NOVOMATIC AG

Annual Financial Report 2016

NOVOMATIC AG

Content

Dr. Christian Widhalm | Thomas Graf | Peter Stein | Harald Neumann | Ryszard Presch

Foreword by the **Board of Directors**

Dear Ladies and Gentlemen,

In 2016, the NOVOMATIC AG Group again recorded a significant increase in revenues, reaching the highest level in the company's history at EUR 2,294.1 million. This corresponds to growth of ten percent against the previous year, with a particularly pleasing development in the area of gaming machine proceeds during the year under review.

Aside from the robust financial figures, a clear strategic direction was taken in 2016 which is relevant to the further development of the Group of companies. This includes the approval of the minority shareholders to acquire approximately 53 percent of the shares in Ainsworth Game Technology Ltd. Thanks to the strong presence of Ainsworth in Australia, Asia, North and South America, NOVOMATIC will, in future, also intensify its work in these markets.

The NOVOMATIC Group also focused on Europe. The strategy here is to cement and build on the company's strong market position with forward-looking decisions. To this end, we sent a strong signal in the important British market with the acquisition of Talarius Ltd. by NOVOMATIC UK. We expanded our market position in Germany, Italy and Spain by acquiring numerous smaller companies. The increasing level of regulation being introduced by European governments is fostering a process of concentration in the market as the high player protection standards – and thus the associated technical investments – can only be met by experienced and responsibly-minded companies.

In Austria, the acquisition of shares in Casinos Austria AG and Österreichische Lotterien GmbH was the focus of attention, along with the associated antitrust decisions.

Clear signals were also sent at the financing level so as to be able to take advantage of growth opportunities. In September 2016, a benchmark bond was issued with a volume of EUR 500 million. NOVOMATIC's first benchmark bond is also the first benchmark bond of an Austrian company in 2016.

All of these activities are only possible, however, because we invest in our staff. We endeavor to create the best possible environment for our employees. By way of example, we launched a high-quality training program for potential casino managers and area managers for arcades. Long-term success is what is important to us, which is why we are taking the necessary action today to be able to further develop the company in the future together with motivated, high-performing and, above all, healthy teams.

After all, NOVOMATIC is committed to sustainable corporate development which, in addition to the economic aspects of our business activity, also considers employee and environmental protection issues, as well as the interests of our stakeholders. We are committed to the sustainability principles of the United Nations Global Compact (UNGC) and the global standard for sustainability reporting of the Global Reporting Initiative (GRI).

Harald Neumann	**Ryszard Presch**	**Thomas Graf**	**Peter Stein**	**Dr. Christian Widhalm**
Chairman	Deputy Chairman	Chief Technology	Chief Financial	Chief Investment
Chief Executive Officer	Chief Operating Officer	Officer	Officer	Officer


OLID GROWTH
CAGR 2006-2016
Total Revenues: 11.8%
EURm
2500
2000
1500
1000
755
813
1,114
1,058
1,184
1,387
1,537
1,684
26.4%
40.5%
43.8%
37.7%
38.0%
35.4%
34.1%
28.5%
20.7%
30.8%
31.1%
17.6%
18.8%
18.4%
18.3%
10.4%
18.4%
488
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251
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186
449
223
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255
524
282
480
175
647
363
617
2006
2007
2008
2009
2010
2011
2012
Sales Revenues
EBITDA
EBIT
obal Operations
NOVOMATIC

NOVOMATIC

CONSOLIDATED FINANCIAL STATEMENTS

Management Report

on the 2016 Individual Financial Statement and Consolidated Financial Statement, NOVOMATIC AG, Gumpoldskirchen

1. Purpose of the Business and Strategy

NOVOMATIC[1] is a globally operating, integrated gaming technology and entertainment group with more than 35 years of experience as a producer of innovative high-tech gaming equipment. The Group develops, manufactures and sells gaming products, lottery technologies and networked system solutions for domestic and international gaming and betting markets. NOVOMATIC furthermore operates more than 1,700 gaming facilities worldwide, which include casinos, automated casinos, bingo facilities and sports betting outlets.

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

The NOVOMATIC Group is aware of its considerable social responsibility and pursues business activities only in markets with a clearly defined legal framework.

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

2. Economic Conditions

Macroeconomic Development

In 2016, the global economy achieved a moderate increase in gross domestic product (GDP). In its latest analysis, the International Monetary Fund (IMF) assumes a growth rate of 3.1 percent[2]. As a result, the global economy experienced a moderate growth momentum similar to that already seen in preceding years. The economic growth of industrialized countries was negatively impacted by weak overall demand, particularly for investment goods. The high degree of political and economic uncertainty played a major role and was intensified, among other things, by the United Kingdom's vote to leave the European Union.

After five years of declining growth rates, the emerging market economies were able to stabilize in 2016. According to an analysis by the IMF, GDP growth in these markets was at 4.1 percent. Although the business climate was disappointing, commodity prices saw a clear recovery, above all crude oil, which benefited commodity-exporting emerging countries.

The Chinese economy continued its transition to a growth model focusing more on consumption and its domestic market. The associated negative effects on the economy are being largely offset by an expansive monetary and fiscal policy. The pace of China's economic growth was marginally slower than in the preceding year, at 6.7 percent.

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

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

Overall, growth in the leading group of industrialized nations slowed to 1.6 percent in 2016. The United States contributed significantly to this development, with a 1.6 percent increase in GDP (after 2.6 percent in 2015). Lower investment activity and weaker exports due to the stronger US dollar can be cited as reasons for this. Yields began to rise substantially in the United States after the presidential election on the back of speculation about extensive debt-financed state spending programs in the future, which caused the US dollar to appreciate further compared to other currencies.

