NOVOMATIC AG

Interim Financial Report

as of 30 June 2018

Overview of Key Figures

EUR m	01 - 06/2018	01 - 06/2017	Modification	
			million	%
Revenues	1,365.3	1,212.0[1]	+153.3	+12.6%
EBITDA	318.0	284.9[1]	+33.1	+11.6%
Operating profit (EBIT)	148.4	120.7[1]	+27.7	+23.0%
Profit for the period	109.9	56.3[1]	+53.6	+95.3%
EBITDA margin (EBITDA/revenues)	23.3%	23.5%		
Free cash flow before acquisitions	-3.1	25.4	-28.6	-112.3%
Free cash flow after acquisitions	-297.0	-95.8[1]	-201.3	-210.1%

EUR m	6/30/2018	12/31/2017	Modification	
			Million	%
Balance sheet total	4,336.0	4,099.7	+236.3	+5.8%
Equity	1,591.4	1,328.9	+262.5	+19.8%
Equity ratio (equity/balance sheet total)	36.7%	32.4%		
Number of employees (average)	25,973	24,415		+6.4%

1) Adjustment of previous year’s figures according to IAS 8 “Accounting Policies”

Contents

Consolidated Management Report

1. Purpose of the Business and Strategy

NOVOMATIC[1] is an integrated global gaming technology and entertainment group with more than 35 years of experience as a producer of innovative high-tech gaming equipment. The Group develops, manufactures and sells gaming products, lottery technologies and networked system solutions for domestic and international gaming and betting markets. NOVOMATIC furthermore operates nearly 2,200 gaming facilities worldwide, which include regular casinos, electronic casinos, sports betting outlets and bingo facilities.

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

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

2. Economic Conditions

The International Monetary Fund (IMF)[2] left their July 2018 growth forecast mostly unchanged from the April 2018 version. Experts attribute the strong synchronous growth to the current global economy, but at the same time warn that the risks are rising due to ongoing world trade tensions. Strong demand for commodities lifted their prices, which benefited commodity-exporting countries. However, the global economy is currently expected to have reached its peak.

Global economic growth for 2018 and 2019 is expected to be 3.9 percent, just above the previous year's level of 3.7 percent. For the current year, the growth in emerging markets and developing countries is forecasted at 4.9 percent (2019: 5.1 percent), followed by the U.S. at 2.9 percent (2019: 2.7 percent) and the Eurozone at 2.2 percent (2019: 1.9 percent).

According to the International Monetary Fund, the forecast is conditional on no further intensification of trade disputes between the U.S., China and the European Union. In the longer term, the IMF not only sees a potential increase in protectionism as a major risk, but also includes the increase in the average age in the industrialized countries and the associated decline in the proportion of the working population as being some of the central problems.

Economic growth in the Eurozone is expected to slow from 2.4 percent in 2017 to 2.2 percent in 2018 and 1.9 percent in 2019. This is a downward revision of 0.2 percentage points for 2018 and 0.1 percentage points for 2019 from the forecast in April 2018. Forecasts for growth in 2018 were revised downwards for Germany and France following a stronger-than-expected slowdown in the first quarter. In Italy, broader sovereign bond spreads and more restrictive financial conditions due to recent political uncertainty are likely to weigh on domestic demand. According to the current IMF assessment, the United Kingdom will see growth slow by 0.3 percent to 1.4 percent this year (2017: 1.7 percent).

[1] In this interim financial report, the terms "NOVOMATIC", "Group" and "NOVOMATIC Group" refer to the group of consolidated companies included in the Consolidated Interim Financial Statements for NOVOMATIC AG.
[2] According to the World Economic Outlook provided by the International Monetary Fund (IMF)

In its macroeconomic forecast for Austria, from 2018 to 2020 the Austrian National Bank (ÖNB) expects that the boom being experienced in the Austrian economy will continue in 2018. Real GDP growth will remain at 3.1 percent this year. In 2017, the Austrian export industry benefited from the positive international economic development. Exports of goods and services increased by 5.6 percent, more than doubled the growth in 2016. However, the end of the economic cycle indicates a slowdown in growth to 2.1 percent and 1.7 percent for 2019 and 2020, respectively. In addition to exports, persistently strong domestic demand in 2018 is driving growth. Private consumption is expected to grow by a moderate 1.5 percent in 2018, but to weaken slightly in 2019 and 2020 to 1.4 percent and 1.3 percent, respectively.

3. Business Performance

Significant Events During the First Half of 2018

For NOVOMATIC, the first half of 2018 was again characterized by an expansion of its business activity. Through organic and acquisition-driven growth, revenues (before gaming taxes and betting fees) reached an all-time six-month high of EUR 1,365.3 million, compared to EUR 1,212.0 million in the first half of 2017. This development stems primarily from the acquisition of approximately 52 percent of the shares in Ainsworth Game Technology Ltd.

Significant changes, which resulted in a decline in both revenue and earnings, were recorded in the online area in the first half of 2018. Due to the legal frameworks in Germany, it was decided to terminate the relationship with B2B customers in the German online market because of regulatory reasons. However, new B2B customers in other markets, ongoing product improvements in the B2C area and considerable cost savings partly compensated for the decline in revenue and earnings.

In Germany, the most important market for NOVOMATIC, industry-related framework conditions (State Treaty Amendment on Gaming, accompanying state laws on gaming arcades, amendment of the Gaming Ordinance) led to a reduction in the market. Due, in particular, to a decline in the number of leased gaming devices in Germany, the leased gaming machines at the Group level in the first half of 2018 actually decreased by circa 6 percent compared to those in the same period last year.

In Italy, the AWP (Amusement With Prizes) market was also impacted from legal changes. The number of operated devices dropped by 35 percent compared to those in 2016. In addition, the requirements for gaming operators (e.g. distance regulations) were stricter.

In Moldova, NOVOMATIC successfully concluded an exclusive contract as a technology partner with the state lottery for 15 years. NOVOMATIC will provide at least 3,500 gaming devices including the necessary gaming systems and online casino games.

Despite the regulatory challenges, the ordinary operating profit before depreciation and amortization (including impairments and reversals of impairment losses), interest and taxes (EBITDA) and operating profit (EBIT) increased. The main reasons for the positive development are the acquisition of Ainsworth Game Technology Ltd., ongoing acquisitions in the segment gaming operations, as well as performance improvements in the core markets of NOVOMATIC. In addition, one-time effects as well as preparatory work for the legally required conversion of all gaming devices in Germany had a lower impact on profitability when compared to those impacts in the same period of the previous year.

Acquisitions and Disposal of Interests in Companies

On the one hand, the objective of acquisitions is to achieve or solidify a market-leading position in existing markets. On the other hand, acquisitions support the pursuit of NOVOMATIC’s strategy to develop new markets and technologies in order to achieve further diversification for the Group and thus to 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 completed in January 2018, after receiving the formal approval from various international licensing and regulatory bodies. Ainsworth Game Technology Ltd. is a publicly traded Australian company based in Newington, Sydney, with global offices in North and South America. The company is a leading producer and provider of high-quality, innovative gaming solutions in Australasia as well as North and South America. This acquisition represents another milestone in the corporate history of NOVOMATIC and is of major strategic importance as it paves the way to access the enormously important North American market, a region with almost one million operated gaming machines. Ainsworth is also a market leader in gaming-enthusiastic Australia and has a strong presence in the Latin American market. The agreed purchase price was AUD 473.3 million.

Furthermore, during the 2018 fiscal year, several smaller acquisitions in Germany, Italy, Spain and CEE were concluded, especially those with focus on operating gaming halls, bars and bingo. With these acquisitions, the Group is enhancing its market position in the European core markets.

At the end of June 2018, a UK subsidiary, which did not meet the previous economic expectations, was divested.

Earnings Position

In the first half of 2018, NOVOMATIC Group generated EUR 1,365.3 million revenues, compared to EUR 1,212.0 million in the same period of 2017. The largest increase in revenues in absolute figures was achieved in the area of sales of gaming machines and other gaming equipment, which increased by 96.2 percent. The acquisition of Ainsworth Game Technology Ltd. contributed significantly to this development.

Significant revenue increases were also achieved by an increase in other revenues by 40.9 percent over the previous year. This increase is largely attributable to licensing income in relation to lottery technology.

Live Game revenues increased by 32.0 percent year-on-year due to a significant increase in the bingo business in Italy.

Betting revenues increased by 16.6 percent compared to the same period last year. These revenues increased across all regions, especially in the core markets of Austria (+EUR 5.2 million) and Italy (+EUR 2.6 million).

Revenues from operation of gaming machines were up 9.6 percent year-on-year in the first half of 2018, despite the sale of the operating business in Peru (EUR 15.6 million in the first half of 2017) and regulatory changes. The markets of Germany, Italy, Spain, Austria and CEE, in particular, contributed to this positive development.

