6
Total other operating expenses	-88.6
<b>EBITDA</b>	<b>87.1</b>
<b>EBITDA margin</b>	<b>16.3%</b>
Depreciation and amortization	-24.5
<b>Operating profit (EBIT)</b>	<b>62.6</b>
<b>EBIT margin</b>	<b>11.7%</b>
Financial result	-292.0
Earnings before taxes	-229.4
Income tax	0.1
Increase in net assets through merger	627.7
<b>Annual profit</b>	<b>398.4</b>

In the 2018 fiscal year, revenues reached EUR 534.4 million. The largest share was generated by sales revenues of EUR 371.8 million. These again comprise EUR 156.8 million from gaming machines, EUR 183.7 million from construction/conversion kits and spare parts, EUR 15.9 million from large devices, and EUR 15.4 million from other merchandise.

The cost of materials and other purchased services amounted to EUR 288.5 million, putting the cost of materials ratio at 54.0 percent. The purchased services included development expenses of EUR 42.7 million.

Personnel costs amounted to EUR 91.6 million. The average headcount during the fiscal year was 1,217 (no inactive employee – and accordingly 1,117.3 FTE). The personnel costs included salary adjustments under collective bargaining agreements as well as voluntary increases.

Other operating expenses included mainly advertising costs of EUR 14.6 million, other services received of EUR 8.7 million, and legal, auditing and consulting expenses of EUR 10.6 million.

The financial result included, on the income side, incomes from investments of EUR 37.5 million, incomes from other securities and loans of EUR 13.9 million, and other financial incomes of EUR 3.1 million. On the expense side, expenses from financial assets and securities held as current assets of EUR 307.6 million were major items. These expenses incurred mainly from the write-downs of the investment in participations amounting to EUR 288.3 million. The major write-down was related to Ainsworth Game Technology Ltd. The profitability of the Australian subsidiary has worsened in various markets since the acquisition in 2018. After evaluating the long-term earnings outlook, and especially due to the current performance situation in the core market "Australia and others," the investment in this subsidiary was impaired by EUR 181.2 million. The negative effects from the business development were also reflected in the share price, which at the end of the year decreased by 62.9% from January 5, 2018 (the closing date). Further significant write-downs related to Novomatic Gaming Spain S.A. (EUR 43.8 million), Novomatic Peru S.A.C. (EUR 19.6 million) and Novo Gaming d.o.o. (EUR 13.6 million). In addition, interest and other financial expenses of EUR 38.9 million contributed to these expenses.

The extensive write-downs on financial assets resulted in a negative earnings before tax.

## Net Assets

### BALANCE SHEET

#### Condensed Version

EUR m	12/31/2018	Merger balance sheet 1/1/2018
<b>Fixed assets</b>	<b>2,159.5</b>	<b>2,089.8</b>
thereof intangible assets	5.9	6.6
thereof property, plant and equipment	152.5	158.8
thereof financial assets	2,001.2	1,924.4
<b>Current assets</b>	<b>541.2</b>	<b>833.9</b>
thereof inventories	113.1	99.2
thereof receivables and other assets	402.0	335.0
thereof securities and interests	2.7	10.2
thereof cash and bank deposits	23.4	389.4
Prepaid expenses	9.9	11.4
Deferred tax assets	0.0	3.6
<b>ASSETS</b>	<b>2,710.7</b>	<b>2,938.8</b>
<b>Shareholders' equity</b>	<b>569.6</b>	<b>818.8</b>
thereof share capital	26.6	26.6
thereof reserves	303.4	303.4
thereof retained profits/result from merger	239.6	488.8
Provisions	61.5	75.0
<b>Liabilities</b>	<b>2,079.6</b>	<b>2,044.8</b>
thereof bonds	950.0	950.0
thereof liabilities due to banks	862.3	882.7
thereof advance payments received	0.1	4.8
thereof trade payables	23.3	19.6
thereof payables to affiliated companies	224.1	168.0
thereof other liabilities	19.9	19.7
Deferred income	0.0	0.1
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>2,710.7</b>	<b>2,938.8</b>

Fixed assets increased from EUR 2,089.8 million to a total of EUR 2,159.5 million against the merger balance sheet. This change was largely attributable to increases in the area of financial assets. The largest individual item of the acquisitions is the investment in Ainsworth Game Technology Ltd.

Current assets decreased from EUR 833.9 million in the previous year to EUR 541.2 million. This is mainly due to a decline in cash and cash equivalents in connection with the aforementioned acquisition and offset by an increase in receivables from affiliated companies of EUR 81.0 million.

The company's equity capital remained unchanged at EUR 26.6 million. The reserves contain tied reserves from the merger of approximately EUR 216.4 million. The change in equity resulted primarily from current income and profit distribution. Equity's share of total capital now amounts to 21.0 percent, compared to 27.9 percent in the previous year.

While provisions went down from EUR 75.0 million to EUR 61.5 million, liabilities showed an increase. Payables to affiliated companies increased from EUR 168.0 million to EUR 224.1 million, mainly due to higher cash pooling liabilities, while liabilities due to banks decreased by EUR 20.5 million to EUR 862.3 million.

During the past financial year, NOVOMATIC AG's balance sheet total fell from EUR 2,938.8 million to EUR 2,710.7 million.

### Financial Position

EUR m	2018
Cash flow from operating activities	-1.3
Cash flow from investing activities (excluding acquisitions)	122.1
Free cash flow before acquisitions	120.8
Cash flow from acquisitions	-506.1
Free cash flow after acquisitions	-385.3
Cash flow from financing activities	19.3
Net change in cash and cash equivalents	-366.0

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

Investments in intangible assets, and property, plant and equipment came to a total of EUR 20.6 million in 2018. The largest items here are gaming devices manufactured mostly in-house, the fleet of vehicles, as well as furniture and office equipment.

## Investments in Financial Assets (Acquisitions)

The largest direct investments made by NOVOMATIC AG concern Ainsworth Game Technology Ltd., Giochi San Marino S.p.A., Crown Gaming Mexico S.A. de C.V., NOVOMATIC Peru S.A.C., and NOVOMATIC Italia S.p.A.

## Financing

In January 2018, the revolving credit facility of EUR 1 billion that concluded in March 2017 with an original term until March 2022 was extended by one year to March 2023 by exercising an option for prolongation. This credit line was concluded with a syndicate of international banks and serves not only for general corporate financing but also for financing company acquisitions. The usage of the credit line as at December 31, 2018, amounted to EUR 200 million.

The promissory note loan of EUR 2.0 million issued in December 2011 was repaid as agreed on December 1, 2018.

In December 2018, a syndicated OeKB equity financing in the amount of EUR 250 million was also concluded. After a grace period of two years, the loan will be repaid in semi-annual installments until December 2025. The funds from the loan were earmarked and used for the partial refinancing of the purchase price of the shares in Ainsworth Game Technology Ltd.

For financial years beginning on or after January 1, 2019, NOVOMATIC Group companies are required to apply the new provisions of IFRS 16 for the first time. For this reason, the effects of the application of IFRS 16 on existing financing agreements were analyzed back in 2018. This resulted in a need for adjustment, particularly in the area of financial covenants. As a result, all material financing agreements were adjusted.

The beginning balance of the cash and cash equivalents included the balance from NOVOMATIC AG and the merged entity, Novomatic Gaming Industries GmbH.

## Selected Key Figures

		12/31/2018	1/1/2018
Earnings before tax	EUR m	-229.4	
Minus interest expenses	EUR m	-38.9	
Earnings before interest and tax (EBIT)	EUR m	-190.5	
Return on equity (EBIT/equity)	[%]	-33.4	
Profit margin (EBIT/revenues)	[%]	-35.7	
Return on assets (EBIT/total assets)	[%]	-7.0	
Net debt (Interest bearing debts minus cash and cash equivalents)	EUR m	2.010.0	
Net working capital (current assets minus current liabilities)	EUR m	-23.6	
Asset structure (fixed assets/total assets)	[%]	79.7	71.1
Equity ratio (equity/total assets)	[%]	21.0	27.9
Asset coverage (equity/fixed assets)	[%]	26.4	39.2
Inventory turnover (inventory x 365/total operating performance)	[days]	74.2	
Material usage ratio (material usage/sales revenue)	[%]	53.9	
Personnel cost ratio (personnel costs/total operating performance)	[%]	16.5	

The reduction of the equity base (due to the development of earnings) is reflected in the development of capital ratios. The key earnings figures are negative due to the high expenses from financial assets.

## 4. Non-Financial Performance Indicators

Regarding the reporting on the non-financial statement, reference is made to the separate, non-financial report of NOVOMATIC AG according to the Sustainability and Diversity Improvement Act (NaDiVeG).

## 5. Prospective Development of the Company

NOVOMATIC AG, as a sole proprietorship and industrial enterprise, anticipates a significant decline in revenues in 2019. On the one hand, this is due to lower sales revenues, as demand from the German market was exceptionally high in 2018 due to the switch to the Technical Guideline 5.0. In addition, there will be a decline in license income as the license agreement with a subsidiary in Italy was terminated with a one-time payment in 2018. This cannot be offset by the expected increase in license revenues from the Austrian operating companies. With a moderate increase in personnel costs, a decrease in other operating expenses and a stable depreciation and amortization, as well as a virtually unchanged financial result, the results from ordinary activities will therefore decline.