The "Brexit" referendum held in the United Kingdom in June 2016, which ended in a surprising vote to exit the European Union, has caused significant volatility in the international financial markets. The resulting uncertainty following this decision led to a weakening of economic growth in the European Union, with the economic projection for GDP growth in the United Kingdom being significantly revised downwards to 0.9 percent in 2016.

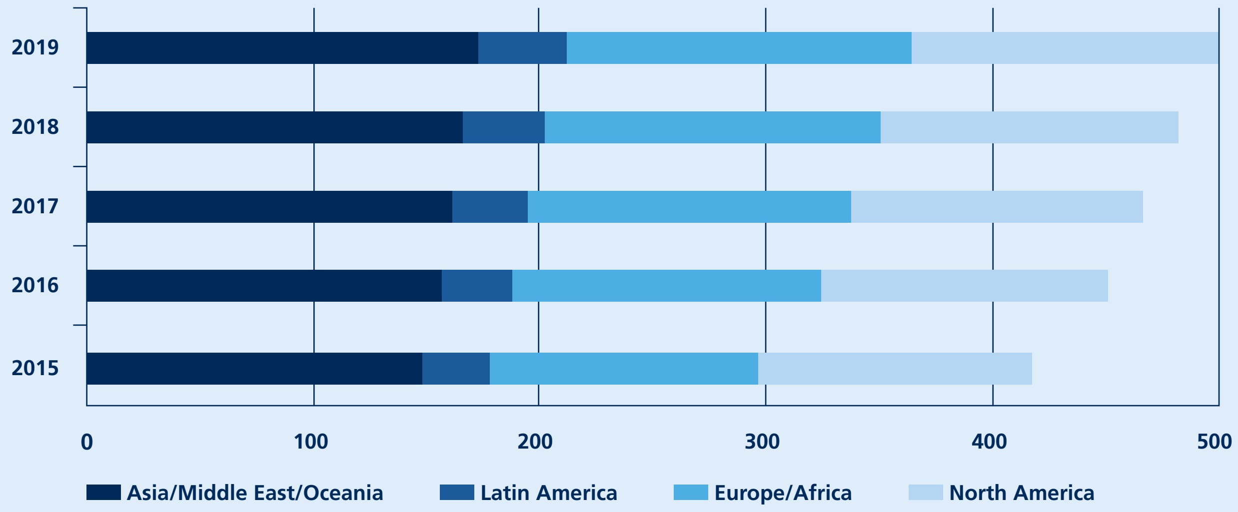
Economic growth in the European Monetary Union was 1.7 percent, higher than in the United States for the first time since 2008. The European Central Bank (ECB) continued its expanded bond purchasing program in 2016 while keeping its base rates low. This resulted in an easing of credit supply conditions and had a positive effect on credit volumes. However, risks emerged once again in the European banking system (particularly in Italy), which prevented a more positive trend in the euro zone.

In its current forecast for the domestic economy, the Austrian Institute of Economic Research (WIFO) projects GDP growth of 1.7 percent for 2016, after a weak phase of several years with growth rates below 1 percent. Although the experts of the WIFO see no noteworthy signs of economic recovery, consumer spending at both private and public levels is increasing as a result of special factors, thus supporting overall economic growth.

Development of the Gaming Market

After a reduction in global gaming expenditures in 2015, for which the gaming metropolis Macau was largely responsible, the global gaming market saw strong growth again in 2016. According to a study[3] carried out by Global Betting and Gaming Consultants (GBGC), worldwide gross gaming revenues came in at USD 451 billion in the year under review. This corresponds to an increase of 8.0 percent and also represents a new high. The majority of gains were seen in the lottery sector, as well as the market for gaming machines outside of casinos (for instance in electronic casinos or bars).

Worldwide gaming revenues[3]
in billion USD (source: GBGC)



In particular since the gaming monopoly in Macau was overturned in 2002, the Asia-Pacific region has grown to become the most important gaming market worldwide. 2015 saw a marked decline in gaming revenues, triggered by a campaign on the Chinese mainland to fight corruption and money laundering, in addition to a slowdown in the Chinese economy. The result was that gross gaming revenues of the casinos operated in Macau collapsed by 34.3 percent in 2015. However, in the second half of the year under review, there was a change in fortunes, and revenues rose again for the first time in over two years.

Compared to the other three large markets (Asia-Oceania, North America and Europe), the gaming markets in Latin America and the Caribbean are less significant. Currently, however, this region is achieving the strongest growth momentum worldwide, with an average annual growth rate of 5.1 percent. Compared to 2015, gaming revenues increased again, with the lottery sector seeing particularly impressive growth at 11.6 percent.

The North American gaming market grew by 4.2 percent in 2016. The casino sector (including the so-called tribal casinos that are operated by Native Americans) is the largest segment of the North American gaming industry with a share of 56.6 percent and again saw modest growth in the year under review. However, the strongest growth rates were seen in the lottery segment (+7.9 percent) and gaming machines outside of casinos (+7.3 percent).

Following the global financial crisis, gaming expenditures around the world fell, with the European gaming market hit particularly hard. In 2016, gross gaming revenues surpassed the level in the crisis year of 2008 for the first time, with the combined Europe/Africa gaming market generating revenues of USD 136.6 billion during the year under review. With a share of 34.3 percent, lottery

[3] Estimates taken from the Global Gaming Report by GBGC

companies, which to a large extent are government-controlled, constitute the most important sector of the European gaming industry, followed by the area of gaming machines outside of casinos (video lottery terminals, fixed odds betting terminals and classic AWP[4] devices). According to a study carried out by GBGC, the European gaming market is growing at an annual rate of 2.7 percent, with the strongest growth rates coming from the area of betting (in particular sports betting).