Rental revenues decreased by 3.1 percent compared to the previous year. In particular, the core market of Germany has recorded a decline in its rental portfolio due to the stricter industry-specific framework conditions (State Treaty on Gaming, accompanying state laws on gaming arcades, amendment of the Gaming Ordinance). This decline was partly offset by a positive contribution resulting from the acquisition of Ainsworth Game Technology Ltd. with rental revenues in the amount of EUR 18.2 million.

E-business revenues fell by 16.5 percent compared to the first half of last year. This development is mainly the result of a significant decline in B2B revenues in Germany.

According to an increase in sales revenues, sales reductions increased significantly by EUR 19.8 million compared to the previous year.

Gaming taxes and betting fees, which depend largely on the gaming machine and betting revenues, increased in the first half of 2018 to EUR 156.1 million, compared to EUR 136.9 million in the same period of the previous year. The increase of 14.0 percent resulted mainly from the core markets of Germany, Austria, Spain, CEE and Italy. In Germany, the acquisition of the casino operator Casino Royal GmbH on March 31, 2017, in particular, led to an increase in gaming taxes.

Total other operating income fell by EUR 21.4 million compared to the same period in 2017. The negative deviation is due to the omission of significant earn-out income as well as one-time effects of NOVOMATIC AG in connection with the sale of options to acquire shares in the previous year.

The decline in own work capitalized of EUR 40.2 million stems largely from the core market in Germany. Similarly, the decrease in the cost of materials amounting to EUR 8.0 million, as well as the changes in inventory of finished products and work in progress amounting to EUR 6.0 million resulted mainly from the German (the latter also from the Austrian) market. All positions reflect the preproduction of self-produced gaming devices, which is necessary as a result of the amendment to the German Gaming Ordinance. The regulatory changes stipulate that starting from November 2018 gaming devices that correspond to the old technical directive will no longer be allowed.

Personnel costs in the NOVOMATIC Group in the first half of the year was EUR 414.5 million compared to EUR 370.1 million in the previous year. The rise is mostly due to the acquisition of Ainsworth Game Technology Ltd. and the acquisition of Casino Royal GmbH. Personnel costs remain high due to the pre-production of gaming equipment in connection with the new Gaming Ordinance and the temporary increase in the production capacity. The increase in personnel costs in the Group also reflects the additional level of activity in the area of research and development.

Other operating expenses increased to EUR 418.6 million, compared to EUR 409.5 million last year. These increases are related to the expansion of operations and in the first half of 2018 resulted mainly from the acquisition of Ainsworth Game Technology Ltd. (15.2 million) and from those countries where strong acquisition activities (especially for casino operators) took place. The biggest increases stem from rental, lease and operating expenses by EUR 10.6 million over the previous year. However, other cost categories showing increases, such as advertising costs, are directly related to the expansion. On the other hand, there are significantly lower negative effects from foreign exchange amounting to EUR 3.6 million compared to the previous year. In the previous year, there were substantial foreign exchange losses linked to a weaker US dollar and British pound. Foreign currency losses at the end of June 2017 amounted to EUR 14.7 million.

In addition, part of the provision recognized in 2017 for impending losses in relation to lottery technology was used in the first half of 2018.

Earnings before interest, taxes, depreciation and amortizations (EBITDA) for the first half of 2018 came in at EUR 318.0 million, which is EUR 33.1 million above the result achieved in the first half of 2017. The operating profit (EBIT) increased by EUR 27.7 million to EUR 148.4 million.

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

The financial result improved from EUR -7.1 million in the previous year to EUR -3.0 million in the first half of 2018. Compared to the previous year, positive currency effects from intra-Group financing contributed to the improved result.

The earnings before taxes improved to EUR 145.4 million during the reporting period. This corresponds to an increase of EUR 31.8 million. After taking income tax amounting to EUR 35.6 million and result from discontinued operations amounting to EUR 0.1 million into consideration, the Group was able to record a profit of EUR 109.9 million for the first half of 2018, compared to EUR 56.3 million for the previous year.

Net Assets

The balance sheet total as of June 30, 2018, increased against December 31, 2017, by EUR 236.3 million to EUR 4,336.0 million. In terms of non-current assets, intangible assets increased by EUR 333.1 million to EUR 1,214.5 million. The increase mainly relates to goodwill (EUR 125.5 million) and is largely due to the acquisition of Ainsworth Game Technology Ltd. in Australia and the recently acquired companies in Germany. Another reason for the change in intangible assets is the increase in software (EUR 100.0 million), customer relationships (EUR 61.5 million) and brands (EUR 58.4 million), which also resulted from the acquisition of Ainsworth Game Technology, Ltd.

Property, plant and equipment increased compared with December 31, 2017, from EUR 1,041.7 million to EUR 1,156.2 million. The largest deviations are found in prepayments, land improvement, and property under construction invested mainly in Germany in connection with the replacement of gaming devices due to the change in the regulation and Ainsworth Game Technology Ltd. contributing to this increase.

Financial assets, mainly comprising financial investments in Austrian gaming companies, increased to EUR 277.5 million from EUR 271.2 million as of December 31, 2017.

Regarding current assets, inventories increased by EUR 124.5 million to EUR 392.6 million, with the increase stemming mainly from the core markets of the United Kingdom, Germany, Italy, and Austria. In addition, inventories increased due to the acquisition of Ainsworth Game Technology Ltd. Trade receivables, other receivables and assets increased by EUR 78.2 million to EUR 486.9 million.

Another major change regarding current assets was in relation to cash and cash equivalents. Compared to December 31, 2017, cash and cash equivalents decreased by EUR 437.2 million to EUR 462.5 million. The decline resulted from the acquisition of Ainsworth Game Technology Ltd., investments in property, plant and equipment (among other things in connection with the pre-production of self-produced gaming devices in Germany), and repayment of financial liabilities.

Equity increased by EUR 262.5 million to EUR 1,591.4 million. A bond with an emission volume of EUR 250 million to be redeemed in January 2019 was reclassified from long-term financial liabilities to short-term financial liabilities.

Financial Position

Cash flow from operating activities in the first half of 2018 amounting to EUR 167.7 million decreased by EUR 44.9 million from that of the previous year. This was due partly to higher cash outflows against 2017 from the change in net working capital, which contains the changes in inventories, receivables, business-related liabilities and other provisions. This mainly resulted from the build-up of inventories in connection with the replacement of gaming devices in Germany previously mentioned, the reduction of liabilities and the partly use of the provision for impending losses.

Cash flow from investing activities decreased from EUR -308.4 million in the previous year to EUR -464.8 million during the reporting period. It is noted that an increase in cash outflows of EUR 203.9 million for the item "Acquisition of consolidated companies, net of cash", resulted in particular from the acquisition of Ainsworth Game Technology Ltd.

Cash flow from financing activities amounting to EUR -144.0 million in the first half of 2018 fell from the comparable period last year (EUR -133.8 million). The deviation essentially results from two opposing effects. The higher repayment of non-current financial liabilities of EUR 42.5 million had a negative impact, which partly offset with the lower dividend distributions of EUR 26.3 million in the first half of 2018.

Free Cash Flow

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

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

“Free cash flow before acquisitions” is negative and comes to EUR -3.1 million against EUR +25.4 million in the first half of 2017. “Free cash flow after acquisitions” decreased over the previous year’s level from EUR -95.8 million to EUR -297.0 million as a result of higher cash outflows for company acquisitions.

EUR m	01-06/2018	01-06/2017
Cash flow from operating activities	167.7	212.6
Cash flow from investing activities (excluding acquisitions)[1]	-170.9	-187.2
Free cash flow before acquisitions	-3.1	25.4
Cash flow from acquisitions[2]	-293.9	-121.2
Free cash flow after acquisitions	-297.0	-95.8

[1] Includes income from the sale of fixed assets (excluding financial assets) (EUR 45.7 million in 01-06/2018) and acquisition of intangible assets and property, plant and equipment (EUR -216.6 million in 01-06/2018)

[2] Includes “Results from associated companies and investments” (EUR 8.9 million in 01-06/2018), “Proceeds from the sale/repayment of financial assets” (EUR 2.8 million in 01-06/2018), “Proceeds from the sale of consolidated companies less cash and cash equivalents” (EUR 15.1 million in 01-06/2018), “Acquisition of financial assets and other financial investments” (EUR -1.4 million in 01-06/2018) and “Acquisitions of companies less cash and cash equivalents” (EUR -319.3 million in 01-06/2018)

4. Segment Analysis

Segment Reporting Contents

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

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

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

The Other segment includes all activities not included in the Group's core business areas. This segment contains, above all, smaller holding companies.

Gaming Technology

The external revenues in the Gaming Technology segment amounted to EUR 620.4 million in the reporting period. Compared to the previous year, this represents an increase of EUR 84.2 million, mainly due to the acquisition of Ainsworth Game Technology Ltd. (EUR 92.4 million).