## 6. Risk Management

Within the scope of its business, NOVOMATIC AG 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 value added. It, therefore, represents a major factor in the success of the Group and NOVOMATIC AG.

### 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 and 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 that 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, the 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.

### 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 value-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 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 NOVOMATIC AG.

### Business and Market Risks

**NOVOMATIC AG'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 NOVOMATIC AG.

A central element of NOVOMATIC AG'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 AG 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.

NOVOMATIC AG 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 NOVOMATIC AG's IT systems are essential to the business. In particular, device manipulation could force NOVOMATIC AG to use considerable financial resources to remedy the situation.

NOVOMATIC AG 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 AG 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 NOVOMATIC AG will not be successful in implementing its strategies there.

### Personnel Risks

NOVOMATIC AG'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 AG might not be able to recruit qualified individuals with comparable know-how within an appropriate period of time to deal with emerging challenges.

### Legal and Geographic Risks

**NOVOMATIC AG'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 the NOVOMATIC Group, and thus NOVOMATIC AG, 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 NOVOMATIC AG's intellectual property or other rights. In some of these countries, crime and corruption are widespread, which could have a negative impact on NOVOMATIC AG's business.

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

NOVOMATIC AG operates on the basis of currently prevailing political, economic, legal, and fiscal conditions. NOVOMATIC AG 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, 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 AG's business activities. On an international level, for example, the increase in gaming taxes in Italy constitutes a risk to NOVOMATIC AG. 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 AG 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 AG would need to participate in new tender procedures in order to recover such a license/concession.

In the countries where NOVOMATIC AG 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 AG, 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 NOVOMATIC AG's asset, financial and earnings positions or reputation.

#### 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.

#### NOVOMATIC AG is subject to risks related to intellectual property

NOVOMATIC AG 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 NOVOMATIC AG, as well as of NOVOMATIC AG violating the industrial property rights or copyrights of third parties. In particular, there is a risk that developments owned by NOVOMATIC AG might be copied and illegally used or introduced to the market by third parties.

NOVOMATIC AG 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 AG could be obligated to either not use said intellectual property rights or to pay considerable licensing fees to third parties. NOVOMATIC AG 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 NOVOMATIC AG to continuously develop new products and enter new markets. NOVOMATIC AG'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 AG might not be able to offer certain products or expand into certain markets.

#### NOVOMATIC AG is subject to the risk of being unable to sufficiently protect its customer data

NOVOMATIC AG 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 AG, there is the risk that customer data could be retrieved and/or used illegally, either by employees, 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 AG 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 AG might be held liable under data protection laws, which would also damage the Group's reputation.

#### Financial risks and usage of financial instruments

NOVOMATIC AG is subject to financial risks in the form of liquidity risks, counterparty risks, interest rate risks, currency risks, impairment risks related to investment evaluations, and risks related to capital investments. In order to limit these risks, NOVOMATIC makes use of financial instruments when necessary.

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 in NOVOMATIC AG (with the exception of impairment risks), are generally performed and made by the Group Treasury department.

Relevant financial risks 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.

Control of financial risks is also supported by a treasury management system that is established in the industrial and bank sector.

#### NOVOMATIC AG is exposed to counterparty and default risks in connection with receivables

Counterparty risk constitutes the risk of delay or default in payment by any contractual partners. In NOVOMATIC AG'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, Moody's 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), NOVOMATIC AG 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, NOVOMATIC AG 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 via additionally demanded collateral such as 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 NOVOMATIC AG 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.

#### NOVOMATIC AG is exposed to foreign exchange risks

The risk resulting from fluctuations in the value of financial instruments, other balance sheet items (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 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 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, NOVOMATIC AG is currently, and in the medium term, in a USD net payer position due to the materials and merchandise that are purchased and invoiced in USD.

The relevant foreign currencies in NOVOMATIC AG at the reporting date include USD, AUD and GBP. Exchange rate fluctuations of these three foreign currencies have a potential effect on the income statement and equity.

#### NOVOMATIC AG is exposed to interest rate risk

In the context of its financing and investment activities, NOVOMATIC AG 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 in NOVOMATIC AG's financing portfolio, the cash flow risk due to increasing interest rates is limited.

#### NOVOMATIC AG is exposed to 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 NOVOMATIC AG are determined based on projected cash flows.

Thanks to the Group's conservative financing and debt policy, as well as the conservative investment policy, NOVOMATIC AG's liquidity risk is limited. Even so, NOVOMATIC AG 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.

Due to the high level of cash and cash equivalents and the revolving utilizable credit lines, on-time payment of the liabilities is guaranteed at all times.

#### NOVOMATIC AG is exposed to capital market risks

Risks in capital investments essentially cover market price and valuation risks. The capital investments held by NOVOMATIC AG are comprised mainly of precious metals as well as exchange-traded shares and were hence exposed to price fluctuations during the fiscal year.

#### NOVOMATIC AG is exposed to impairment risks in connection with investment valuations

NOVOMATIC AG is exposed to the risk that the earning power of its shareholdings may decline compared to current assumptions. Major risks arise due to the dynamic market environment in the various regions. The most substantial risk factor in this context is changes in the legal framework for the operation of gaming activities. The underlying assumptions on long-term earnings power are based on the findings of current jurisprudence and management's estimates of future developments in this context.

If changes in the current framework conditions have a lasting negative impact on profitability, the investments concerned must be written down.

## 7. Important Features of the Internal Control and the Risk Management System Relevant to the Financial Reporting Process

### 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.

### Risk Assessment

To avoid material misstatements in the presentation of transactions, analyzes are carried out during the year based on the risks described above to prevent any misrepresentations in the ongoing accounting process.

As part of the financial statements preparation, the interim analyzes are re-evaluated to ensure that all risks are properly accounted for in the financial statements.

### Control Activities

Multi-level quality assurance measures have been implemented with the objective that, based on the risks described above, the individual transactions are correctly captured in the financial statements. These measures include automated controls within the

accounting software as well as manual controls performed by employees of the subsidiaries and employees of the accounting department.

Finally, the accounting department carried out comprehensive plausibility and data quality checks in several stages. They are designed to ensure that the data underlying the transactions is properly recorded for the purpose of preparing the financial statements.

In addition, the accounting department engages external service providers for some topics that require specialists, such as the valuation of pension obligations and the entitlement of severance pay.

Any changes in the accounting and valuation methods are checked for regulatory compliance.

For the accounting related IT systems (proAlpha), 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 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, a calculation of the cash flow, a 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 company 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 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 financial statement, and critically appraising the audited financial statement and the management report.

## 8. 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 the modular software architecture and the various developments' interoperability 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 kick off 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 PANTHERA™ cabinets, as well as V.I.P. terminals with giant screen technology and dynamic lighting effects based on single LED technology. In terms of data security, increasing emphasis is being placed on physical random number generators that use quantum mechanics.

Linked Progressive Jackpots further expand the range of games on offer, as can be seen very clearly from the example of "Enchanted Fortunes Linked Jackpot". NOVOMATIC is also represented in the branded games sector by licensing films such as "From Dusk Till Dawn", "Batman", "Austin Powers", and "Sherlock Holmes", as well as series such as "MacGyver".

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, the 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 (who use this SDK) to the portfolio immediately.

NOVOMATIC's innovative strength receives frequent public recognition in the form of awards.

## 9. Acknowledgements

We would like to thank all the employees of NOVOMATIC AG 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 company. 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, March 22, 2019



**Harald Neumann**  
Chairman of the Board of  
Management, 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



**Bartholomäus Czapkiewicz**  
Chief Systems Development Officer,  
CSO



# NOVOMATIC AG BALANCE SHEET

as of December 31, 2018

## Assets

A. Fixed assets	12/31/2018	12/31/2017
	EUR	EUR
<b>I. Intangible Assets</b>		KEUR
1. Concessions, industrial property rights and similar rights and benefits and licenses derived therefrom	3,753,017.28	3,258
2. Advance payments	2,149,014.14	0
	5,902,031.42	3,258
<b>II. Property, plant and equipment</b>		
1. Land, buildings and improvements to third-party buildings	122,234,432.43	125,820
2. Plant and machinery	16,651,210.69	73
3. Other equipment, plant and office equipment	13,323,386.85	1,770
4. Advance payments and tangible assets in course of construction	278,157.61	45
	152,487,187.58	127,708
<b>III. Financial assets</b>		
1. Shares in affiliated companies	1,497,752,138.19	951,490
2. Loans to affiliated companies	380,317,993.26	267,899
3. Investments	24,175,444.55	24,175
4. Loans to associated companies	428,009.41	547
5. Securities held as fixed assets	93,957,904.32	94,705
6. Other loans	4,527,014.52	4,243
	2,001,158,504.25	1,343,059
	<b>2,159,547,723.25</b>	<b>1,474,025</b>
<b>B. Current Assets</b>		
<b>I. Inventories</b>		
1. Raw materials consumables and supplies	51,660,759.93	0
2. Work in progress	19,010,003.60	0
3. Finished goods and commodities	39,199,048.03	0
4. Advance payments	3,199,142.61	0
	113,068,954.17	0