According to a study carried out by GBGC, global online gaming revenues increased to USD 45.3 billion in 2016, compared to USD 43.4 billion in the previous year. High growth rates were achieved in this area in previous years, meaning that the share of global gaming revenues coming from online gaming rose steadily. This trend, however, has been showing signs of stabilizing since 2015 at a level of around 10 percent. While the areas of online casinos and online betting continued to demonstrate growth, the area of online poker is showing a downward trend.

4) Amusement with prizes

3. Business Performance

Significant Events during the Reporting Period

For NOVOMATIC, 2016 was again a very eventful year with positive business development. Through organic and acquisition-driven growth, revenues reached an all-time high of EUR 2,294.1 million. While the challenging regulatory framework conditions in individual jurisdictions (such as Germany) meant that earnings before interest and taxes (EBIT) came in below the previous year's level, the Group was still able to achieve one of the best results in the company's history. The number of companies included in the scope of consolidation once more underscores the NOVOMATIC Group's growth dynamics. The number of fully consolidated companies increased from 188 (as of December 31, 2015) to 217 by the end of 2016.

Acquisitions and Disposals 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 so as to achieve further diversification for the Group and thus create the basis for sustainable future growth.

In 2015, NOVOMATIC acquired an indirect share of around 23.1 percent in Österreichische Lotterien GmbH (ÖLG), a company that is majority owned by Casinos Austria Aktiengesellschaft (CASAG). Casinos Austria Aktiengesellschaft and its subsidiaries are an internationally renowned gaming group focused on running national and international casinos. ÖLG, in turn, holds the only concession that permits the operation of classic lotteries, online gaming and video lottery terminals in Austria.

Also in 2015, NOVOMATIC concluded further purchase agreements for the acquisition of direct and indirect interests in CASAG, which needed the approval of the Austrian Federal Competition Authority (BWB). In February 2016, the BWB submitted an audit request to the Austrian anti-trust court, which, in its ruling, refused to allow NOVOMATIC to acquire an interest that amounted to a shareholding of over 25 percent. This decision was, after NOVOMATIC AG appealed, ultimately upheld by the Supreme Court (OGH) in January 2017. It was, therefore, not possible to complete individual purchase agreements to acquire direct and indirect shares in CASAG. Furthermore, NOVOMATIC AG had to reduce its indirect interest in ÖLG to less than 25 percent and, in December 2016, sold shares amounting to 11.56 percent to a Czech group of companies to enable the closing of the stated 17.19 percent in CASAG.

In February 2016, NOVOMATIC entered into a purchase agreement with Len Ainsworth regarding the acquisition of approximately 53 percent of the shares of Ainsworth Game Technology Ltd. (Ainsworth). Ainsworth is a publicly traded company listed in Australia and headquartered in Newington, Sydney. The company is one of the most renowned players in the international gaming industry. The company is a leading producer and provider of high-quality, innovative gaming solutions in Australasia as well as North and South America. Due to suspensive conditions, in particular, the required formal approvals by various international licensing and regulatory authorities, the closing of this transaction is not expected until the third quarter of 2017 at the earliest. The agreed purchase price is AUD 473.3 million.

In June 2016, NOVOMATIC UK Ltd., a company of the NOVOMATIC Group, acquired 100 percent of the shares in Talarius Ltd. (Talarius) and its associated subsidiaries. The Talarius Group operates 7,500 gaming terminals in 162 gaming facilities in the United Kingdom. By concluding this transaction, NOVOMATIC continues its expansion strategy and is now the largest operator of gaming facilities in the sector of so-called "Adult Gaming Centers" in the UK. The agreed purchase price was GBP 102.5 million.

During the financial year 2016, several smaller operators of gaming facilities in Germany, Italy and Spain were acquired, especially with the business purpose of operating gaming halls, bars and bingo. With these acquisitions, the Group is enhancing its market position in some of Europe's most important core markets.

Concessions and Other Important Events

In June 2014, the Austrian Federal Ministry of Finance (BMF) granted licenses for the operation of casinos according to § 21 of the Austrian Gaming Act. Because of a complaint brought forward by a competitor, the individual concessions granted to ADMIRAL Casinos & Entertainment AG (ACE) for the locations Vienna North-East (Prater) and Lower Austria (Bruck an der Leitha) were revoked by the Federal Administrative Court in July 2015. Both NOVOMATIC and the Federal Ministry of Finance filed an appeal against the verdict with the Highest Administrative Court (VwGH). With two findings from June 2016, the VwGH confirmed the decisions of the Federal Administrative Court and dismissed the appeals. NOVOMATIC has no knowledge of whether, when and to what extent the legally intended and still outstanding casino concessions will be re-tendered, as this will be decided by the Federal Ministry of Finance.

Regarding the repeal of licenses for state-licensed gaming in Lower Austria and Burgenland by the Highest Administrative Court (VwGH), the gaming license for 1,339 gaming machines in Lower Austria was issued again to ACE in December 2016, after continued proceedings. This notice was then contested through complaints by three competitors. A decision by the Lower Austrian Provincial Administrative Court is expected in the second quarter of 2017. Continued operations are guaranteed until November 2017, due to the statutory duty to continue operations and a declaratory notice. The continued operation of the 110 approved gaming machines in Burgenland is guaranteed until June 2017, and a decision concerning the ongoing selection procedure is still pending.