Germany

The First State Treaty amending the State Treaty on Gaming in Germany (Glücksspieländerungsstaatsvertrag, GlüÄndStV) came into effect in Germany on July 1, 2012, which largely comprises the establishment of distance regulations between slot arcades and youth facilities. It also contains a ban on multiple concessions and therefore limits one location to a maximum of twelve gaming devices. A (basic) transition period of five years was granted to implement the new, restrictive regulations, and thus the conditions must be met by July 1, 2017. The stricter legal environment resulted in muted willingness to invest in the German gaming industry even before the end of the transition period. The changes in the legal framework led to a market reduction in the arcade segment and, consequently, to a decline in leased gaming machines.

The changes to the regulatory framework conditions also include the amendment to the German Gaming Ordinance. This stipulates that gaming devices corresponding to the old technical directive may no longer be operated starting from November 11, 2018. When operating gaming machines, the maximum loss per hour must be lowered and the maximum profit per hour must be reduced. In addition, structural changes are to be made to the gaming machine themselves, especially in relation to the buttons. The amendment to the Gaming Ordinance is aimed at reducing the attractiveness of the machines. All devices in the market must be updated to comply with the specifications of technical guideline 5.0 or replaced by new machines.

Due to the tightened regulatory environment, revenues fell by EUR 19.8 million to EUR 128.3 million. The number of gaming devices leased by NOVOMATIC fell accordingly by ca. 6 percent compared to previous year.

The preparatory work for the legally required conversion of all gaming devices in Germany led to additional costs in the first half of 2018. In addition to significant rises in personnel costs, higher logistics costs and marketing expenses (for customer loyalty), in particular, contributed to a performance decline in Germany. The costs to convert all NOVOMATIC devices in the German market (except for casinos) will reach its peak in 2018. In subsequent periods, a significant reduction in these costs is expected.

Italy

Revenues of the Italian companies generated from the Gaming Technology segment reached a level of EUR 95.3 million in the first half of 2018, compared to EUR 100.5 million in the previous year.

The decline in the AWP market in the first half of 2018 resulting from regulatory changes had a negative impact on revenues. Sales revenues decreased by around EUR 3.5 million to EUR 2.5 million, compared to the same period last year. Rental revenues also fell slightly by EUR 1.6 million to EUR 70.6 million compared to the previous year.

United Kingdom

Revenues of the companies in the United Kingdom falling into the Gaming Technology segment reached a level of EUR 56.3 million in the first half of 2018, and thus remained unchanged from the previous year.

The pub sector, a traditionally important sector in the British gaming industry, is undergoing a period of change. Analog gaming devices are increasingly being replaced by digital devices.

The uncertainty associated with the upcoming exit of the UK from the European Union is dampening the overall economic outlook and growth in the UK. Personnel costs will rise due to the 4.4 percent increase in minimum wages in April 2018.

Spain

Revenues of the Spanish companies falling into the Gaming Technology segment reached a level of EUR 24.4 million in the first half of 2018, compared to EUR 29.2 million in 2017. The decline is due to lower sales revenues.

CEE

The regions consist of Central, Eastern and South-Eastern Europe. In summary, the companies falling into the Gaming Technology segment saw an increase in revenues of EUR 10.8 million to EUR 40.6 million. This increase is primarily the result of higher sales revenues and was mainly generated in the markets of Romania, Serbia and Bulgaria.

Online (B2B)

In the first half of 2018, revenues in online and mobile gaming (B2B) decreased by EUR 7.2 million to EUR 20.9 million. This decrease is mainly due to the decision to end the distribution of games and platform solutions due to the regulatory environment in the German market as of end of 2017. The decision to terminate B2B contracts with customers caused a decline in sales revenues in the first half of 2018.

Gaming Operations

The external revenues in the Gaming Operations segment amounted to EUR 829.4 million in the reporting period, representing a further increase over the previous year (EUR 755.1 million). The acquisitions of Casino Royal GmbH in Germany, as well as numerous smaller acquisitions of casino operators in Germany, Italy and Spain together with organic growth, contributed to the increase in revenues.

Austria

Revenues of all Austrian gaming and betting companies of the NOVOMATIC Group reached a level of EUR 133.4 million in the first half of 2018, compared to EUR 119.3 million in the previous year. The increase is due to both higher gaming machine revenues and higher betting revenues. In some Austrian federal states newly introduced fees on betting terminals led to a rise in betting fees.

Germany

The NOVOMATIC Group has seven casinos in Germany. With the venerable Spielbank Berlin, NOVOMATIC operates one of the highest revenues generating live casinos in Germany. In the first half of 2018, NOVOMATIC's German casinos were able to increase revenues by a total of around EUR 1.0 million to over EUR 39.1 million.

The significant portion of sales revenues in the German market is generated by the operating companies in the area of commercial gaming machines.

The change in the legal situation, especially after the First State Treaty on Gaming (Glücksspieländerungsstaatsvertrag, GlüÄndStV) came into effect, resulted in a market decline in the slot arcade segment and an associated decline in the gaming machines business. As a result of the changes in regulatory framework conditions, the number of locations in the area of commercial electronic gaming (excluding casinos) fell from 565 to 553. However, revenues from this area increased by around EUR 29.0 million to over EUR 193.0 million compared to the same period last year, because of successful acquisitions and arcade optimizations.

Italy

In this key European market, NOVOMATIC has been successfully implementing its integrated market strategy as a producer of gaming products and an operator of gaming facilities for several years.

The NOVOMATIC Group's Italian gaming operations were able to increase the number of own locations during the first six months of the current financial year. While the number of AWP machines operated has dropped due to legal changes, the number of VLT machines operated has increased. Revenues markedly increased and reached a level of EUR 101.4 million in the first half 2018, compared to EUR 79.0 million in the previous year, thanks to organic growth and acquisitions. It is noted that the Italian market is also characterized by restrictions in the regulatory area, such as the recently introduced advertising prohibition in the gaming sector.

United Kingdom

Revenues fell slightly by EUR 2.6 million year-on-year to EUR 74.2 million.

Spain

Revenues in the Gaming Operations segment in Spain rose from EUR 32.1 million in the first half of 2017 to EUR 43.3 million in the year under review thanks to organic and acquisition growth.

CEE

In summary, the companies falling into the Gaming Operations segment saw an increase in revenues of EUR 13.8 million to EUR 164.8 million. This increase is primarily the result of organic growth and was mainly generated in the markets of Poland, Latvia, Croatia and Romania.

Other markets

Revenues in this region had a negative development in the first half of the fiscal year. Due to the divestment of the business in Peru with revenues of EUR 15.2 million in the same period of the previous year, total sales revenues in the segment during this reporting period fell by EUR 10.0 million to EUR 40.1 million. However, the negative deviation from the sale is partially offset by sales increases of EUR 5.4 million in the Netherlands.

Online (B2C)

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

The NOVOMATIC Group recorded a decline in revenues in the Gaming Operations segment of EUR 7.7 million to EUR 32.3 million in the first half of 2018 compared to the previous year.

Other

The Other segment mainly comprises smaller holding companies.

5. Non-Financial Performance Indicators – Employee Issues

As of June 30, 2018, the NOVOMATIC Group employed 26,230 people (headcount at the reporting date). Compared to the end of 2017, this corresponds to an increase in the number of employees by 694. This rise is mainly due to the expansion.

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

6. Significant Risks and Uncertainties

NOVOMATIC's annual report for the financial year 2017 includes the main risks and uncertainties that could have a considerable negative impact on the NOVOMATIC Group's asset, financial and earnings position and reputation. During the first six months of the financial year 2018, no further significant risks and uncertainties were identified beyond those presented in the annual report for the financial year 2017.

The annual report for the financial year 2017 furthermore includes a detailed description of the structure of the risk management system, as well as the main characteristics of the internal controlling system regarding the accounting process.