## II. Receivables and Other Assets

1. Trade receivables thereof with a remaining term of more than one year EUR 1,757,908.33 (previous year: KEUR 0)	24,386,990.87	177
2. Receivables from affiliated companies thereof with a remaining term of more than one year EUR 11,507,719.51 (previous year: KEUR 0)	316,755,069.93	285,374
3. Other receivables and assets thereof with a remaining term of more than one year EUR 33,647.10 (previous year: KEUR 66)	60,875,498.67	62,196
	402,017,559.47	347,747
<b>III. Securities and interests</b>	2,745,565.53	10,245
<b>IV. Cash, bank deposits</b>	23,399,401.18	358,079
	<b>541,231,480.35</b>	<b>716,071</b>
<b>C. Prepaid expenses and accruals</b>	9,931,553.59	8,124
	<b>2,710,710,757.19</b>	<b>2,198,220</b>

## EQUITY AND LIABILITIES

A. Equity	12/31/2018	12/31/2017
	EUR	KEUR
I. Requested and paid-up share capital	26,590,000.00	26,590
II. Capital Reserves Appropriated capital reserves	85,386,371.00	85,386
III. Retained Earnings		
1. legal reserve	1,623,629.00	1,624
2. Tied-up reserves from the merger	216,400,000.00	0
3. Other reserves (free reserves)	15,395.39	15
	218,039,024.39	
IV. Retained profits there of profit carryforward EUR 57,541,488.97 (previous year: KEUR 61,172)	239,552,707.68	77,542
	569,568,103.07	191,157
B. Provisions		
1. Provisions for severance payments	10,130,147.00	1,958
2. Provisions for pensions	8,065,680.00	7,300
3. Provisions for taxes	5,643,614.41	248
4. Other provisions	37,667,192.02	13,109
	61,506,633.43	22,615
C. Liabilities		
thereof with a remaining term of up to one year EUR 531,248,054.11 (previous year: KEUR 171,852)		
thereof with a remaining term of more than one year EUR 1,548,387,966.58 (previous year: KEUR 1,812,591)		
1. Bonds thereof with a remaining term of up to one year EUR 250,000,000.00 (previous year: KEUR 0) thereof with a remaining term of more than one year EUR 700,000,000.00 (previous year: KEUR 950,000)	950,000,000.00	950,000
2. Due to banks thereof with a remaining term of up to one year EUR 28,379,781.75 (previous year: KEUR 20,480) thereof with a remaining term of more than one year EUR 833,875,000.00 (previous year: KEUR 862,247)	862,254,781.75	882,726
3. Prepayments on orders received thereof with a remaining term of up to one year EUR 67,081.29 (previous year: KEUR 0)	67,081.29	0
4. Trade payables thereof with a remaining term of up to one year EUR 23,268,154.33 (previous year: KEUR 1,708)	23,268,154.33	1,708
5. Payables to affiliated companies thereof with a remaining term of up to one year EUR 210,079,304.80 (previous year: KEUR 133,252) thereof with a remaining term of more than one year EUR 14,032,246.58 (previous year: KEUR 342)	224,111,551.38	133,594

6. Other liabilities thereof with a remaining term of up to one year EUR 19,453,731.94 (previous year: KEUR 16,413) thereof with a remaining term of more than one year EUR 480,720.00 (previous year: KEUR 3) thereof from taxes EUR 300,461.55 (previous year: KEUR 28) thereof social security EUR 2,145,731.96 (previous year: KEUR 44)	19,934,451.94	16,415
	2,079,636,020.69	1,984,443
D. Prepaid expenses and accruals	0.00	5
	2,710,710,757.19	2,198,220

# NOVOMATIC AG

## PROFIT AND LOSS ACCOUNT

For the period from January 1 to December 31, 2018

	01 – 12/2018	01 – 12/2017
	EUR	KEUR
1. Sales	534,350,132.37	78,464
2. Changes in inventories of finished goods and work in progress	4,724,875.07	0
3. Other own work capitalized	7,593,489.69	0
4. Other operating income		
a. Income from the disposal of and additions to fixed assets, excluding financial assets	945,241.71	0
b. Income from the release of provisions	110,321.43	174
c. other	8,176,378.38	2,281
	9,231,941.52	2,455
5. Expenses for material and other purchased manufacturing services		
a. Cost of material	-230,516,292.08	0
b. Cost of purchased services	-58,016,348.93	-353
	-288,532,641.01	-353
6. Personnel expenses		
a. Wages	-9,216,923.28	0
b. Salaries	-61,752,446.48	-5,009
c. Social expenses		
aa. Pension expenses	-724,586.70	345
bb. Expenses for severance payments and contributions to external severance payments funds	-388,333.22	-200
cc. Cost of statutory social security, payroll-related taxes and mandatory contributions	-17,340,461.74	-380
dd. Other	-2,194,510.54	-53
	-20,647,892.20	-288
	-91,617,261.96	-5,297
7. Amortization and depreciation		
of intangible assets and of tangible assets		
thereof extraordinary depreciation EUR 0.00		
(previous year: KEUR 798)	-24,511,841.21	-14,028
8. Other operating expenses		

a. Taxes not included in line 18	-1,049,162.43	-169
b. Other	-87,593,639.70	-82,215
	-88,642,802.13	-82,384
<b>9. Subtotal of lines 1 to 8 (Operating profit)</b>	<b>62,595,892.34</b>	<b>-21,143</b>
10. Investment income		
thereof from affiliated companies EUR 30,295,835.08		
(previous year: KEUR 208,947)	37,469,560.04	215,599
11. Income from other investments and long-term loans		
thereof from affiliated companies EUR 13,060,982.11		
(previous year: KEUR 7,960)	13,917,758.55	8,778
12. Other interest and similar income		
thereof from affiliated companies EUR 1,930,291.25		
(previous year: KEUR 301)	2,454,608.74	1,322
13. Income from the disposal of and the appreciation to financial assets	642,413.57	12,940
14. Expenses from financial assets and securities held as current assets		
a. Depreciation EUR -302,483,279.97 (prev. year: KEUR -121,359)		
b. Expenses from affiliated companies EUR -299,034,252.68 (previous year: KEUR -146,880)	-307,586,358.19	-149,564
15. Interest and similar expenses		
thereof from affiliated companies EUR -371,914.82		
(previous year: KEUR -170)	-38,854,560.11	-45,262
<b>16. Subtotal of lines 10 to 15 (Financing result)</b>	<b>-291,956,577.40</b>	<b>43,813</b>
<b>17. Earnings before tax (Subtotal of lines 9 and 16)</b>	<b>-229,360,685.06</b>	<b>22,670</b>
18. Taxes on Income		
thereof tax apportionment EUR 4,866,067.74		
(previous year: KEUR 1,352)		
thereof deferred taxes EUR - 3,643,915.00		
(previous year: KEUR -7,317)	85,124.37	-6,300
19. Increase in net assets through merger	627,686,779.40	0
<b>20. Earnings after taxes = Net income of the year</b>	<b>398,411,218.71</b>	<b>16,370</b>
21. Allocation to appropriated retained earnings from the merger	-216,400,000.00	0
22. Profits carried forward from previous year	57,541,488.97	61,172
<b>23. Retained profits</b>	<b>239,552,707.68</b>	<b>77,542</b>

# NOTES

for the 2018 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, 2018.

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 a cost of acquisition less than EUR 400.00 are fully depreciated in the year of acquisition or manufacture.

In principle, inventories were valued at acquisition or production cost. In the event of a lower fair value due to economic or technical impairments, such lower fair value was applied.

Receivables and other assets were stated at nominal value less necessary allowances, discounts for above-average time outstanding and a global valuation allowance of two percent of the net receivables outstanding as of the balance sheet date. Foreign currencies were valued at the foreign exchange rate at the date of transaction or at the offered rate as of the balance sheet date, if lower.

In the 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 settlement 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.

NOVOMATIC Gaming Industries GmbH, a 100% subsidiary of NOVOMATIC AG, was merged with NOVOMATIC AG as the absorbing company with retroactive effect to December 31, 2017, in accordance with the Austrian Reorganization Tax Act (Umgründungssteuergesetz). The merger was entered in the commercial register on October 5, 2018.

For this reason, the previous year's figures are only comparable to a limited extent in this annual financial statement. Previous-year figures from the last annual financial statement of the acquired company (NOVOMATIC Gaming Industries GmbH) are not stated.

## 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. Write-downs and write-ups are made if the corresponding conditions exist.

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.

The intangible assets can be broken down as follows:

Rights	KEUR 1,547
Standard and administrative software	KEUR 2,206
Advance payments	KEUR 2,149
<b>Total</b>	<b>KEUR 5,902</b>

Additions to rights amounting to KEUR 554 (previous year: KEUR 400) relate to the transfer of patents.

With regard to standard and administrative software, acquisition costs (including transfers) of KEUR 1,359 (previous year: KEUR 40) were capitalized.

The advance payments of KEUR 2,150 (previous year: KEUR 0) mainly related to the current SAP project.

## 1.2 Property, Plant and Equipment

### Land, buildings and improvements to third-party buildings

The real estate value of undeveloped and developed land amounts to KEUR 35,125 (previous year: KEUR 36,389).

Land, buildings and improvements to third-party buildings are valued at cost less scheduled depreciation (spread over 10 - 50 years for buildings).

Additions (including transfers) to building values, investments in rental properties and buildings on non-owned land amounting to KEUR 1,663 (previous year: KEUR 44) mainly relate to conversion work at the Gumpoldskirchen site.

### Machines, tools and gaming machines

This position breaks down as follows:

Machines	KEUR 4,300
Tools	KEUR 3,504
Gaming machines	KEUR 8,847
<b>Total</b>	<b>KEUR 16,651</b>

Machines, tools and gaming machines are valued at cost less scheduled depreciation (spread over 1–19 years for machines, 1–5 years for tools and 4 years for gaming machines).