In respect of the legal discussions going on for several years as to whether the Austrian Gaming Act and the corresponding provisions are consistent with EU law, the three highest courts in Austria have all confirmed conformity with EU law.

In September 2016, NOVOMATIC carried out the largest capital market financing in its corporate history with the issuance of a bond with a total volume of EUR 500.0 million (benchmark bond). It was issued as part of a EUR 2,000.0 million issuance program of NOVOMATIC AG, which was given the investment grade rating of BBB (stable outlook) by the international rating agency Standard & Poor's. The funds raised were aimed at optimizing the financing structure and for future acquisitions.

In April 2016, Gryphon Invest AG increased its interest in NOVOMATIC AG from 8 percent to around 10 percent. In the context of this transaction, NOVOMATIC AG increased its share capital by EUR 0.6 million, while the tied up capital reserve increased by EUR 84.4 million.

Consolidated Financial Statement for NOVOMATIC

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

INCOME STATEMENT

Condensed Version with Selected Positions

in million EUR	2016	2015	Difference in %
Revenues	**2,294.1**	**2,086.3**	**10.0 %**
Gaming taxes and betting fees	-238.3	-191,4	24.5 %
Revenues after deduction of gaming taxes and betting fees	2,055.9	1,894.9	8.5 %
Other operating income	324.6	280.4	15.8 %
Cost of material and other purchased services	-358.6	-282.8	26.8 %
Personnel costs	-676.8	-567.8	19.2 %
Total other operating expenses	-756.7	-707.9	6.9 %
EBITDA	**588.5**	**616.7**	**-4.6 %**
EBITDA margin in %	**25.7 %**	**29.6 %**	**-13.2 %**
Depreciation and amortization	-324.4	-301.3	7.7 %
EBIT (= operating profit)	**264.1**	**315.4**	**-16.3 %**
EBIT margin in %	**11.5 %**	**15.1 %**	**-23.9 %**
Financial result	-34.7	-7.0	399.6 %
Earnings before taxes	229.4	308.5	-25.6 %
Annual profit	**154.4**	**212.7**	**-27.4 %**

Earnings Position

Through organic and acquisition-driven growth, revenues reached an all-time high of EUR 2,294.1 million during the financial year 2016. This is an increase of 10.0 percent over the previous year.

The largest absolute increase was achieved in the area of gaming machine revenues, which rose by EUR 126.7 million to EUR 1,028.9 million. Apart from the successful acquisition of Talarius in the United Kingdom completed in 2016, the established companies in Italy and Germany as well as the recently acquired companies in the German, Italian and Spanish markets, also contributed to this positive development.

Significant revenue growth was also achieved with betting revenues, which increased by EUR 35.9 million, as well as with sales revenues, which came in EUR 32.2 million higher than the previous year. Rental revenues also saw a slight increase. Compared to previous periods, e-commerce revenues did not increase as a company that was active in this area was sold as of the end of 2015 and no longer made a contribution to revenues in the year under review.

Gaming taxes and betting fees, which depend largely on revenue, increased in 2016 to EUR 238.3 million, compared to EUR 191.4 million in the previous year.

Linked to the higher sales revenues and increased capitalized own work, regarding gaming machines produced in-house, material costs increased by EUR 75.7 million against the previous year. The changes in inventory of finished and unfinished goods increased by EUR 12.9 million against the previous year.

The increase in personnel expenses to EUR 676.8 million is due to the expansion during the years 2015 and 2016. The greatest changes were recorded in Great Britain, Germany and Italy.

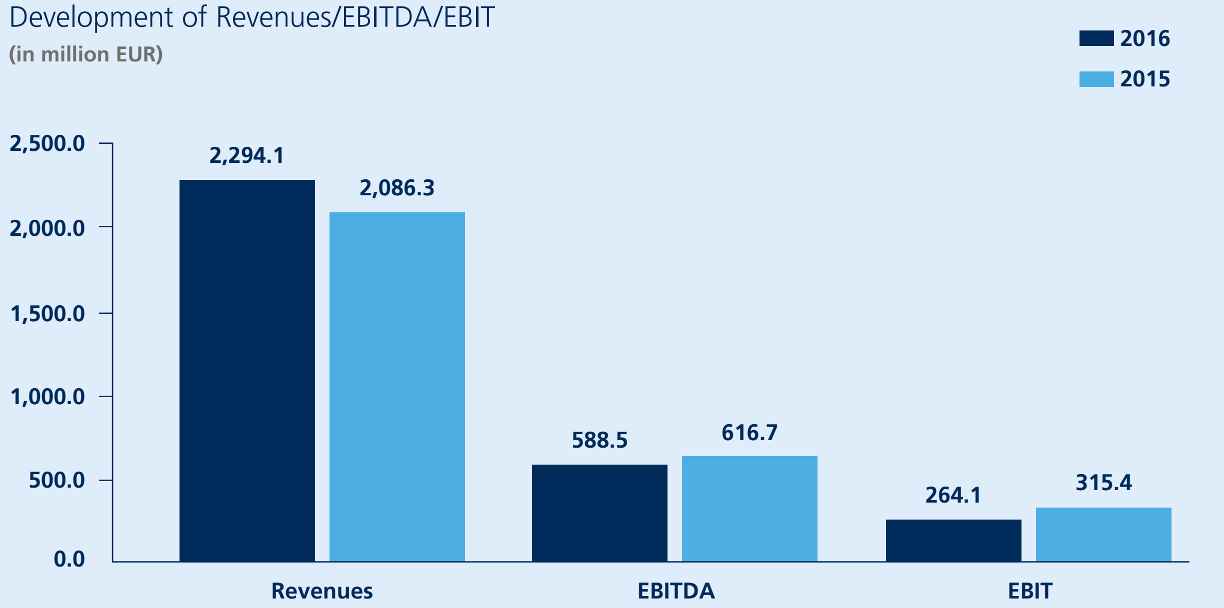
In terms of other operating expenses, there was an increase to EUR 756.7 million in 2016 (up EUR 48.7 million). The increase was mainly related to the expansion of business activities. The largest increase in absolute figures can be found in the position for rental, lease and operating expenses (up EUR 20.9 million).