Consolidated Interim Financial Statements

Consolidated Balance Sheet

EUR m	6/30/2018	12/31/2017
ASSETS		
Non-current assets		
Intangible assets	1,214.5	881.4
Property, plant and equipment	1,156.2	1,041.7
Investment property	20.9	21.5
Investments in associated companies	2.7	1.4
Financial assets	277.5	271.2
Deferred tax assets	110.6	98.6
Other non-current assets	133.9	130.4
	2,916.4	**2,446.1**
Current assets		
Inventories	392.6	268.1
Trade receivables, other receivables and assets	486.9	408.7
Current tax receivables	35.6	31.4
Current financial assets	23.3	25.4
Cash and cash equivalents	462.5	899.7
Assets of a group held for sale	18.6	20.4
	1,419.6	**1,653.6**
Total ASSETS	**4,336.0**	**4,099.7**

EQUITY AND LIABILITIES		
Equity		
Share capital	26.6	26.6
Capital reserves	85.4	85.4
Retained earnings	1,260.4	1,169.0
Revaluation reserve	42.2	23.3
Currency translation adjustment	-82.7	-66.8
	1,331.9	1,237.5
Non-controlling interests	259.5	91.4
	1,591.4	**1,328.9**
Non-current liabilities		
Non-current financial liabilities	1,545.7	1,829.0
Non-current provisions	83.4	83.8
Deferred tax liabilities	201.2	131.9
Other non-current liabilities	52.9	53.5
	1,883.2	**2,098.2**
Current liabilities		
Current financial liabilities	294.0	72.0
Current provisions	63.9	82.8
Current tax liabilities	53.7	71.7
Trade payables and other liabilities	435.7	429.8
Liabilities of a group held for sale	14.1	16.2
	861.4	**672.6**
Total EQUITY AND LIABILITIES	**4,336.0**	**4,099.7**

Consolidated Income Statement

EUR m	01 - 06/2018	01 - 06/2017
Revenues	1,365.3	1,212.0[1]
Gaming taxes and betting fees	-156.1	-136.9
Revenues less gaming taxes and betting fees	**1,209.2**	**1,075.1**
Changes in inventories of finished goods and work in progress	20.7	14.7
Own work capitalized	80.6	120.9
Other operating income	35.7	57.1[1]
Cost of material and other purchased services	-195.2	-203.2[1]
Personnel costs	-414.5	-370.1[1]
Amortization, depreciation, impairment and reversal of impairment for intangible assets, property, plant and equipment, and investment property	-169.6	-164.2[1]
Other operating expenses	-418.6	-409.5[1]
Operating profit	**148.4**	**120.7**
Share in the result of associated companies	-1.6	0.0
Interest income	5.4	6.4
Other financial income	9.9	15.6
Interest expenses	-18.4	-20.8
Other financial expenses	-4.3	-7.2
Currency exchange gains/losses from intra-group financing	6.0	-1.1
Financial result	**-3.0**	**-7.1**
Earnings before taxes	**145.4**	**113.6**
Tax expenses	-35.6	-39.9[1]
Net income from continued operations	**109.8**	**73.7**
Result from discontinued operations	0.1	-17.4[1]
Profit for the period	**109.9**	**56.3**
thereof attributable to non-controlling interests	9.4	0.2
thereof attributable to shareholders of the parent (net profit)	100.5	56.1

1) Adjustment of previous year's figures according to IAS 8 "Accounting Policies"

Consolidated Statement of Comprehensive Income

EUR m	01 - 06/2018	01 - 06/2017
Profit for the period	**109.9**	**56.3**
Amounts that will be reclassified to profit and loss account in subsequent periods		
Currency translation	-14.5	-8.4
Hedging of payment flows	0.0	-11.4
Market value of financial assets available for sale	0.0	21.1
Apportionable income tax	0.0	-5.3
Amounts that will not be reclassified to profit and loss account in subsequent periods		
Revaluation of the net defined benefit liability	0.0	0.3
Apportionable income tax	0.0	-0.1
Financial assets measured at fair value through OCI (equity instruments)	-8.4	0.0
Apportionable income tax	2.2	0.0
Other comprehensive income after taxes	**-20.7**	**-3.7**
Total comprehensive income	**89.2**	**52.6**
thereof attributable to non-controlling interests	5.3	0.4
thereof attributable to shareholders of the parent (net profit)	83.9	52.2

Consolidated Cash Flow Statement

EUR m	01 - 06/2018	01 - 06/2017
Operating profit	**148.4**	**120.7**[1]
Result from discontinued operations	**0.1**	**-17.4**[1]
	148.5	**103.2**
Loss (+) / Gain (-) from the disposal of fixed assets	-5.8	-6.6
Depreciation (+) / Appreciation (-) of fixed assets	169.6	178.4
Other non-cash income and expenses	-0.4	-13.5
Interest received and interest-related income	**5.8**	**11.8**
Taxes paid	-67.4	-45.7
	250.3	**227.6**
Increase (-) / Decrease (+) in inventories	-57.8	-26.4
Increase (-) / Decrease (+) in receivables	12.0	8.4
Increase (+) / Decrease (-) in provisions	-20.4	-4.8
Increase (+) / Decrease (-) in liabilities	-16.4	7.8
Cash flow from operating activities	**167.7**	**212.6**
Proceeds from the disposal of fixed assets (excluding financial assets)	45.7	42.2
Proceeds from the disposal/repayment of financial assets	2.8	3.6
Proceeds from the sale of consolidated companies, net of cash	15.1	12.7
Acquisition of intangible assets, property, plant and equipment	-216.6	-229.4
Acquisition of financial assets and other financial investments	-1.4	-26.3
Acquisition of consolidated companies, net of cash	-319.3	-115.4
Results from associated companies and investments	8.9	4.2
Cash flow from investing activities	**-464.8**	**-308.4**
Dividend payments	-29.9	-56.2
Proceeds from non-controlling interests	0.6	0.0
Expenditures from change in interests in subsidiaries (without change of control)	-2.4	0.0
Proceeds from bank loans and financial liabilities	15.7	11.4
Payouts from bank loans and financial liabilities	-104.2	-61.7
Interest paid and interest-related expenses	-23.6	-27.4
Cash flow from financing activities	**-144.0**	**-133.8**
Net change in cash and cash equivalents	**-441.0**	**-229.6**
Currency translation adjustments	3.7	1.3
Changes in cash and cash equivalents due to changes in scope of consolidation	0.2	2.2
Net change in cash and cash equivalents	**-437.2**	**-226.1**
Cash and cash equivalents at the beginning of the period	899.7	877.8
Cash and cash equivalents at the end of the period	462.5	651.7
Net change in cash and cash equivalents	**-437.2**	**-226.1**

[1] Adjustment of previous year's figures according to IAS 8 "Accounting Policies"

Consolidated Statement of Changes in Equity

	Shares of shareholders of NOVOMATIC AG						Non-controlling interests	Equity
EUR m	Share capital	Capital reserve	Retained earnings	IFRS 9 reserves	Currency translation adjustment	Total		
As of 12/31/2017	**26.6**	**85.4**	**1,169.0**	**23.3**	**-66.8**	**1,237.5**	**91.4**	**1,328.9**
First-time application of IFRS 9	0.0	0.0	0.0	12.0	0.0	12.0	0.0	12.0
As of 1/1/2018	**26.6**	**85.4**	**1,169.0**	**35.2**	**-66.8**	**1,249.5**	**91.4**	**1,340.9**
1) Total comprehensive income								
Profit for the period	0.0	0.0	100.5	0.0	0.0	100.5	9.4	109.9
Other comprehensive income	0.0	0.0	4.9	-5.6	-15.9	-16.7	-4.1	-20.7
2) Dividend payments	0.0	0.0	-23.2	0.0	0.0	-23.2	-6.8	-29.9
3) Change in non-controlling interests	0.0	0.0	9.5	0.0	0.0	9.5	-11.5	-1.9
4) Changes in the scope of consolidation	0.0	0.0	-0.4	12.5	0.0	12.2	181.0	193.2
5) Obligation from written put options for non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6) Transactions under common control	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7) Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As of 6/30/2018	**26.6**	**85.4**	**1,260.4**	**42.2**	**-82.7**	**1,331.9**	**259.5**	**1,591.4**

	Shares of shareholders of NOVOMATIC AG						Non-controlling interests	Equity
EUR m	Share capital	Capital reserve	Retained earnings	IAS 39 reserves	Currency translation adjustment	Total		
As of 1/1/2017	**26.6**	**85.4**	**1,247.6**	**5.2**	**-52.4**	**1,312.4**	**64.3**	**1,376.7**
1) Total comprehensive income								
Profit for the period	0.0	0.0	56.1	0.0	0.0	56.1	0.2	56.3
Other comprehensive income	0.0	0.0	0.1	4.5	-8.5	-3.9	0.2	-3.7
2) Dividend payments	0.0	0.0	-50.0	0.0	0.0	-50.0	-6.2	-56.2
3) Change in non-controlling interests	0.0	0.0	1.6	0.0	0.0	1.6	-1.5	0.0
4) Changes in the scope of consolidation	0.0	0.0	0.2	0.0	0.0	0.2	16.2	16.4
5) Obligation from written put options for non-controlling interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6) Transactions under common control			-33.7	0.0		-33.7	3.3	-30.4
7) Capital increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As of 6/30/2017	**26.6**	**85.4**	**1,221.8**	**9.7**	**-60.9**	**1,282.6**	**76.5**	**1,359.1**

Selected Explanatory Notes

(1) Information about the Company

The NOVOMATIC Group consists of NOVOMATIC AG and its subsidiaries. NOVOMATIC AG is a public limited company according to Austrian legislation and its registered office is in Gumpoldskirchen, Austria. The company's address is NOVOMATIC AG, Wiener Straße 158, 2352 Gumpoldskirchen. The company is filed with the Register of Companies maintained by the Regional Court of Wiener Neustadt under FN 69548 b.