Additions of KEUR 6,798 (previous year KEUR 0) relate to own made gaming devices and betting terminals. Other acquisitions in the area of production machinery and tools (production forms) were to be capitalized in the amount of KEUR 1,614 (previous year: KEUR 0) or KEUR 1,732 (previous year: KEUR 0).

### Factory and office equipment

Factory and office equipment is valued at cost less scheduled depreciation (spread over 1–10 years).

Additions mainly relate to IT hardware, other office equipment amounting to KEUR 2,456 (previous year: KEUR 22) and fleet acquisitions of KEUR 2,824 (previous year: KEUR 247).

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.

NOVOMATIC AG annually evaluates the value of shares in affiliated companies. 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.

If the grounds for an impairment made in the past disappear, an addition is to be made up to the amount of the original costs of acquisition.

Additions (including transfers) of KEUR 386,763 to shares in affiliated companies are mainly due to acquisitions and capital increases of companies in Australia, Austria, France, Italy, Mexico, Peru, Poland, San Marino, Serbia, and Spain.

Impairment losses on shares in affiliated companies amounted to KEUR 288,332 in the reporting year and are mainly related to Ainsworth Game Technology Ltd.. The profitability of the Australian subsidiary has worsened in various markets since the acquisition in 2018. After evaluating the long-term earnings prospects, the carrying value of the investment was depreciated by KEUR 181,200, especially due to the current performance situation in the core market "Australia and Other". The adverse developments are also reflected by current share prices, which declined by 62.9%, in the period from January 5th, 2018 to the end of 2018. Other significant impairment losses regard NOVOMATIC Gaming Spain S.A. (KEUR 43,760), NOVOMATIC Peru S.A.C. (KEUR 19,601) and Novo Gaming d.o.o. (KEUR 13,612).

For further details concerning the shares in affiliated companies, please refer to point IV.

Loans granted to affiliated companies amount to KEUR 380,318 (previous year: KEUR 267,899). The addition relates in particular to long-term investments in subsidiaries in the Netherlands, Germany, Spain and Italy. The disposals related in particular to the sale of I-New Unified Mobile Solutions AG and repayments of Austrian, German, Mexican, Italian and English subsidiaries.

Other loans increased in the amount of KEUR 717 on the one hand and, on the other, decreased by KEUR 5,933 due to repatriations or reversals. Thus, the total acquisition costs as of December 31, 2018, amounted to KEUR 19,183 (previous year: KEUR 15,753).

The accumulated impairment loss decreased by KEUR 300 due to a write-up of KEUR 3,446 to KEUR 14,656 (previous year KEUR 11,510) and increased due to the critical assessment of the value of individual loans.

Of the loans granted to affiliated companies, an amount of KEUR 11,352 (previous year: KEUR 23,394) is due within one year.

Of the other loans, an amount of KEUR 1,761 (previous year: KEUR 1,191) is due within one year.

There were no significant changes in securities held as fixed assets.

## B. Current Assets

### 1. Inventories

Inventories were valued at acquisition costs in observance of the lowest value principle. In determining the production costs for finished goods, the directly allocated costs as well as the proportionate share in overhead costs were taken into account.

In the event of a lower fair value, an according adjustment was made. In particular slow sellers which have remained untouched for six months or more were depreciated by 30 to 100 percent. For inventories with a stock level which makes an above-average term appear probable, an adjustment was made based on the principle of loss-free valuation. In addition to this, any decreased fair value was taken into account through lower cost prices.

### 2. Receivables and Other Assets

#### 2.1 Trade receivables

Trade receivables are stated at nominal value. In cases of apparent individual risk, the probable recoverable amount was recognized. In order to take the receivables' time outstanding into account, a discount was applied for maturities of more than two months.

For general credit risks, a global valuation allowance of two percent of the outstanding and unsecured net receivables was applied.

This resulted in the following individual receivable amounts.

	KEUR
Trade receivables towards third parties	31,170
Valuation allowances	-6,194
Discount due to long maturity	-317
Global valuation allowance	-210
Foreign currency valuation	-62
<b>Carrying out as of 12/31/2018</b>	<b>24,387</b>

#### 2.2 Receivables from Affiliated Companies

Receivables from affiliated companies in the amount of KEUR 316,755 (previous year: KEUR 285,374) relate, with KEUR 242,591 to trade receivables (previous year: KEUR 6,905).

#### 2.3 Other Receivables and Assets

Other receivables and assets amounting to KEUR 60,875 (previous year: KEUR 62,196) mainly concern a deposit related to precious metals amounting to KEUR 54,225 (previous year: KEUR 52,125) as well as credit balances with the tax authorities.

The maturities of the receivables and other assets are as follows:

	12/31/2018			12/31/2017		
	Total	Residual term of up to 1 year	Residual term of more than 1 year	Total	Residual term of up to 1 year	Residual term of more than 1 year
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Trade receivables	24,387	22,629	1,758	177	177	0
Receivables from Affiliated Companies	316,755	305,247	11,508	285,374	285,374	0
Other Receivables and Assets	60,875	60,842	33	62,196	62,130	66

## C. Prepaid Expenses

The prepaid expenses amounting to KEUR 9,932 (previous year: KEUR 8,124) consist of capitalized discounts and expenditures pertaining to 2019 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, as far as taxable profits are expected in the future.

The income tax rate underlying the calculation of deferred taxes is 25 percent (previous year: 25 percent).

Since a tax relief due to the reversal of the above-mentioned temporary differences in the foreseeable future cannot be reliably predicted at the balance sheet date, the deferred tax assets in the amount of KEUR 72,227 (previous year: KEUR 30,447) are not formed as a precautionary measure. The composition of deferred taxes is shown in the following table.

As the Group parent, NOVOMATIC AG has tax losses of KEUR 210,481 (previous year: KEUR 213,883), for which no deferred tax assets were recognized.

The non-capitalized deferred tax assets resulting from differences in the amounts reported in the individual financial statement and their respective tax bases are as follows:

„+“ = deferred tax asset „-“ = deferred tax liability	Difference	Deferred taxes	Deferred taxes Previous year	Change Deferred taxes
	Current financial year	Current financial year		
	EUR	EUR	EUR	EUR
Property, plant and equipment	10,256,327.54	2,564,081.89	3,057,911.28	-493,829.39
Investments in affiliated companies	249,081,945.44	62,270,486.36	21,877,161.89	40,393,324.47
Investments	2,107,499.86	526,874.97	1,060,009.62	-533,134.65
Receivables and Other Assets	209,654.45	52,413.61	426.07	51,987.54
Prepaid expenses and accruals	6,069,322.65	1,517,330.66	1,674,131.50	-156,800.84
Provisions	21,229,919.75	5,307,479.94	2,778,568.67	2,528,911.27
Untaxed reserves	-45,457.75	-11,364.44	-1,380.14	-9,984.30
<b>Total for 2018 balance = deferred tax assets</b>	<b>288,909,211.94</b>	<b>72,227,302.99</b>	<b>30,446,828.89</b>	<b>41,780,474.10</b>

## Shareholders' Equity and Liabilities

### A. Shareholders' Equity

The share capital of the company amounts to KEUR 26,590 in the 2018 fiscal year (previous year: KEUR 26,590).

The tied-up reserves of KEUR 85,386, the legal reserve of KEUR 1,624 and the free reserves of KEUR 15 remained unchanged compared to the previous year.

As part of the merger with NOVOMATIC Gaming Industries GmbH, NOVOMATIC AG introduced a voluntarily tied-up reserve of KEUR 216,400 from the resulting merger gain in order to avoid a capital-blocking effect. This amount is subject to a payout block of 60 months after registration of the merger. This was completed on October 5, 2018.

At the Annual General Meeting on April 27, 2018, disbursement of KEUR 20,000 from the balance sheet profit 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 1.97 percent (previous year: 1.89 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 and contributions to external severance payments funds included an income from changes in provisions of KEUR 640 (previous year: an expense of KEUR 141).

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 1.97 percent (previous year: 1.89 percent) and value adjustments of 3 percent. Pension expenses included an expense from changes in provisions of KEUR 765 (previous year: an income of KEUR 312).

The provisions for income taxes mainly related to provisions from prior periods, which were acquired as part of the merger with NOVOMATIC Gaming Industries GmbH.

Other provisions mainly related to audit and consulting costs, costs for annual reports, provisions for legal disputes, guarantees, discounts in kind, commission provisions, provisions for anticipated losses for future liquidity needs of the subsidiaries NOVOMATIC Lottery Solutions GmbH in the amount of KEUR 10,100 (previous year: KEUR 7,700) and to Lotaria Kombetare Sh.p.k. in the amount of KEUR 2,000 (previous year: KEUR 0), unconsumed vacation for employees and 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 1.97 percent (previous year: 1.89 percent) and assuming a pay increase of 2.5 percent (previous year: 2.5 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.

The provision for unused vacation is calculated under the assumption of a divider of 18 working days per month.

Due to the fact that new mortality tables had to be applied to the calculation of provisions for personnel in the past fiscal year, there was an adjustment effect of KEUR -912 which was immediately reflected in the current result.