Depreciation and amortization across the Group increased by EUR 23.1 million to EUR 324.4 million. These increases are largely due to acquisitions, mainly stemming from the markets in Spain and Great Britain.

Earnings before interest, taxes, depreciation and amortization (EBITDA) declined by 4.6 percent against the previous year to EUR 588.5 million. This corresponds to an EBITDA margin of 25.7 percent, compared to 29.6 percent in 2015. Operating profit (EBIT) came in at EUR 264.1 million, down from EUR 315.4 million in the previous year.

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

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



At EUR -34.7 million, the financial result came in below the previous year's level of EUR -7.0 million. Lower income from financial assets and currency translation losses from Group-internal financing are cited as the main reason for this decline.

After consideration of tax expenses amounting to EUR 75.0 million, the Group was left with an annual profit of EUR 154.4 million for 2016.

Assets Position

The balance sheet total rose by EUR 685.1 million compared to the December 31, 2015, figure, amounting to EUR 3,668.2 million as of December 31, 2016. In terms of non-current assets, intangible assets increased by EUR 204.6 million to EUR 702.8 million. The increase was mainly related to licenses and concessions (up EUR 120.5 million) and is in large part due to the newly acquired companies in the United Kingdom (Talarius) and Italy (several smaller companies). A further cause behind the change is the rise in goodwill (up EUR 76.5 million), resulting from the recently acquired companies in the markets of the United Kingdom, Spain, Italy, and Germany.

Property, plant and equipment increased from EUR 856.9 million in the previous year to EUR 955.1 million. The largest difference is found in the position for equipment (in particular gaming devices and betting terminals), with both company acquisitions and investments by established companies having contributed to this rise.

Financial assets, mainly comprising minority investments in Austrian gaming companies, increased from EUR 204.1 million to EUR 237.8 million in the year under review. Starting in June 2015, NOVOMATIC carried out a series of purchase transactions resulting in an indirect total investment of around 23.1 percent in Österreichische Lotterien GmbH (ÖLG). ÖLG is a company that is majority owned by Casinos Austria Aktiengesellschaft (CASAG). In December 2016, NOVOMATIC purchased 17.19 percent of the shares in CASAG, meaning that the number of shares held indirectly by NOVOMATIC in ÖLG would exceed the threshold of 25 percent. Due to anti-trust regulations, NOVOMATIC AG had to reduce its indirect interest in ÖLG to less than 25 percent and, in December 2016, sold shares amounting to 11.56 percent to a Czech group of companies to enable the closing of the stated 17.19 percent in CASAG.

Current assets increased significantly by EUR 341.7 million to EUR 1,541.1 million during 2016. While the value of trade receivables increased only slightly against the previous year, inventories rose significantly by 17.5 percent to EUR 225.5 million.

Another major change regarding current assets was in relation to cash and cash equivalents. Compared to the previous year, cash and cash equivalents increased by EUR 292.4 million to EUR 877.8 million. This was mainly caused by the issuance of a bond with a total volume of EUR 500.0 million (benchmark bond) in September 2016.

BALANCE SHEET

Condensed Version

in million EUR	2016	2015	Difference in %
Assets			
Non-current assets	2,127.1	1,783.7	19.3 %
Current assets	1,541.1	1,199.5	28.5 %
Balance sheet total	**3,668.2**	**2,983.2**	**23.0 %**
Liabilities and shareholders' equity			
Equity	1,371.6	1,215.3	12.9 %
Non-current liabilities and provisions	1,582.3	1,204.8	31.3 %
Current liabilities and provisions	714.4	563.1	26.9 %
Balance sheet total	**3,668.2**	**2,983.2**	**23.0 %**

During the reporting period, equity capital rose by EUR 156.3 million to EUR 1,371.6 million, of which EUR 62.5 million consisted of other shareholders' shares. In the course of a capital increase, the company's share capital increased slightly from EUR 26.0 million to EUR 26.6 million. Due to the capital increase, there was a significant increase of EUR 84.4 million in capital reserves to EUR 85.4 million. In addition to this, equity capital is comprised of retained earnings (amounting to EUR 1,245.6 million), the revaluation reserve as per IAS 39 (amounting to EUR 5.2 million) and the currency translation adjustment (amounting to EUR -53.8 million).

The rise in non-current liabilities is almost exclusively due to the non-current financial liabilities. These increased by EUR 351.4 million to EUR 1,395.1 million during the financial year. This was mainly caused by the issuance of a bond with a total volume of EUR 500.0 million (benchmark bond) in September 2016.

The increase in current liabilities is largely attributable to the current financial liabilities, which went up by EUR 173.9 million to EUR 210.8 million. The most important reason for this change is a bond issued in 2010 with a volume of EUR 150.0 million, which was to be reported as current due to the maturity in October 2017.