(2) Accounting Principles

The present consolidated interim financial statements of NOVOMATIC AG as of June 30, 2018 was prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU applicable for interim financial reports. The accounting and valuation methods of December 31, 2017 have been applied unchanged, with the exception of the newly applicable standards described below. For more information, please refer to the consolidated financial statements of NOVOMATIC AG as of December 31, 2017.

The consolidated interim financial statements are prepared under going concern. The condensed reporting scope of the consolidated interim financial statements is in conformity with IAS 34 "interim financial reporting".

The consolidated interim financial statements are prepared in Euros (EUR). For the purpose of clarity, all items in the consolidated financial statements are shown in millions of Euros (EUR m). Due to the rounding of individual values and percentages, insignificant discrepancies may arise.

a) Newly Applicable Standards and Interpretations

For the fiscal year beginning on January 1, 2018, the following new and revised or amended standards and interpretations were applied for the first time:

IFRS 9 Financial Instruments

The new IFRS 9 “Financial Instruments” deals with the classification, recognition, measurement and derecognition of financial assets and liabilities. The new regulations are based on the business model and the contractual cash flows when it comes to classifying financial instruments. Similarly, the recognition of write offs on financial assets has been reorganized to reflect the expected loss model. Furthermore, the regulations regarding hedge accounting were modified with the objective of allowing entities to better reflect risk management activities and to measure their effectiveness more easily. IFRS 9 also requires comprehensive new disclosures and changes in the presentation.

The NOVOMATIC Group retrospectively applies the new requirements of IFRS 9 “Financial Instruments” for the classification and measurement of financial instruments in the 2018 fiscal year, with a cumulative adjustment amounts being identified at the time of first-time application and thus no adjustment of the comparison information being carried out.

IFRS 9 provides three main categories for classifying financial instruments: at amortized cost, at fair value through other comprehensive income (FVTOCI) and at fair value through profit or loss (FVTPL). For the vast majority of financial instruments, the new classification did not have any noteworthy impact, as comparable principles are already applied during initial recognition and subsequent measurement.

The following table shows the reconciliation of the categories and carrying amounts of the financial instruments:

EUR m	Measurement categories according to IAS 39	Measurement categories according to IFRS 9	IAS 39 carrying amount as at December 31, 2017	IFRS 9 carrying amount as at January 1, 2018	Measurement adjustment pursuant to IFRS 9
Financial assets					
Investments in affiliated companies, non-consolidated	Available-for-sale financial assets (exception: stated at amortized cost)	At fair value through profit or loss	13.6	13.6	0.0
Investments – Other	Available-for-sale financial assets (exception: stated at amortized cost)	At fair value in other comprehensive income	17.5	34.1	16.6
Investments – Financial investments	Available-for-sale financial assets	At fair value in other comprehensive income	234.9	234.9	0.0
Securities – Equity instruments	Available-for-sale financial assets	At fair value in other comprehensive income	11.4	11.4	0.0
Securities – Debt instruments	Available-for-sale financial assets	At fair value in other comprehensive income	1.5	1.5	0.0
Securities – Investment funds	Available-for-sale financial assets	At fair value through profit or loss	0.1	0.1	0.0
Derivatives	Derivatives	At fair value through profit or loss	0.0	0.0	0.0
Loans	Loans and receivables	At amortized cost	64.2	64.2	0.0
Trade and leasing receivables	Loans and receivables	At amortized cost	252.6	252.6	0.0
Other	Loans and receivables	At amortized cost	90.3	90.3	0.0
Cash and cash equivalents	Loans and receivables	At amortized cost	899.7	899.7	0.0
Financial liabilities					
Bonds	Financial liabilities at amortized cost	At amortized cost	939.2	939.2	0.0
Bank and leasing liabilities	Financial liabilities at amortized cost	At amortized cost	943.4	943.4	0.0
Loans	Financial liabilities at amortized cost	At amortized cost	5.4	5.4	0.0
Derivatives	Derivatives	At fair value through profit or loss	6.6	6.6	0.0
Purchase price obligations – Contingent considerations	Financial liabilities at fair value	At fair value through profit or loss	3.0	3.0	0.0
Purchase price obligations – Written put options	Financial liabilities at amortized cost	At amortized cost [1]	57.4	57.4	0.0
Trade payables	Financial liabilities at amortized cost	At amortized cost	110.2	110.2	0.0
Other liabilities	Financial liabilities at amortized cost	At amortized cost	61.8	61.8	0.0

[1)] The purchase price obligations resulting from written put options, which are generally dependent on the future results of the subsidiaries, are evaluated on an ongoing basis.

Investments in affiliated companies non-consolidated have so far been stated at cost, as there was an exemption for the valuation of unlisted equity instruments in this respect. However the new standard only allows a measurement at fair value. The analysis revealed that the range of variation between cost and fair value was not material, meaning that the transition had no effect.

The new regulations occasionally had an impact on the accounting of (other) participations, some of which were previously recognized at cost and are now measured at fair value. This results in an increase in the financial assets balance sheet item of EUR 16.6 million with a corresponding increase in deferred tax liabilities of EUR 4.6 million. The Group has also made use of the option of classifying these selected equity instruments, which according to IFRS 9 would normally be measured in profit or loss, as at fair value through other comprehensive income (FVTOCI). This will result in less volatility in the result, as in the future all valuation and disposal results from these equity instruments will be included in other comprehensive income.

The securities continue to be accounted for at fair value. While the equity instruments and debt instruments continue to be recognized in other comprehensive income (the first without recycling into the income statement, the second with corresponding recycling), there are differences in the shares held in investment funds. These must now be measured at fair value through profit and loss, as the payments in connection with the funds are not solely made up of interest and principal payments.

Other financial assets (excluding derivatives) continue to be measured at amortized cost because the payments related to these financial assets consist solely of interest and principal payments and are held to receive the contractual cash flows.

The new provision regarding impairment relates in particular to trade receivables, loans and bank and term deposits. In terms of trade receivables, the NOVOMATIC Group followed the suggestion in IFRS 9.B5.5.35, and use a provision matrix as an simplified approach to determine the required impairment losses, which will be based on historical default rates, if necessary adjusted with future-oriented information, and subject to a relevant risk grouping. The new impairment method does not result in any significant devaluation amounts or deviations from the previous impairments.

The cash flow hedge existing as of December 31, 2017 was continued in accordance with the transitional provisions as of January 1, 2018.

IFRS 9 had no impact on the classification and measurement of the Group’s financial liabilities.

IFRS 15 Revenue from Contracts with Customers

The new IFRS 15 “Revenue from Contracts with Customers” regulates revenue recognition and summarizes the previous regulations and interpretations of revenue recognition in a single standard. IFRS 15 replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31.

Pursuant to IFRS 15, revenues are to be recognized when the customer acquires the power to dispose of the agreed goods and services and may derive a benefit therefrom. The standard provides for a five-step model to recognize revenues. The first step is to identify the contract/contracts with customers and the independent performance obligations so as then to determine the transaction price and to divide up the contractual performance obligations. The sales are to be realized in relation to a period of time or at a certain point in time.

The NOVOMATIC Group recognizes revenues primarily from the sale and rental of gaming machines, from the operation of gaming halls and electronic gaming machine casinos, as well as from online gaming (e-business) and from betting. In areas concerned by revenue recognition, there has hitherto often been an orientation towards industrial practice as well as US regulations regarding the gaming industry (such as the treatment of proceeds from the operation of gaming machines as a net amount from the use of customers and payout to them according to ASC 924). For the purposes of IFRS 15, retaining this approach was analyzed, with the result that in many areas, such as the operation of gaming halls or the betting business, a continuation of the previous accounting practice is not inconsistent with IFRS 15. In this context, due to the similarity of the provisions of IFRS 15 with those of the US ASC 606, similarly in-depth US guidance was used (e.g. the industry guidance of the AICPA for the gaming industry).

Revenues from the **sale** of gaming machines are realized when the power of disposition over the promised goods or services is transferred to the customer. The structure and scope of the contracts with the customers is dependent on the respective jurisdiction. The following potential separate performance obligations were identified in principle: Slot machine, contractually promised regular software updates, replacement parts and other services (including business analytics, reports). There are no effects on revenue recognition since the deferral of the benefit obligations and the transfer of control already correspond to the previous accounting practice. However, a change had to be made with regard to the recognition of transport revenue. In principle, the customer is not in control of the gaming machines until he has them physically. Accordingly, the transport services provided are to be attributed to the transaction price of the gaming machines, which results in a change in presentation from the other operating income to sales revenues. For any additional costs arising from the initiation of a contract (for example, sales commissions), the practical exemption under IFRS 15.94 is applied because the payback period is always less than one year.