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 1 year	with a residual term of 1 to 5 years	with a residual term of over 5 years
Bond	250,000	700,000	0
(previous year)	0	450,000	500,000
Payables to banks	28,380	684,966	148,909
(previous year)	20,480	789,122	73,125
Prepayments on orders received	67	0	0
(previous year)	0	0	0
Trade payables	23,268	0	0
(previous year)	1,708	0	0
Due to affiliated companies	210,079	14,032	0
(previous year)	133,252	342	0
Other liabilities	19,453	481	0
(previous year)	16,413	3	0

In 2013 to 2015 and 2016, bonds with a total value of KEUR 950,000 were issued to support further growth in the areas of development, production and gaming operations. The bond issued in 2013 with a volume of KEUR 250,000 was repaid on time on January 28, 2019.

Liabilities to affiliated companies amounting to KEUR 205,754 (previous year: KEUR 133,385) concern other liabilities. Of this sum, a significant amount of KEUR 190,205 (previous year: KEUR 132,998) 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 14,950) that will become only cash-effective after the balance sheet date.

## D. Contingent Liabilities, Other Contingent Liabilities, and Physical Securities

At the balance sheet date, there are contingent liabilities amounting to KEUR 71,963 (previous year: KEUR 163,925), of which KEUR 71,963 (previous year: KEUR 163,925) concern affiliated companies.

Contingent liabilities comprise comfort letters or guarantees for bank loans for affiliated companies, and are composed as follows:

## a) Contingent liabilities

Bank	Beneficiary company	Security	Ceiling KEUR	As of 12/31/2018 KEUR
UniCredit Bank Austria AG Vienna	HTM Hotel- und Tourismus Management GmbH	Comfort letter	9,000	9,000
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
Hypo Bank Burgenland	ADMIRAL Casinos & Entertainment AG	Guarantee	176	176
UniCredit Bank Austria AG Vienna	NOVOMATIC Lottery Solutions GmbH	Guarantee	259	259
UniCredit Bank Austria AG Vienna	Novo Gaming M Technologies GmbH	Guarantee	500	500
Hypo Bank Burgenland	Admiral Sportwetten GmbH	Guarantee	12,000	12,000
Raiffeisenbank NOE-Wien	Admiral Sportwetten GmbH	Comfort letter	1,500	0
LBBW, DE	Admiral Entertainment GmbH, DE	Comfort letter	3,000	3,000
Nord LB	Admiral Sportwetten GmbH, Germany	Guarantee	1,500	1,500
UniCredit Bank Austria AG Vienna	Novomatic Gaming Spain S.A.	Guarantee	1,000	1,000
UniCredit Bank Austria AG Vienna	Novomatic Gaming Spain S.A.	Guarantee	500	500
UniCredit Bank Austria AG Vienna	Admiral Gaming Andalusia S.A.	Guarantee	500	500
UniCredit Bank Austria AG Vienna	Admiral Slots S.A.	Guarantee	500	500
BBVA	GiGames S.L.	Comfort letter	6,000	6,000
Banco Popular	GiGames S.L.	Comfort letter	2,500	2,500
BBVA	Novomatic Gaming Spain S.A.	Comfort letter	1,900	1,900
Banco Popular	Novomatic Gaming Spain S.A.	Comfort letter	1,250	1,250
UniCredit Bank Austria AG Vienna	INovomatic Tunisia/NLS	Guarantee	477	477
Raiffeisenbank Croatia	Interigre d.o.o.	Guarantee	3,000	3,000
Raiffeisenbank SHA Albania	Lotaria Kombetare Sh.p.k.	Guarantee	162	162
Erste Bank, Novi Sad	Millenium Bet d.o.o.	Comfort letter	720	720
UniCredit Bank Austria AG Vienna	RSA Gaming d.o.o.	Guarantee	128	128
UniCredit Tiriac SA	BetMaster Srl, Alea Leisure Srl, Admiral Leisure Srl, Inter-top Leisure Srl	Guarantee	247	247



Bank	Beneficiary company	Security	Ceiling KEUR	As of 12/31/2018 KEUR
UniCredit Bank Austria AG Vienna	Admira d.o.o.	Guarantee	510	510
Erste Group Bank AG	NOVOMATIC Lottery Solutions GmbH	Guarantee	2,000	2,000
Erste Bank AD Podgorica	MNA Gaming d.o.o.	Comfort letter	150	150
Erste Bank AD Podgorica	HTL Montenegro d.o.o.	Comfort letter	50	50
Sparkasse Makedonija	MA Gaming DOOEL	Guarantee	505	505
Sparkasse Makedonija	Makoten DOOEL	Guarantee	326	326
Sparkasse Makedonija	Masterbet DOOEL	Guarantee	505	505
Recreatieprojecten Zeeland BV	NOVOMATIC Exploitatie NL III B.V.	Comfort letter	342	342
Barclays Bank PLC	NOVOMATIC UK Ltd.	Comfort letter	16,692	16,692
LBBW, DE	Casino Royal GmbH, DE	Comfort letter	1,200	1,200
<b>TOTAL</b>			<b>73,463</b>	<b>71,963</b>

#### b) Other contingent liabilities

NOVOMATIC AG has issued comfort letters in favor of the following subsidiaries:

NOVOMATIC Lottery Solutions GmbH, Austria  
 Novo VLTech Solutions S.R.L., Romania  
 Adriatik Game Sh.a., Albania  
 Astra Albania Sh.a., Albania  
 Lotaria Kombetare Sh.p.k. Albania

NOVOMATIC AG has issued a guarantee in favor of the license agreement of Hasbro International Inc. USA with Novomatic UK Ltd., UK.

#### c) Information regarding the nature of provided physical securities

No physical securities were provided for liabilities in the 2018 fiscal year.

## E. Other Financial Obligations

Obligations from current lease contracts comprise

KEUR	of the following fiscal years	of the next five fiscal years
Obligations from current lease contracts	3,519	17,589
(in the previous year)	1,131	5,656
of which to affiliated companies	1,667	6,072
(in the previous year)	0	0

## III. EXPLANATIONS CONCERNING THE PROFIT AND LOSS ACCOUNT

### 1. Breakdown of Sales

As a result of the merger with NOVOMATIC Gaming Industries GmbH, the breakdown of sales groups was determined as follows; this subsequently differs from the previous year's breakdown.

#### 1.1. by segments

KEUR	Year under review	Previous year
Income from trademarks and licenses	112,915	60,061
Income from production	368,125	0
Equipment rental	29,874	0
Provision of personnel	3,740	1,262
Repairs, service	3,829	0
Other income (incl. rental and operating costs)	16,008	17,141
Sales reductions	-141	0
	<b>534,350</b>	<b>78,464</b>

#### 1.2. by geographical markets

KEUR	Year under review	Previous year
Domestic income	104.793	69.172
International income (EU)	345.495	9.226
Third-country income	84.062	66
	<b>534.350</b>	<b>78.464</b>

### 2. Personnel costs

Expenses for severance payments and contributions to external severance payment funds include payments to external severance payment funds amounting to KEUR 871 (previous year: KEUR 69).

### 3. Other operating expenses

Other operating expenses mainly comprise:

KEUR	2018	2017
Rental expenses and license fees	8,073	3,725
Impairments	13,054	291
Consulting fees	10,637	5,913
Foreign exchange differences	0	259

### 4. Investment income

Income from investments of KEUR 37,470 (previous year: KEUR 215,599) primarily includes profit distributions from Albania, Australia, Peru, Hungary and Latvia.

### 5. Expenses from financial assets and securities held as current assets

These relate primarily to write-downs on shares in affiliated companies. See notes on financial assets.

### 6. Increase in net assets through merger

In the profit and loss account, the result of the merger of the 100% subsidiary NOVOMATIC Gaming Industries GmbH into NOVOMATIC AG in the amount of KEUR 627,687 is reported under the item "Net asset increase through merger".

### 7. Taxes on Income

Taxes only affect earnings before taxes.

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
- Admiral Sportwetten GmbH, Austria
- Novo VLTech GmbH, Austria
- NOVOMATIC Lottery Solutions 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 are broken down specifically as follows:

	KEUR
Corporate income tax expense in 2018	284
Corporate income tax expense in previous years	0
Corporate income tax expense for deferred taxes	3,644
Foreign withholding tax expense	763
Corporate income tax expense, abroad	90
Income from tax apportionment "tax group" previous years	-3,225
Income from tax apportionment "tax group"	-1,641
<b>Total</b>	<b>-85</b>

## IV. INFORMATION ON SIGNIFICANT INVESTMENTS

Company, domicile	Share	Carrying amount as of 12/31/2018	Equity	Annual result
		EUR	EUR	EUR
ADMIRAL Casinos & Entertainment AG, Austria	100%	35,100,000	25,763,226	8,559,824
Admiral Club Ltd., United Kingdom	100%	1	n.A.	n.A.
Admiral Sportwetten GmbH, Austria	100%	19,611,900	18,812,266	10,005,958
Admiralu Klubs SIA, Latvia	60%	22,735,831	22,916,481	4,931,626
Ainsworth Game Technology Ltd., Australia	52.9%	145,573,157	232,963,715	20,203,707
Airoline GmbH, Austria	100%	7,475,000	6,705,129	-541,409
Albanisch Österreichische Lotterien Holding GmbH, Austria	100%	5,097	69,328	-10,006,179
Alfor SIA, Latvia	60%	2,836,397	46,852,670	19,259,121
ATT S.A., Poland	100%	47,420,040	20,826,023	2,293,520
Azarto Technika UAB, Lithuania	80%	1,650,009	1,180,216	-2,550,348
Casino Royal GmbH, Germany	100%	64,590,810	30,605,312	9,266,207
celix Solutions GmbH, Austria	80%	235,481	n.A.	n.A.
Crown Gaming Mexico S.A. de C.V., Mexico	100%	12,265,809	7,659,424	-1,413,518
Crown Gaming Services Mexico S. d. R.L. de C.V., Mexico	80%	12,825	37,630	15,935
Eagle Investment Sh.A., Albania	100%	12,914,338	19,986,427	5,339,265
Estrada Polska Sp.z.o.o., Poland	0.1046%	4,466,539	3,350,875	-972,789
Giochi San Marino S.p.A., San Marino	93%	7,806,000	9,071,107	-709,139
HTL d.o.o. Sarajevo, Bosnia and Herzegovina	100%	3,629,624	12,887,213	1,476,096
HTL Macedonia DOOEL, Macedonia	100%	27,377,590	26,391,480	881,176
HTL Montenegro d.o.o., Montenegro	100%	8,503,182	7,124,851	175,140
HTL Ukraine TOV, Ukraine	100%	426,200	205,967	-1,046,214
HTM Hotel und Tourismus Management GmbH, Austria	100%	1,072,607	49,464,417	1,507,740
Interinvest Holding SAL, Lebanon	95%	137,095	n.A.	n.A.