(Current) liabilities from other taxes, contained in other liabilities, fell substantially by EUR 72.0 million to EUR 104.9 million. Due to a legal dispute between Italian competitors and the Italian gaming authority, the competent court decided, in 2015, that all Italian concessionaires (i.e. including ADMIRAL Gaming Network S.r.l., a NOVOMATIC Group company), should not pay a part of their gaming taxes to the competent authority until the matter had been settled, but must instead deposit these amounts in a specifically designated bank account. For NOVOMATIC, this resulted in a temporary increase in tax liabilities as well as cash and cash equivalents by EUR 82.9 million in the previous year. The legal dispute came to an end in 2016, and the taxes set aside were paid to the competent authorities.

Financial Situation

Cashflow

Across the Group, cash flow from operating activities totaled EUR 429.2 million in 2016, compared to EUR 417.4 million in the previous year. This rise in cash flow from operating activities, despite lower operating profit in the year under review, resulted from lower payments for income taxes, and higher levels of provisions.

Due to a court order in 2015, part of the gaming taxes paid by all Italian concessionaires (i.e. including Admiral Gaming Network S.r.l., a NOVOMATIC Group company) had to be deposited in a specifically designated bank account (see chapter "Assets Position"). Due to the fact that this tax liability had already been set aside, this was already reported as a cash transaction in the previous year, thereby reducing the cash flow from operating activities in 2015.

Cash flow from investment activities amounted to EUR -519.8 million in the year under review, while the same figure for 2015 amounted to EUR -439.9 million. Apart from an increase in cash outflows for investments in gaming devices produced in-house against the previous year, this significant change was in particular due to the numerous acquisitions in the United Kingdom, Italy, Spain and Germany.

The cash flow from financing activities amounted to EUR 474.5 million during the reporting year, a considerable improvement over the previous year's value of EUR -105.2 million. While the repayment of a bond that reached maturity in the previous year (volume of EUR 200.0 million) reduced the cash flow from financing activities, the issuance of a bond with a total volume of EUR 500.0 million (benchmark bond) in 2016 led to a considerable increase in cash inflow. Furthermore, lower dividend payments, along with a capital increase of EUR 85.0 million contributed to the improvement in cash flow from financing activities.

The free cash flow (cash flow from operating activities plus cash flow from investing activities) for the financial year 2016 fell from EUR -22.5 million to EUR -90.6 million due to the higher level of investment.

INVESTMENTS

in million EUR	2016	2015
Intangible assets	44.0	17.1
Property, plant and equipment	390.3	291.2
Total investments	**434.3**	**308.3**

Investments

The Group's investment activity (additions to intangible assets and property, plant and equipment, excluding assets acquired through business combinations) amounted to EUR 434.3 million during the year under review, of which EUR 44.0 million was invested in intangible assets and EUR 390.3 million in property, plant and equipment. In comparison to the previous year, this corresponds to an increase in investment by EUR 126.0 million.

The largest share of investments in property, plant and equipment was in gaming devices, manufactured mostly in-house, with investments of EUR 210.1 million. Investments in intangible assets made during 2016 related mainly to investments in licenses and concessions, as well as software.

Selected Group Key Figures

	2016	2015
Equity ratio (equity/balance sheet total)	37.4 %	40.7 %
Return on equity (parent company shareholder result/equity capital)	10.8 %	17.1 %
Return on assets (annual profit + interest cost)/balance sheet total	5.2 %	8.2 %
Working capital (current assets - current liabilities) in million EUR	826.8	636.3
Net debt (non-current financial liabilities + current financial liabilities - cash and cash equivalents) in million EUR	728.1	495.2
Net debt to EBITDA (net debt/EBITDA)	1.2	0.8
Interest coverage ratio (EBIT/interest expense)	7.0	9.8
Asset coverage (equity capital/non-current assets)	64.5 %	68.1 %

4. Segment Analysis

Segment Reporting Contents

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

The Gaming Technology segment includes the business areas related to the production and sale of gaming equipment. It also includes the sales channel "Online", as it refers to the B2B segment.

The Gaming Operations segment includes the area of "Gaming Operations", including "Betting", as well as the sales channel "Online", as it refers to the B2C segment.

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

Gaming Technology

External revenues in the Gaming Technology segment amounted to EUR 903.1 million in the year under review, representing a significant increase compared to the previous year (EUR 860.3 million).

Online and Mobile Gaming (B2B)

The Greentube Group, which is a part of the NOVOMATIC Group, is an internationally leading content provider of online games. Greentube offers these games to licensed operators of gaming websites, with both a fun and a cash mode. Furthermore, Greentube develops system solutions (front-end, back-end, content, service) and makes them available to licensed online gaming companies. The range on offer can be scaled as desired by the customer.

During the financial year 2016, revenues of the companies falling into the Greentube Group's B2B segment increased compared to the previous year. The online gaming market is dominated by a small number of large companies. The higher competitive pressure within the industry results in continuously slowing growth rates, while at the same time higher marketing expenses (costs per acquisition), an increased tax burden and higher structure costs, weigh on profitability.

Germany

The First State Treaty amending the current Interstate Gambling Treaty in Germany (Glücksspieländerungsstaatsvertrag, GlüÄndStV) came into effect on July 1, 2012, and since the belated inclusion of Schleswig-Holstein in 2013, it has applied to all German federal states. For its implementation, a transitional period of five years was granted. The legislators' intention regarding commercial gaming is centered mainly on a reduction of the offering of gaming possibilities and strengthening player protection. This is to be achieved mainly through the establishment of distance regulations for slot arcades, as well as a prohibition of multiple concessions (i.e. limitation to a maximum of twelve gaming machines per location). While the GlüÄndStV has been criticized by the European Commission and serious constitutional concerns exist, no major corrections to its legal provisions have been implemented so far.