Gaming equipment **rental** revenues are recognized on a straight-line basis over time when the underlying services are provided. The leases with the customers may have different characteristics, in particular with regard to the agreed payments (fixed rent or revenue share models). The following possible separate leasing or non-leasing components have been identified in principle: Slot machine, contractually promised regular software updates, maintenance / spare parts / other services and customer loyalty programs. Upfront fees are recognized as sales on a straight-line basis over the term of the contract. Customer loyalty programs are accrued, meaning that this share is only recognized as revenue if the Group has fulfilled the obligation. There are no changes compared to the previous accounting.

Revenues from the **operation of electronic slot machines (slot arcades)** and **casinos with live games** are recorded as net amount (net gaming revenue). The net amount is calculated as the balance of amounts (IN) less customer payments (OUT) less all incentives and accruals. In a few jurisdictions, the payout of a jackpot may have a mandatory scope; then a corresponding accrual (refund liability) is made. Other discretionary incentives (free catering) and non-discretionary incentives (customer loyalty programs) did not exist or only to a limited extent, meaning that they have no impact on the accounting.

Revenues from **bets** are recognized when the underlying betting event has occurred. The turnover corresponds to the net amount of wagers and payouts from the betting business. Those amounts used by players for events that have not yet taken place are accounted for as a deferred contract item.

Revenues from **online gaming** include online casinos, games and platform services and are realized as soon as the underlying games have occurred or services have been provided. For unused credits of the customer, a deferred contract item is recognized.

Revenues in other areas are recognized as soon as the respective services have been provided.

The NOVOMATIC Group applies the new requirements of IFRS 15 for revenue from customer contracts for the first time in the 2018 fiscal year, with the cumulative adjustment amounts being recognized at the time of first-time adoption. The following table shows the impact of the application of IFRS 15 for the first half-year 2018:

EUR m	Adjusted values for 1-6/2018	Adjustments	Values without the application of IFRS 15 for 1-6/2018
Revenues	1,365.3	-1.4	1,363.9
Revenues less gaming taxes and betting fees	**1,209.2**	**-1.4**	**1,207.8**
Other Operating Income	35.7	1.4	37.1
Operating profit	**148.4**	**0.0**	**148.4**
Profit for the period	**109.9**		**109.9**

Furthermore, a number of other changes and interpretations came into force on January 1, 2018. These had no significant impact on the interim consolidated financial statements.

b) New standards and interpretations that are not yet applicable

IFRS 16 Leases

The new IFRS 16 “Leases” regulates the recognition, measurement and reporting, as well as the disclosure requirements regarding leases. IFRS 16 introduces fundamental changes, in particular for the accounting of leases by the lessee. For this reason, the consolidated financial statements of NOVOMATIC will change substantially from the time of first-time adoption of the new leasing standard, in particular the earnings position, the operating cash flow, the balance sheet total and the presentation of the net assets and financial position.

For the lessee, the standard provides for a single accounting model. This model results in the lessee recognizing all leases on the assets side in the form of so-called rights of use and on the liabilities side in the form of leasing liabilities. Accordingly, the distinction between operating leases and finance leases is not relevant for the assessment of lessees. The only exceptions here are for current leases and leases for low-value assets. Lessors, on the other hand, continue to differentiate between finance and operating leases.

IFRS 16 is to be applied for the first time in fiscal years commencing on or after January 1, 2019. NOVOMATIC does not plan to adopt the new standards early. Furthermore, from today’s perspective, it is assumed that the modified retroactive method provided for in the transitional provisions will be applied for the first-time adoption of IFRS 16, which means that previous year figures are not to be adjusted.

Payment obligations from current operating leases (see 2017 Annual Financial Report, note 12 of the notes to the consolidated financial statements, page 109) are discounted to the corresponding external debt interest rate upon transition to the new rule. The resulting cash value is recognized as a lease liability. The rights of use are expected to be recognized in the amount of the lease liability, adjusted by the amount of the prepaid or deferred lease payments. Due to the expected significant impact, NOVOMATIC is expected to present usage rights and lease liabilities in the balance sheet as separate balance sheet items.

As far as possible, it is envisaged to apply exemptions such as those on low-value assets and short-term leases, although it is not expected that these exemptions will be material.

The NOVOMATIC Group is currently carrying out a comprehensive project to analyze the impact of IFRS 16.

On the one hand, NOVOMATIC has a large presence as a lessee, since a considerable number of the slot arcades operated is rented, but on the other hand also as a lessor, since gaming equipment is also rented in addition to the possibility of being sold. At a general level, it is expected that the recognition of usage rights and leasing liabilities from the contracts previously classified as operating leases, where the Group acts as lessee, will be enhanced. As a result, NOVOMATIC expects a significant increase in the balance sheet total at the time of first-time application.

There will be a shift in the statement of comprehensive income between the operating result and the financial result, since, instead of the leasing expenses previously recognized as part of the operating result, a depreciation expense from the usage rights and an interest expense from the leasing liabilities must now be presented in the context of IFRS 16 and only depreciation affects the amount of the operating result. As a result, the EBITDA key figure is heavily influenced, as neither the depreciation expense nor the interest expense is included in this key figure.

Rental business not is generally expected to have a major impact for the lessor, as the criteria of IAS 17 for assessing whether a finance or an operating lease essentially exist have been carried over to IFRS 16.

The NOVOMATIC Group currently operates around 2,200 slot arcades, most of which are leased by third parties. The most significant effect will become evident in this area. In addition, gaming equipment and vehicles are also rented.

A very large number of contracts are affected by IFRS 16 and significant accounting estimates are required for lease contracts. The most significant assessment concerns the definition of the term of the lease because, within the scope of the term of a lease in accordance with IFRS 16, options must also be taken into consideration with reasonable assurance that an option to renew or a termination option will not be exercised. A reliable estimate of the quantitative effects of IFRS 16 is in the current project phase still in evaluation.

3) Scope of Consolidation

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

- Las Vegas d.o.o., Croatia
- BRONCO Automaten Immobilien und Gaststätten GmbH, Germany
- Spielinsel Vermietungs GmbH, Germany
- Otium Mexico S.A.P.I. de C.V., Mexico
- Ainsworth Game Technology Ltd., Australia (Subgroup)

As a result, the scope of consolidation developed as follows:

Scope of consolidation	Fully consolidated	Valued at equity
As of 1/1/2018	233[1]	3
First/time inclusion in 2018	5	1
Disposed of in 2018	-2	0
Merged in 2018	-3	0
As of 6/30/2018	233	4
thereof non-Austrian companies	214	3

1) The inclusion of Casino Royal GmbH and its ten subsidiaries was converted from a subgroup to individual companies.

Affiliated companies, whose influence on the net assets, financial and earnings position of the Group is marginal, are not included in the scope of the fully consolidated companies but are shown as financial assets.

(4) Company Acquisitions in 2018

Ainsworth Game Technology Limited, Australia

With closing in January 2018, approximately 52 percent of the shares in Ainsworth Game Technology Ltd. (Ainsworth) were successfully acquired.

The acquisition represents another milestone in the corporate history of NOVOMATIC and is of major strategic importance as it paves the way to access the important North American market, a region with almost one million operated gaming machines. Ainsworth is also a market leader in gaming-enthusiastic Australia and has a strong presence in the Latin American market.

The agreed purchase price is AUD 473.3 million. A cash flow hedge was made for the majority of the purchase price. This hedging relationship resulted in a loss of EUR 12.5 million, which was initially recognized in other comprehensive income and was now offset against the provisional goodwill when the business combination was accounted for. The total consideration – taking into account the hedging effects – amounts to approximately EUR 320.3 million for the acquisition of these shares and approximately EUR 1.0 million for the previously existing shares.

The consolidated Ainsworth companies have been included on the basis of provisional fair values for the acquired assets and assumed liabilities. In the case of acquisition accounting, in particular trademark rights, technology and customer base were identified and assessed. A final valuation of these intangible assets considering detailed further information could lead to different values. In addition, possible fair value adjustments to inventories were taken into account, although the underlying valuations are subject to further review. With regard to the other assets acquired and liabilities assumed, the final analyses have not yet been completed, but no material adjustments are to be expected.

The purchase price allocation in accordance with IFRS 3 had not yet been completed as at the reporting date, with the result that the following information is based on preliminary figures. Accordingly, the values in the opening balance have not yet been finally determined, and the allocation of the total purchase price to the assets acquired and liabilities assumed has also not yet been completed.

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

EUR m	Preliminary fair values
Intangible assets	244.1
Property, plant and equipment	74.0
Other non-current assets	27.6
Deferred tax assets	2.8
Inventories	67.7
Cash and cash equivalents	18.7
Other current assets	87.3
Non-current liabilities and provisions	-44.7
Deferred tax liabilities	-70.8
Current liabilities and provisions	-29.1
Net assets	**377.6**
Non-controlling interests	**-180.5**
Goodwill	124.2
Consideration	**321.4**

The preliminary goodwill resulting from the acquisition reflects the expected strategic advantages for the Group through access to the important North American market. Based on a preliminary assessment, goodwill will not be tax-deductible.