Company, domicile	Share	Carrying amount as of 12/31/2018	Equity	Annual result
		EUR	EUR	EUR
Löwen Entertainment GmbH, Germany	100%	1	n.A.	n.A.
LTB Beteiligungs GmbH, Austria	33.33%	23,937,945	6,597,611	6,046,454
Makoten DOOEL, Macedonia	100%	37,933,600	27,931,902	-3,140,342
NMI Invest GmbH, Austria	100%	1,000,000	984,509	-9,701
NMN Immo GmbH, Austria	100%	617,905	552,405	-55,428
Norddeutsche Spielbanken GmbH, Germany	100%	25,000	18,569	-1,773
Novo Gaming d.o.o., Croatia	100%	39,000,000	53,885,479	-393,183
Novo Gaming M Technologies GmbH, Austria	100%	2,752,526	5,547,179	49,547
Novo Immobilien GmbH, Germany	100%	3,000,000	24,048,687	2,807,329
Novo Investment Bulgaria EOOD, Bulgaria	100%	31,040,000	26,920,200	-9,439
Novo Investment d.o.o., Belgrade, Serbia	100%	34,190,150	37,575,296	2,568,690
Novo Investment RO SRL, Romania	99.8%	54,000,000	32,804,900	5,090,207
Novo Lottery Solutions Iceland hf, Iceland	0.24%	246	9,588,737	7,670,050
NOVO RS d.o.o., BiH	100%	8,962,391	9,509,574	258,837
Novo VLTech GmbH, Austria	100%	10,100,000	6,702,435	82,523
Novo VLTech Solutions SRL, Romania	0.01%	2	9,917,831	5,492,900
Novochile Ltda., Chile	99%	88,299	202,270	-3,990
Novogaming Vilnius UAB, Lithuania	80%	2,483,502	2,282,112	-589,520
NOVOMATIC Africa (PTY) Ltd., South Africa	100%	5,955,571	19,035,939	2,233,271
NOVOMATIC Americas Holdings Inc., Florida, USA	100%	21,384,591	28,368,755	-152,148
NOVOMATIC Argentina S.R.L., Argentina	90%	0	834,811	-1,238,470
NOVOMATIC Gaming Colombia S.A.S., Colombia	100%	6,908,034	7,735,954	593,375
NOVOMATIC Gaming Spain S.A., Spain	100%	31,857,141	84,975,661	3,046,661
NOVOMATIC Hungaria Kft., Hungary	100%	24,098,399	22,639,582	4,514,359
NOVOMATIC Investment Chile S.A., Chile	100%	1,344,421	2,950,806	-109,149
NOVOMATIC Italia SpA, Italy	100%	376,109,429	294,471,136	10,389,310
NOVOMATIC Latin-American Holding S.L.U, Spain	100%	1,828,404	2,827,815	64,669
NOVOMATIC Lottery Solutions GmbH, Austria	100%	0	13,552,598	6,842,416
NOVOMATIC Netherlands B.V., Netherlands	100%	40,471,413	36,128,246	287,497
NOVOMATIC Peru S.A.C., Peru	100%	6,649,947	35,555,888	4,931,604
Novomatic Services FRA SAS, France	100%	1,354,006	637,372	-74,152
NOVOMATIC Spielbanken Holding Deutschland GmbH & Co.KG, Germany	100%	19,707,919	17,856,442	-633,049
NOVOMATIC Sports Betting Solutions GmbH, Austria	100%	1,000,000	686,979	-273,437
NOVOMATIC Technologies Poland S.A., Poland	48.8%	22,688,408	27,007,829	4,639,462
NOVOMATIC UK Ltd., United Kingdom	100%	194,227,116	291,393,084	-7,285,896
Octavian de Argentina S.A., Argentina	90%	743,470	715,232	306,073
Octavian Game Art OOO, Russia	99.9%	2,957,000	1,539,433	805,209
Octavian SPb OOO, Russia	99.2%	889,727	1,532,872	321,561
OTIUMGI S.L., Spain	60%	0	4,090,674	-62,709
Pratergarage Errichtungs- und Betriebsgesellschaft m.b.H., Vienna, Austria	47.5%	237,500	524,220	107,480
Raika Genossenschaftsant., Austria	-	7	n.A.	n.A.
RSV Beteiligungs GmbH, Austria	100%	72,330,974	6,580,856	6,050,000

Company, domicile	Share	Carrying amount as of 12/31/2018	Equity	Annual result
		EUR	EUR	EUR
SIM Spielbanken Investitions- und Management GmbH, Germany	100%	25,619	60,041	7,282
SIM Spielbanken Investitions-, Beteiligungs- und Management GmbH & Co.KG, Germany	100%	2,264,017	2,941,290	695,613
Spielbank Berlin Entertainment GmbH & Co.KG, Germany	60%	48,840	-2,577,661	48,061
Trust company 1, Austria*	60%	507,375	673,781	-500,506
Trust company 3, Austria*	100%	9,598,160	8,512,846	848,187
Trust company 16, Austria*	100%	40,000	n.A.	n.A.
United Gaming Industries OOO, Russia	100%	1,723,000	3,608,977	-359,175

Regarding information about relationships to affiliated companies, the Company avails itself of the protective clause granted by Sec. 242 para. 3 of the Austrian Commercial Code (UGB) (see n/a or \* above).

Sec. 242 para. 2 of the Austrian Commercial Code (UGB) applies to individual subsidiaries (materiality considerations).

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 -639 as of December 31, 2018.

The market value corresponds to the value which 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.

Due to the high purchase volumes in USD, parts of the current USD requirements are secured through hedging transactions. Hedging is achieved through several forward transactions due at monthly intervals.

The following derivatives were entered into:

KEUR	12/31/2018 Nominal amount	12/31/2018 Market value
UniCredit Bank Austria AG USD forward contract until 1/16/2019	2,646	-29
Raiffeisen Bank International USD forward contract until 4/17/2019	2,632	-35
BBVA Corporate & Investment Banking USD forward contract until 3/13/2019	9,059	86
Societe Generale Corporate & Investment Banking USD forward contract until 6/12/2019	6,246	223

The market value for derivatives corresponds to the value which the individual company would receive or have to pay if the contract were settled as of the balance sheet date. For this, current market conditions are taken into account, in particular the current interest environment. A corresponding provision was formed in the financial statements for the negative market values.

## VI. MANDATORY INFORMATION CONCERNING MANAGEMENT BODIES AND EMPLOYEES

### 1.1. Average Number of Employees during the Financial Year

	2018	2017
Number of employees	943	14
Number of workers	274	0

### 1.2. Members of the Executive Board and the Supervisory Board during the Financial Year

#### Executive Board:

- Harald Neumann, CEO
- Dr. Christian Widhalm, Deputy CEO
- Ryszard Presch, COO
- Thomas Graf, CTO
- Peter Stein, CFO
- Bartholomäus Czapkiewicz, CSO (from Dec. 2018)

#### Supervisory Board:

- Dr. Bernd Oswald, Chairman
- Martina Flitsch, Deputy Chairwoman
- Barbara Feldmann, member
- Martina Kurz, member
- Dr. Robert Hofians, member

### 1.3. Other Information

During the 2018 fiscal year, gross payments of KEUR 3,836 (previous year: KEUR 5,644) and payments from affiliated companies of KEUR 350 (previous year: KEUR 250) were made to the members of the Executive Board. No advances or guarantees were granted to members of the Executive Board. Loans to members of the Executive Board amounted to KEUR 374 (previous year: KEUR 0) with an interest rate of 5 percent. Payments made to members of the Supervisory Board during the year under review amounted to KEUR 308 (previous year: KEUR 518).

Expenses for severance payments and pensions for the members of the Executive Board amounted to KEUR -699 (previous year: KEUR 182) and KEUR 725 (previous year: KEUR -345), 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 statements for the subgroup NOVOMATIC AG are included in the consolidated financial statement of Novo Invest GmbH with its registered office in Gumpoldskirchen – as head of the Group – and 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 22,000 is to be appropriated from the balance sheet profit of KEUR 239,553, comprising the profit of the 2018 fiscal year amounting to KEUR 398,411 less allocation to retained earnings of KEUR 216,400 and profit carried forward of KEUR 57,542. The remaining amount of KEUR 217,553 is to be carried forward.