For supplementary provisions, the GlüÄndStV refers to the executive regulations of the individual states stipulated by state laws on gaming arcades. These individual state laws on gaming arcades vary considerably. In certain cases, there are important differences regarding limitations on opening hours, distance regulations, advertising bans and player identification requirements.

In November 2014, a stricter amendment to the Gaming Ordinance was passed. This amendment includes further regulation aimed at improving the protection of players and minors, as well as preventing tax evasion and money laundering. A transitional period of four years was granted for the implementation of the Gaming Ordinance. This means the gaming machines currently installed in gaming arcades will lose their existing protecting after four years and, from November 11, 2018, only devices as per the new Gaming Ordinance may be operated. The German subsidiaries Löwen Entertainment GmbH and Crown Technologies GmbH have already been working for a while to develop attractive products that can be made available to the customers promptly upon expiration of the transitional period of the Gaming Ordinance.

The impact of the new regulations is currently not entirely foreseeable. It must, however, be assumed that the total number of gaming machines operated in Germany will decline considerably after the expiration of the transitional period in 2017, although a higher capacity utilization of machines should result in a certain offsetting effect.

The focus of the German Group companies in the Gaming Technology segment is in the area of gaming machine rental. In Germany, the NOVOMATIC Group has long held a share of more than 50 percent of the market for commercial gaming devices and, in 2016, was able to successfully defend this market share. In light of the stricter regulatory framework, however, the number of rented gaming machines decreased during the reporting period, which also led to a decline in revenues. In total, the German companies active in the Gaming Technology segment achieved revenues of EUR 317.5 million against EUR 344.9 million in 2015.

Italy

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

In 2016, NOVOMATIC acquired 75 percent of the shares in Electro System S.p.A., a developer and manufacturer of CPUs for AWP gaming machines. This acquisition, along with the acquisition of a host of smaller companies active in the area of installing AWP machines in the food and beverage sector led to an increase in revenues in the year under review. Similarly, the existing Italian Group companies were able to increase the number of rented gaming machines and thus revenues again increased. Revenues of the companies falling into the Gaming Technology segment reached EUR 161.3 million in 2016, compared to EUR 137.9 million in the previous year.

Great Britain

The British gaming market is one of the largest and most developed markets in Europe. The United Kingdom was also one of the first jurisdictions to regulate online gaming, thus allowing a market to open in this area.

The British market includes approximately 250,000 gaming machines, which are mostly located in pubs, licensed betting offices, gaming facilities and bingo halls. Due to the highly mature nature of the market, the potential for a further increase in the number of operated gaming machines is limited. The market is rather moving towards a state of consolidation. In particular, in the pub sector, a massive trend in the closure of pubs has been observable over the past 30 years. This has resulted in a lower number of gaming machines traditionally operated in pubs.

For NOVOMATIC, Great Britain is a market of the future that, despite the difficult market environment, offers immense opportunities for the company. During the year under review, the British Group companies falling into the Gaming Technology segment achieved revenues of EUR 136.8 million, which is a considerable increase against the previous year's figure of EUR 106.7 million. A major contribution to this positive development was delivered by Playnation Ltd., which was acquired in September 2015. Playnation is an operator of around 20,000 entertainment and gaming machines at over 1,700 locations, mainly in amusement parks, motorway service facilities, bowling alleys, pubs and airports.

Spain

The Spanish gaming market is one of the largest gaming markets in Europe and therefore represents an important target market for the NOVOMATIC Group. With GIGAMES S.L., NOVOMATIC owns Spain's third-largest production and sales company for gaming machines with a strong market position, particularly related to the placement of gaming machines in bars, which is one of the core segments of the Spanish gaming industry.

During the past financial year, the Spanish Group companies were again able to increase their revenues from the sale and rental of gaming machines. Revenues achieved a level of EUR 45.4 million against EUR 36.8 million in 2015.

Netherlands

Following a number of acquisitions of Dutch gaming companies focusing on the area of development and sales of gaming machines, the years 2015 and 2016 were marked by a consolidation of the acquired companies. A realignment of the organization enabled closer cooperation among the Group companies along with the harnessing of significant synergies.

As with the British market, the Dutch market is moving more in the direction of consolidation rather than significant growth. This is evidenced by a general drop in the demand for slot machines popular in the Netherlands. Despite these framework conditions, revenues of the Dutch companies falling into the Gaming Technology segment increased to EUR 14.2 million in 2016, compared to EUR 13.8 million in the previous year.

Central and Eastern Europe (CEE) and South Eastern Europe (SEE)

A 15-year partnership entered into with Loteria Romana provides for NOVOMATIC to deliver sophisticated video lottery terminals (VLTs), as well as the corresponding required video lottery system (including a jackpot system, service, spare parts, logistics, etc.) in Romania. By the end of 2016, NOVOMATIC had already approximately 5,100 VLTs installed.

In total, the companies falling into the Gaming Technology segment within the regions of CEE and SEE were able to achieve a positive business development during the financial year 2016. Apart from Romania, Lithuania also contributed to this rise in revenues.

Rest of the World

During the past financial year, revenues from the sale and rental of gaming machines achieved by the Group companies outside of Europe showed a stable development. While the number of gaming machines rented out increased slightly, the number of gaming machines sold was down by a small amount.