The legal fees for this acquisition amounted to EUR 1.0 million.

Revenue amounts to EUR 92.4 million since the acquisition date, whereas the result for the period since the acquisition date amounts to EUR 9.7 million.

Other Company Acquisitions

In January 2018, 100 percent of the shares in BRONCO Automaten Immobilien und Gaststätten GmbH and its subsidiary Spielinsel Vermietungs GmbH were acquired in Germany. The two acquired companies operate a total of two slot arcades as well as installations in restaurants with a focus on Baden-Württemberg. This acquisition was carried out to enhance the Group's presence as an operator within the German gaming market.

Furthermore, several slot arcades in Italy, the Netherlands, and Spain were acquired (asset deals), especially with the business purpose of operating slot arcades, bars and bingo. With these acquisitions, the Group is enhancing its market position in some of Europe's core markets.

The individual aforementioned company acquisitions have been recognized pursuant to IFRS 3 partially using provisional values as of the reporting date. Accordingly, the values in the opening balances have not yet been finally determined, and the allocation of the total purchase price to the assets acquired and liabilities assumed has also not yet been completed. Changes are possible, in particular in the area of intangible assets. The inclusion of these acquired companies in the Consolidated Interim Financial Statements is therefore partially based on provisional fair values.

In the following overview, the preliminary fair values for these further business combinations are presented in summary:

EUR m	preliminary fair values
Property, plant and equipment	1.3
Cash and cash equivalents	0.9
Other current assets	3.9
Current liabilities and provisions	-2.2
Net assets	**4.0**
Goodwill	5.2
Consideration	**9.1**

The consideration amounting to EUR 9.1 million has already been fully paid in cash. Provisional goodwill resulting from the acquisitions reflects expected strategic advantages for the Group due to the further expansion of operational business activities and further potential growth through synergies. None of the goodwill resulting from these acquisitions is probably tax-deductible.

Revenue amounts to EUR 3.3 million since the acquisition date, whereas the result for the period since the acquisition date amounts to EUR 0.3 million.

<u>Further Comments on the Acquisitions</u>

The disclosures of revenues and results or losses of the acquired companies under the assumption that the acquisition date for all business combinations is the beginning of the reporting period was omitted, since the most important companies were anyway acquired at the beginning of the period.

(5) Intangible Assets

Goodwill developed as follows:

EUR m Acquisition costs	Goodwill
As of 1/1/2018	323.7
Currency translation adjustments	-3.8
Acquisitions through business combinations	129.4
Disposals	-0.2
As of 6/30/2018	**449.2**

EUR m Cumulative depreciation and amortization	Goodwill
As of 1/1/2018	47.4
As of 6/30/2018	**47.4**

Carrying amount as of 1/1/2018	**276.3**
Carrying amount as of 6/30/2018	**401.7**

The carrying amount of goodwill increased from EUR 276.3 million in the previous year to EUR 401.7 million. The rise in goodwill is largely due to the aforementioned company acquisition in Australia. As of the reporting date, the accounting of the company acquisition, and therefore the determination of the goodwill resulting therefrom, is still preliminary.

(6) Cash and cash equivalents

EUR m	6/30/2018	12/31/2017
Cash	152.0	171.3
Bank balances	310.5	728.4
Total	**462.5**	**899.7**

The stated cash in the amount of EUR 152.0 million (previous year: EUR 171.3 million) is largely tied up as cash reserves and base filling of the gaming machines at the various gaming establishments.

Bank balances as of December 31, 2017 comprised foreign currencies of AUD 463.8 million (equivalent to EUR 301.4 million), which were earmarked for the acquisition of around 52 percent of shares of Ainsworth Game Technology Ltd. (Australia) in January 2018. The successful closing of this transaction has resulted in a corresponding reduction in bank holdings.

(7) Group held for sale

In November 2017, the Group made the strategic decision to sell its majority stake in I-NEW Group, consisting of the Austrian I-New Unified Mobile Solutions AG headquartered in Mattersburg and its international subsidiaries. In line with the classification, presentation and measurement requirements of IFRS 5, the I-New Group is presented as disposal group.

The following structured sales process for the I-NEW Group has now been completed with a successful signing in June 2018 followed by closing in July 2018.

(8) Revenues

Revenues by business unit developed as follows:

EUR m	01 - 06/2018	01 - 06/2017
Sales revenues	218.3	111.2
Income from slot machines	646.3	589.6
Income from rent and management services	290.0	299.2
Betting revenues	72.5	62.2
eBusiness income	72.6	86.9
Income from food and beverage	22.6	19.1
Other sales	69.8	50.7
Sales reductions	-26.9	-7.0
Total	**1,365.3**	**1,212.0**

(9) Taxes

Income taxes are calculated using the income tax rate applicable in each country. The interim income tax expenses of EUR -35.6 million (previous period: EUR -39.9 million) include current income tax expense of EUR -52.0 million (previous period: EUR -47.6 million), current income taxes relating to other periods amounting to EUR 1.1 million (previous period: EUR -1.5 million) and deferred tax expenses/income amounting to EUR 15.3 million (previous period: EUR 9.2 million).

(10) Disclosures on Financial Instruments

For financial instruments, the following tables show the carrying amounts and the fair values of the individual financial assets and liabilities according to the respective categories in accordance with IFRS 9 (as at December 31, 2017 in accordance with IAS 39).

a) Fair Value of Financial Assets and Liabilities Carried at Regularly Evaluated Fair Value

EUR m	6/30/2018	12/31/2017	Hierarchy
Financial assets			
Investments in affiliated companies, non-consolidated	13.4	13.6[1]	Level 3
Investments – Other	32.7	17.5[1]	Level 3
Investments – Financial investments	227.4	234.9	Level 3
Securities – Equity instruments	6.4	11.4	Level 1
Securities – Debt instruments	0.9	1.5	Level 1
Securities – Investment funds	0.1	0.1	Level 1
Derivatives (positive market values)	0.1	0.0	Level 2
Financial liabilities			
Derivatives (negative market values)	2.5	6.6	Level 2
Purchase price obligations – Contingent considerations	3.0	3.0	Level 3

1) In 2017, in accordance with IAS 39, the investments in affiliated companies non-consolidated and other investments were valued at amortized cost as exemption rule.

Investments in non-consolidated affiliated companies are recognized at fair value through profit or loss and other investments are recognized at fair value in other comprehensive income. The measurement is basically based on the expected results or dividends of the multi-year planning.

The financial investments include the indirectly held 11.56 percent interest in Österreichische Lotterien Gesellschaft mbH (ÖLG) and the directly held 17.19 percent in Casinos Austria Aktiengesellschaft (CASAG). For the market value measurement of both financial investments, internally created company valuations were used applying recognized multiplier methods.

For the market value measurement of Österreichische Lotterien Gesellschaft mbH, an industry multiple derived from a peer group of six international lottery companies was applied. The main input factor for this is the average ratio of enterprise value (EV) to EBITDA or to EBIT for the selected peer group which is based on current market data and represents the average market capitalization. At the time of submitting the offer or acquiring the interest, the EV/EBITDA multiplier was 7.83 and the EV/EBIT multiplier 8.89. The updated determination of the stated multipliers led to an EV/EBITDA multiplier of 8.15 and an EV/EBIT multiplier of 9.69 for the half-year 2018. Firstly, the pro-rated EBITDAs and EBITs of ÖLG and its (sub-)subsidiaries from the most recent publicly available financial information were calculated using these two multipliers. The entity value so calculated was increased by the net financial assets or reduced by the net financial liabilities, and adjusted for the special value of the investments. This equity value for 100 percent shares was adjusted for the share acquisition taking into account an unchanged premium of 12.36 percent on the EBITDA basis or 13.17 percent on the EBIT basis and amounts to around EUR 908.8 million. This resulted in a current market value of EUR 105.0 million for the 11.56 percent investment as of the balance sheet date. This subsequent measurement was recorded in equity, resulting in an impairment of EUR 10.1 million which had no impact on income.

An increase in the multiplier of 0.5 would lead to an increase in the fair value of EUR 5.9 million or an increase in the underlying EBITDA/EBIT of the valuation item of 10 percent to an increase in the fair value of around EUR 10.4 million.