### 1.7 Subsequent Events after the Balance Sheet Date

NOVOMATIC AG redeemed the bond (ISIN AX0000A0XSN7) with an issue volume of KEUR 250,000 and a final maturity of January 28, 2019, on time.

At the end of February 2019, it was decided to sell the shares in the Croatian subsidiary Novo Gaming d.o.o.. The sale price was fixed at KEUR 39,200.

## VII. SPECIAL INFORMATION FOR STOCK CORPORATIONS

The share capital of EUR 26,590,000.00 is fully paid up and is divided into 26,590,000 registered no-par value shares. The nominal value per share amounts to EUR 1.00.

Gumpoldskirchen, March 22, 2019

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



Bartholomäus Czapkiewicz  
Chief Systems Development Officer, CSO

# NOVOMATIC AG

## FIXED ASSETS

as of December 31, 2018

EUR	Development at cost of acquisition and production							Development of Amortization/Depreciation							Book Values		
	Balance as of 12/31/2017	Addition from NGI Merger	Disposal from NGI Merger	Additions	Transfers	Disposals	Balance as of 12/31/2018	Balance as of 12/31/2017	Addition from NGI Merger	Additions	Transfers	Disposals	Write-ups	Balance as of 12/31/2018	Balance as of 12/31/2017	Balance as of 12/31/2018	
<b>A. FIXED ASSETS</b>																	
<b>I. Intangible assets</b>																	
1. Concessions, industrial and similar rights and assets and licenses in such rights and assets	12,855,172.03	3,238,590.50	0.00	554,473.93	0.00	0.00	16,648,236.46	12,202,762.15	2,768,862.71	129,439.37	0.00	0.00	0.00	15,101,064.23	652,409.88	1,547,172.23	
Technical software	123,400,219.21	2,139,881.15	0.00	0.00	0.00	0.00	125,540,100.36	120,829,368.97	2,139,881.15	2,570,850.24	0.00	0.00	0.00	125,540,100.36	2,570,850.24	0.00	
Software	321,948.48	12,084,597.11	0.00	1,113,196.26	245,770.32	1,472.00	13,764,040.17	286,948.48	10,246,326.08	1,026,392.56	0.00	1,472.00	0.00	11,558,195.12	35,000.00	2,205,845.05	
2. Advance payments	0.00	1,014,634.37	0.00	1,380,150.09	-245,770.32	0.00	2,149,014.14	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,149,014.14	
<b>TOTAL</b>	<b>136,577,339.72</b>	<b>18,477,703.13</b>	<b>0.00</b>	<b>3,047,820.28</b>	<b>0.00</b>	<b>1,472.00</b>	<b>158,101,391.13</b>	<b>133,319,079.60</b>	<b>15,155,069.94</b>	<b>3,726,682.17</b>	<b>0.00</b>	<b>1,472.00</b>	<b>0.00</b>	<b>152,199,359.71</b>	<b>3,258,260.12</b>	<b>5,902,031.42</b>	
<b>II. Property, plant and equipment</b>																	
<b>1. Land, buildings and improvements to third-party buildings</b>																	
Land	9,293,159.41	0.00	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	20,502.06	0.00	2,221.59	0.00	876,299.58	31,310,480.14	5,067,234.24	15,376.55	443,390.02	0.00	47,695.58	0.00	5,478,305.23	27,096,821.83	25,832,174.91	
Buildings – value of building	134,354,465.14	0.00	0.00	274,916.42	7,824,180.18	4,003,462.48	138,450,099.26	47,764,781.87	0.00	4,507,613.51	-4,971,862.10	3,240,921.46	0.00	54,003,336.02	86,589,683.27	84,446,763.24	
Structural investments in leased property	2,796,160.66	8,723,720.47	0.00	6,308.62	-6,442,623.64	2,127,682.82	2,955,883.29	2,791,089.37	6,781,377.99	427,263.33	4,971,862.10	2,123,009.50	0.00	2,904,859.09	5,071.29	51,024.20	
Buildings on non-owned land	24,779,267.77	0.00	0.00	0.00	0.00	0.00	24,779,267.77	21,943,610.45	0.00	224,346.35	0.00	0.00	0.00	22,167,956.80	2,835,657.32	2,611,310.97	
<b>TOTAL</b>	<b>203,387,109.05</b>	<b>8,744,222.53</b>	<b>0.00</b>	<b>283,446.63</b>	<b>1,381,556.54</b>	<b>7,007,444.88</b>	<b>206,788,889.87</b>	<b>77,566,716.23</b>	<b>6,796,754.54</b>	<b>5,602,613.21</b>	<b>0.00</b>	<b>5,411,626.54</b>	<b>0.00</b>	<b>84,554,457.44</b>	<b>125,820,392.82</b>	<b>122,234,432.43</b>	
<b>2. Plant and machinery</b>																	
Plant and machinery	212,930.38	14,651,396.33	0.00	1,120,300.18	493,639.49	296,181.27	16,182,085.11	139,772.83	10,389,927.86	1,649,065.06	0.00	296,181.27	0.00	11,882,584.48	73,157.55	4,299,500.63	
Devices	0.00	30,021,546.38	0.00	6,798,422.49	0.00	3,941,166.40	32,878,802.47	0.00	22,019,794.87	5,149,119.68	0.00	3,137,387.98	0.00	24,031,526.57	0.00	8,847,275.90	
Tools and tool costs	0.00	19,316,757.80	0.00	1,382,725.13	349,540.88	0.00	21,049,023.81	0.00	15,048,834.23	2,495,755.42	0.00	0.00	0.00	17,544,589.65	0.00	3,504,434.16	
<b>TOTAL</b>	<b>212,930.38</b>	<b>63,989,700.51</b>	<b>0.00</b>	<b>9,301,447.80</b>	<b>843,180.37</b>	<b>4,237,347.67</b>	<b>70,109,911.39</b>	<b>139,772.83</b>	<b>47,458,556.96</b>	<b>9,293,940.16</b>	<b>0.00</b>	<b>3,433,569.25</b>	<b>0.00</b>	<b>53,458,700.70</b>	<b>73,157.55</b>	<b>16,651,210.69</b>	
<b>3. Other systems, factory and office equipment</b>																	
Factory and office equipment	4,851,250.47	36,955,954.77	0.00	2,350,251.01	105,700.00	647,202.54	43,615,953.71	4,439,667.12	30,639,494.97	3,026,776.41	0.00	642,549.39	0.00	37,463,389.11	411,583.35	6,152,564.60	
Car pool	1,853,452.55	13,249,822.52	0.00	2,824,053.23	0.00	2,023,770.53	15,903,557.77	500,793.12	7,458,020.33	2,204,767.14	0.00	1,385,387.32	0.00	8,778,193.27	1,352,659.43	7,125,364.50	
Low-value assets	43,738.44	838,498.60	0.00	504,407.79	0.00	1,022,963.16	363,681.67	38,217.89	645,907.07	657,062.12	0.00	1,022,963.16	0.00	318,223.92	5,520.55	45,457.75	
<b>TOTAL</b>	<b>6,748,441.46</b>	<b>51,044,275.89</b>	<b>0.00</b>	<b>5,678,712.03</b>	<b>105,700.00</b>	<b>3,693,936.23</b>	<b>59,883,193.15</b>	<b>4,978,678.13</b>	<b>38,743,422.37</b>	<b>5,888,605.67</b>	<b>0.00</b>	<b>3,050,899.87</b>	<b>0.00</b>	<b>46,559,806.30</b>	<b>1,769,763.33</b>	<b>13,323,386.85</b>	
<b>4. Prepayments and tangible assets in course of construction</b>																	
Advance payments	0.00	80,387.00	0.00	816,174.80	-794,472.83	0.00	102,088.97	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	102,088.97	
Tangible assets in course of construction	6,334,574.76	243,214.34	0.00	1,505,245.18	-1,535,964.08	80,829.72	6,466,240.48	6,290,171.84	0.00	0.00	0.00	0.00	0.00	6,290,171.84	44,402.92	176,068.64	
<b>TOTAL</b>	<b>6,334,574.76</b>	<b>323,601.34</b>	<b>0.00</b>	<b>2,321,419.98</b>	<b>-2,330,436.91</b>	<b>80,829.72</b>	<b>6,568,329.45</b>	<b>6,290,171.84</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>6,290,171.84</b>	<b>44,402.92</b>	<b>278,157.61</b>	
<b>TOTAL</b>	<b>216,683,055.65</b>	<b>124,101,800.27</b>	<b>0.00</b>	<b>17,585,026.44</b>	<b>0.00</b>	<b>15,019,558.50</b>	<b>343,350,323.86</b>	<b>88,975,339.03</b>	<b>92,998,733.87</b>	<b>20,785,159.04</b>	<b>0.00</b>	<b>11,896,095.66</b>	<b>0.00</b>	<b>190,863,136.28</b>	<b>127,707,716.62</b>	<b>152,487,187.58</b>	
<b>III. Financial assets</b>																	
1. Shares in affiliated companies	1,063,077,042.31	988,382,700.70	394,304,397.00	382,076,936.19	4,686,088.69	44,063,478.61	1,999,854,892.28	111,587,258.19	111,151,877.42	288,331,825.24	-3,643,227.39	12,611,434.15	0.00	502,102,754.09	951,489,784.12	1,497,752,138.19	
2. Loans to affiliated companies	286,360,293.57	198,954,922.53	109,283,397.36	122,897,495.82	-3,643,227.39	113,632,938.34	381,653,148.83	18,461,434.16	0.00	6,139,349.22	3,643,227.39	19,622,400.42	0.00	1,335,155.57	267,898,859.41	380,317,993.26	
3. Investments	24,412,944.55	0.00	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	1,008,484.32	0.00	0.00	80,827.74	0.00	200,000.00	889,312.06	461,302.65	0.00	88,302.65	0.00	88,302.65	0.00	461,302.65	547,181.67	428,009.41	
5. Securities held as fixed assets	94,855,205.59	132,704.13	0.00	327,990.04	-1,042,861.30	0.00	94,273,038.46	149,961.85	8,319.61	158,897.31	0.00	0.00	2,044.63	315,134.14	94,705,243.74	93,957,904.32	
6. Other loans	15,753,098.15	8,646,459.94	0.00	717,134.31	0.00	5,933,380.55	19,183,311.85	11,510,527.46	0.00	3,445,769.87	0.00	0.00	300,000.00	14,656,297.33	4,242,570.69	4,527,014.52	
<b>TOTAL</b>	<b>1,485,467,068.49</b>	<b>1,196,116,787.30</b>	<b>503,587,794.36</b>	<b>506,100,384.10</b>	<b>0.00</b>	<b>163,829,797.50</b>	<b>2,520,266,648.03</b>	<b>142,407,984.31</b>	<b>111,160,197.03</b>	<b>298,164,144.29</b>	<b>0.00</b>	<b>32,322,137.22</b>	<b>302,044.63</b>	<b>519,108,143.78</b>	<b>1,343,059,084.18</b>	<b>2,001,158,504.25</b>	
<b>TOTAL FIXED ASSETS</b>	<b>1,838,727,463.86</b>	<b>1,338,696,290.70</b>	<b>503,587,794.36</b>	<b>526,733,230.82</b>	<b>0.00</b>	<b>178,850,828.00</b>	<b>3,021,718,363.02</b>	<b>364,702,402.94</b>	<b>219,314,000.84</b>	<b>322,675,985.50</b>	<b>0.00</b>	<b>44,219,704.88</b>	<b>302,044.63</b>	<b>862,170,639.77</b>	<b>1,474,025,060.92</b>	<b>2,159,547,723.25</b>	

# NOVOMATIC AG PROVISIONS

as of December 31, 2018

PROVISIONS	Balance as of 12/31/17	Addition from merger	Balance as of 01/01/2018	Consumption	Release	Allocation	Balance as of 12/31/18
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
1. Provisions for severance payments	1,957,813.00	8,812,157.00	10,769,970.00	139,931.00	738,510.00	238,618.00	10,130,147.00
2. Provisions for pensions	7,300,571.00	0.00	7,300,571.00	0.00	0.00	765,109.00	8,065,680.00
3. Provisions for taxes							
Provision for corporate income tax	0.00	8,366,935.41	8,366,935.41	105,341.00	3,225,000.00	269,020.00	5,305,614.41
Provision for corporate income tax DE	248,000.00	0.00	248,000.00	0.00	0.00	90,000.00	338,000.00
Deferred taxes	0.00	10,594,659.00	10,594,659.00	10,594,659.00	0.00	0.00	0.00
	248,000.00	18,961,594.41	19,209,594.41	10,700,000.00	3,225,000.00	359,020.00	5,643,614.41
4. Other provisions							
Provisions for consulting fees	1,216,865.12	198,500.00	1,415,365.12	679,433.13	24,051.99	780,600.00	1,492,480.00
Provisions for unconsumed vacation	1,290,230.69	5,050,047.47	6,340,278.16	6,340,278.16	0.00	6,321,599.07	6,321,599.07
Provisions for time credits	0.00	475,757.33	475,757.33	475,757.33	0.00	552,390.08	552,390.08
Provisions for special payments	0.00	7,557.70	7,557.70	0.00	0.00	3,667.83	11,225.53
Other current provisions for personnel	1,900,000.00	0.00	1,900,000.00	1,900,000.00	0.00	0.00	0.00
Damages	0.00	4,616,000.00	4,616,000.00	667,955.80	53,044.20	4,225,000.00	8,120,000.00
Provisions for jubilee payments	62,994.00	2,361,899.00	2,424,893.00	109,438.86	45,874.42	741,336.28	3,010,916.00
Provisions for guarantees	0.00	3,290,500.00	3,290,500.00	0.00	0.00	428,300.00	3,718,800.00
Customer bonuses, discounts	0.00	125,738.72	125,738.72	81,865.21	0.00	37,057.13	80,930.64
Other provisions	8,638,969.57	8,510,054.63	17,149,024.20	8,485,648.62	148,510.02	5,843,985.14	14,358,850.70
	13,109,059.38	24,636,054.85	37,745,114.23	18,740,377.11	271,480.63	18,933,935.53	37,667,192.02
<b>TOTAL PROVISIONS</b>	<b>22,615,443.38</b>	<b>52,409,806.26</b>	<b>75,025,249.64</b>	<b>29,580,308.11</b>	<b>4,234,990.63</b>	<b>20,296,682.53</b>	<b>61,506,633.43</b>

# 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<sup>st</sup>, 2018, 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<sup>st</sup>, 2018 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.

### Shares in affiliated companies – valuation

#### Description and Issue

NOVOMATIC AG evaluates annually the impairment of the shares in affiliated companies. For this purpose the enterprise value for all material investments is calculated using discounted cash flows based on the latest forecasts prepared by the company. Subsequently, the equity value is derived from the enterprise value. This equity value is then compared to the carrying value of the investment. For the valuation of shares in affiliated companies, which are held for sale, the estimated purchase price is used as the valuation benchmark. Due to significant changes in the legal or economic environment in 2018 NOVOMATIC AG had to fundamentally revise the forecasts for several markets.

These changes resulted in a depreciation of the posit on shares in affiliated companies in the amount of TEUR 288,332. For further details please refer to chapter "2. Financial assets" included in the notes. The forecasts, which built the basis for the valuations, are, amongst other things, based on estimations of the effects of these legal and economic changes and are therefore subject to

significant uncertainties. Due to that fact and the significance of the shares in affiliated companies in the financial statements we identified this posit on as a key matter for our audit.

#### Our response

Firstly, we examined the assumptions underlying the forecasts prepared by NOVOMATIC AG. Furthermore, we reviewed the calculation model used by the company. In addition, for the year 2019 we reconciled the figures projected in the forecasts, with the budget approved by the supervisory board. To verify the discount rates, used by NOVOMATIC AG, we predetermined plausible ranges, and used them as benchmarks. Additionally, where sales prices were used as valuation benchmarks, we reviewed the documents of the sales negotiations. For investments with low excess coverage we performed sensitivity analyses using different scenarios based on modifications of critical assumptions.

### 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 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 Responsibility 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.

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.
- 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 is prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to sect on 243a UGB and is consistent with the financial statements.

## Statement

In our opinion, the management report is prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to sect on 243a UGB and is consistent with the financial statements.

## 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 June 12<sup>th</sup>, 2018 and commissioned by the supervisory board on October 28<sup>th</sup>, 2018 to audit the financial statements for the financial year ending December 31<sup>st</sup>, 2018. We have been auditing the Company uninterrupted since the financial year ending December 31<sup>st</sup>, 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, March 22<sup>nd</sup>, 2019

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 audit's report may be published or be 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.



# SUPERVISORY BOARD REPORT NOVOMATIC AG

for the fiscal year 2018



The examination of the annual financial statements by the Supervisory Board did not give cause for any objections. The annual financial statements drawn up by the Executive Board were approved by the Supervisory Board and hence adopted in accordance with the AktG – Austrian Stock Corporation Act. The Supervisory Board agrees with the proposal of the Executive Board regarding the use of the net profits from 2018.

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 2018.

Gumpoldskirchen, March 2019  
The Supervisory Board

Dr. Bernd Oswald  
(Chairman)

The Supervisory Board held five meetings during the 2018 fiscal year in which the Executive Board reported on business policy, and the Supervisory Board discussed, in detail, business developments and the position of the company. In addition, the Supervisory Board auditing committee received reports from the Executive Board and the auditor in four meetings.

The annual financial statements from the 31.12.2018 and the Executive Board management report, to the extent that it explains the annual financial statements, have been examined in regards to accounting by Deloitte Audit Wirtschaftsprüfungs GmbH, who were appointed as auditor by the Annual General Meeting and who have issued an unqualified audit opinion.

# SPACE FOR NOTES

Area with horizontal dashed lines for notes.





# IMPRINT

## Symbols used in this report

- ✓ Reference to an indicator according to the Global Reporting Initiative, 4.0, Level core
- i Reference to further information or crossreferences within the 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. We have prepared this report with the utmost care and have checked the data therein. Nevertheless, errors arising from rounding, typesetting or printing cannot be excluded. The aggregation of rounded amounts and percentages may result in rounding differences due to the use of automated computational aids.

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.

This annual report is available in German. In the event of disputes, the German version shall take precedence.

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 Alexandra Lindlbauer  
**Proofreading:** Tanja Staska, BA  
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