A two-step weighted industry multiplier was used to measure the market value of Casinos Austria AG. When measuring the CASAG shares, the contribution of ÖLG (68 percent majority stake of CASAG) and the contribution of the other CASAG companies were considered separately. A comparison group of 10 international casino companies served to calculate the industry multiplier for the other CASAG companies. At the time of submitting the offer or acquiring the interest, the EV/EBITDA multiplier was 9.11 and the EV/EBIT multiplier 13.35. The updated determination of the stated multipliers led to an EV/EBITDA multiplier of 9.72 and an EV/EBIT multiplier of 13.63 for the half-year 2018. The multipliers from the ÖLG valuation and the other CASAG companies were weighted in accordance with the EBITDA/EBIT contribution, which has resulted in an average EV/EBITDA multiplier of 8.65 and EV/EBIT multiplier of 10.75 for the half-year 2018. Firstly, the EBITDA and EBIT extrapolated from the most recent publicly available financial information of the CASAG Group using these two multipliers. The entity value so calculated was increased by the net financial assets or reduced by the net financial liabilities, and adjusted for non-controlling interests. The resulting equity value for 100 percent interests was adjusted in consideration of an unchanged discount of 24.4 percent based on EBITDA and 18.2 percent based on EBIT for the acquisition of the interest, and comes to around EUR 711.6 million. This resulted in a current market value of EUR 122.4 million for the 17.2 percent investment as of the balance sheet date. This subsequent measurement was recorded in equity, resulting in a revaluation of around EUR 2.6 million which had no impact on income.

An increase in the multiplier of 0.5 would lead to an increase in the fair value of EUR 10.3 million or an increase in the underlying EBITDA/EBIT of the valuation item of 10 percent to an increase in the fair value of EUR 19.1 million.

Securities include listed equity instruments (e.g. shares) and/or debt instruments (e.g. bonds). For the valuation, the bid prices quoted on an active market are used.

The derivative financial instruments mainly comprise interest rate swaps, interest rate options and forward currency contracts, the fair value of which is ascertained using the discounted cash flow method. For this, the future cash flows determined as of the valuation date are discounted using suitable discount rates with matching maturities (observable interest curves on the balance sheet date (or the most recently applicable interest curve before the balance sheet date (June 29, 2018)). Market valuations of derivative financial instruments are carried out by the Group's own treasury management system, as well as the banks involved. The market value of derivatives corresponds to the value that the individual company would receive or have to pay if the contract was settled as of the balance sheet date. Changes in the market value are recorded in profit and loss unless hedge accounting is applied.

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

	6/30/2018		12/31/2017	
EUR m	Nominal amount	Market value	Nominal amount	Market value
USD forward contract – Positive market value	12.6	0.1	0.0	0.0
USD forward contract – Negative market value	38.6	-1.7	85.5	-5.9
Interest rate swap	77.5	-0.8	77.5	-0.8
Total	**128.7**	**-2.4**	**163.0**	**-6.6**

The change in market value is recognized in profit or loss in the case of USD futures and interest rate swaps.

The contingent considerations from business combinations result from the contractual obligations of the acquiring Group company to pay an additional purchase price to the seller if certain contractually agreed financial performance indicators (e.g. revenue or EBITDA goals) are reached within a certain period after closing. The valuation of the obligations from contingent purchase prices is based on updated revenue and/or EBITDA estimates. The contingent considerations are shown in the balance sheet with EUR 3.0 million (previous year: EUR 3.0 million) under the other non-current liabilities (purchase price obligations). Purchase price obligations have a residual term of around three years.

b) Fair Value of Financial Assets and Liabilities not Carried at Fair Value Regularly, Whereby the Fair Value Has to be Disclosed

For financial instruments valued at cost, the following table provides an overview of the book values as well as the corresponding fair values:

	6/30/2018		12/31/2017		
EUR m	Carrying amount	Fair value	Carrying amount	Fair value	Hierarchy
Financial liabilities					
Bonds	939.8	980.1	939.2	989.3	Level 1
Bank and leasing liabilities	887.5	892.1	943.4	946.0	Level 2

For the fair value of the bonds, the stock market price on the valuation date or the last valid market price before the balance sheet date (June 29, 2018) was used. The market value of bank and leasing obligations is determined by discounting future fixed cash flows related to these obligations at the market interest rate on the balance sheet date.

For cash, trade receivables, trade payables, other current receivables and other current liabilities, the fair value roughly corresponds to the carrying amount due to the short residual maturities.

For loans and borrowings, as well as other non-current financial receivables and liabilities, no major deviations between fair value and carrying amount are assumed. The default risk is taken into consideration through the application of valuation allowances.

(11) Segment Reporting

01 - 06/2018

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
External revenues	543.4	821.5	0.4	0.0	1,365.3
Intra-segment revenues	77.1	7.9	4.0	-88.9	0.0
Total revenues	**620.4**	**829.4**	**4.4**	**-88.9**	**1,365.3**
Depreciation and amortizations, impairments and reversals of impairments	-97.6	-69.9	-2.1	0.0	-169.6
Segment result (EBIT)	**93.5**	**58.9**	**-1.3**	**-2.7**	**148.4**
Financial Result					-3.0
Earnings before taxes					145.4
Tax Expenses					-35.6
Net income from continued operations					**109.9**

01 - 06/2017

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
External revenues	461.4[1]	750.4[1]	0.1[1]	0.0	1,212.0
Intra-segment revenues	74.9[1]	4.7[1]	3.5	-83.1[1]	0.0
Total revenues	**536.3**	**755.1**	**3.7**	**-83.1**	**1,212.0**
Depreciation and amortizations, impairments and reversals of impairments	-97.4[1]	-65.3[1]	-1.5[1]	0.0	-164.2
Segment result (EBIT)	**73.5**[1]	**52.5**[1]	**-2.7**[1]	**-2.6**[1]	**120.7**
Financial Result					-7.1
Earnings before taxes					113.6
Tax Expenses					-39.9
Net income from continued operations					**56.3**

1) Adjustment of previous year's figures according to IAS 8 "Accounting Policies"

Revenues are distributed among the individual regions as follows:

01 - 06/2018

EUR m	Austria	Germany	Italy	United Kingdom	Spain	Eastern Europe	Other markets	Online	Ainsworth	Total
Gaming Technology	52.4	128.3	95.3	56.3	24.4	40.6	32.8	20.9	92.4	543.4
Gaming Operations	133.4	232.0	101.4	74.2	43.3	164.8	40.1	32.3	0.0	821.5
Other	0.0	0.0	0.0	0.1	0.0	0.0	0.2	0.0	0.0	0.4
Revenues	**185.8**	**360.4**	**196.7**	**130.6**	**67.7**	**205.4**	**73.1**	**53.2**	**92.4**	**1,365.3**

01 - 06/2017

EUR m	Austria	Germany	Italy	United Kingdom	Spain	Eastern Europe	Other markets	Online	Ainsworth	Total
Gaming Technology	36.5[1]	148.1[1]	100.5[1]	56.3[1]	29.2[1]	29.8[1]	33.0[1]	28.1[1]	0.0[1]	461.4[1]
Gaming Operations	119.3[1]	202.1[1]	79.0[1]	76.8[1]	32.0[1]	151.0[1]	50.1[1]	40.0[1]	0.0[1]	750.4[1]
Other	0.0[1]	0.0[1]	0.0[1]	0.1[1]	0.0[1]	0.1[1]	0.0[1]	0.0[1]	0.0[1]	0.1[1]
Revenues	**155.9**[1]	**350.2**[1]	**179.4**[1]	**133.1**[1]	**61.2**[1]	**180.8**[1]	**83.2**[1]	**68.2**[1]	**0.0**[1]	**1,212.0**[1]

Changes in the Group structure led to reallocations in the regional presentation. While in the previous year the companies were allocated according to the country of delivery principle, in 2018 the companies are presented in accordance with the country of residence principle. The comparative figures were adjusted accordingly.

(12) Other Disclosures

Related Party Transactions

There were no significant changes regarding transactions from the delivery of goods, services, rental fees as well as research and development services with related companies and persons.

Seasonality of the business

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

Contingent Liabilities

Contingent liabilities have been explained in more detail in the Consolidated Financial Statement as of December 31, 2017. There were no other material changes to the listed contingent liabilities from 2017.

Dividends

The General Meeting on April 27, 2018 agreed the payment of a dividend totaling EUR 20.0 million to the shareholders. The payment of the agreed dividends was made in May 2018.

Compulsory statement on the review by an auditor

The interim financial report 2018 was subject to neither a complete audit nor a review by an auditor.

(13) Subsequent Events after the Interim Reporting Period

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

Statement by the Executive Board

We confirm that to the best of our knowledge the consolidated interim financial statements of NOVOMATIC AG as of June 30, 2018, gives a true and fair view of the net assets, financial position and results of operations of the Group as required by the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and that the consolidated management report for the half-year 2018 gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

Gumpoldskirchen, August 30, 2018

The Executive Board of NOVOMATIC AG

Harald Neumann m.p.
Chairman, CEO

Dr. Christian Widhalm m.p.
Deputy Chairman
Chief Investment Officer

Thomas Graf m.p.
Chief Technology Officer

Peter Stein m.p.
Chief Financial Officer

Ryszard Presch m.p.
Chief Operations Officer