Gaming Operations

External revenues in the Gaming Operations segment amounted to EUR 1,370.6 million in the year under review, representing again an increase compared to the previous year (EUR 1,204.0 million).

Online and Mobile Gaming (B2C)

The B2C market is divided into the segments of Social B2C (no payout of winnings) and Cash B2C (regular gaming with payout of winnings). While a phase of consolidation is under way in the Social B2C market and there is virtually no growth, the area of Cash B2C continues to display positive momentum. The main reason for this is 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 regulated markets.

Another trend to which the European online gaming industry, in particular, must adapt is the increasingly stricter framework conditions. While, at a national level, increasingly restrictive regulations are being introduced in matters of taxation and player protection, the Fourth Anti-Money Laundering Directive and the General Data Protection Regulation at the European level have led to stricter standards that must be followed.

The Greentube Group, which is part of the NOVOMATIC Group, holds an international portfolio of skill and chance games. These are available and offered with both a social and a cash mode. The games, most of which have been developed in-house, work not only in a web browser but also on mobile devices, as well as interactive televisions. Expansion of the games to new media channels is becoming more and more important.

The companies of the Greentube Group with activities in the B2C segment reported a decline in revenues during the financial year 2016. In particular, Funstage GmbH with its gaming platform Gametwist and Cervo Media GmbH, both companies that are part of the Social B2C segment, posted declining revenues.

Austria

Due to the end of state-regulated gaming in Vienna in 2014, the Austrian operating companies falling into the Gaming Operations segment underwent commercial restructuring. After the home market of Austria saw a significant decline in revenues in the Gaming Operations segment in 2015 as a result of the change in regulatory framework conditions, a trend reversal was achieved in the current year under review. In particular, there was a considerable rise in betting revenues compared to the previous year. Revenues of all Austrian gaming and betting companies of the NOVOMATIC Group reached EUR 230.6 million in 2016, compared to EUR 223.4 million in the previous year.

Germany

In Germany, the NOVOMATIC Group owns casinos, as well as operating companies in the area of commercial machine gaming.

With the venerable Spielbank Berlin, NOVOMATIC operates one of Germany's gaming facilities with the highest revenues. With its subsidiaries, Spielbank Berlin, along with the Kurhessische Spielbank Kassel, were able to slightly increase revenues in the year under review.

The German operating companies Extra Games Entertainment GmbH, BPA Freizeit und Unterhaltungsbetriebe GmbH, ADMIRAL Play GmbH as well as several smaller, recently acquired companies that operate in the market for commercial machine gaming were able to achieve a very positive development. The revenues of all German companies falling into the Gaming Operations segment reached EUR 339.3 million, compared to EUR 302.8 million in the previous year.

During the past years, legal provisions were enacted (the First State Treaty amending the current Interstate Gambling Treaty in Germany (GlüÄndStV), related state laws on gaming arcades and amendments to the Gaming Ordinance), which, after multi-year transitional periods, resulted in significantly stricter overall conditions for the industry. At this time, it is difficult to foresee the future legal interpretation of the new legal provisions, as well as the ultimately implemented administrative practices. The legal and business-related implications for gaming facilities, however, remain highly uncertain – mainly because of the current ongoing complex and inconsistent political discussions.

As in previous years, impairment tests were carried out in 2016 for the assets of the German operating companies, resulting in required impairment losses in the low single-digit million euro range. The impairment relates to usage rights for electronic casinos (intangible assets) as well as property, plant and equipment (in particular properties and buildings, as well as fixtures, furniture and office equipment).

The scope of the impairment test included all slot arcades run by the operating companies active in the area of commercial machine gaming. The main focus was on scenarios regarding site shutdowns and the withdrawal of concessions. The investigation of the impact on the gaming facilities was carried out under the assumption of more restrictive legal interpretations.

Italy

Measured by the number of operated gaming machines, Italy is Europe's largest gaming market. In this key European market, NOVOMATIC has been successfully implementing its dual market strategy as a producer of gaming products and operator of gaming facilities for several years. During the financial year 2016, several smaller operators of gaming facilities in Italy were acquired, primarily with the business purpose of operating gaming and bingo halls. With these acquisitions, the Group is enhancing its market position in this important core European market. The revenues of the Italian Group companies falling into the Gaming Operations segment increased once again thanks to organic and acquisition-driven growth, reaching EUR 173.8 million, compared to EUR 138.8 million in the previous year.

Great Britain

After NOVOMATIC had succeeded in entering the British market for electronic casinos (adult gaming centers or AGCs) with the acquisition of Luxury Leisure Unlimited and S.A.L. Leisure Limited in June 2014, the Group acquired 100 percent of the shares in Talarius Ltd. (Talarius) as well as its associated subsidiaries in the year under review. The Talarius Group operates 7,500 gaming machines in 162 gaming facilities in the United Kingdom. By concluding this transaction, NOVOMATIC continues its expansion strategy and is now the largest operator of gaming facilities in the "Adult Gaming Centers" sector in the UK. The agreed purchase price was GBP 102.5 million.

All in all, the Group companies active within the Gaming Operations segment were able to achieve a significant increase in revenues of EUR 123.4 million, compared to EUR 75.1 million in 2015.

Spain

In December 2015, NOVOMATIC acquired all the shares of Admiral Operations Spain S.L. (formerly Overlord Gaming S.L.), a Spanish group of companies focused on the operation of gaming facilities in Madrid. During the financial year 2016, several smaller operators of gaming facilities in Spain were acquired, primarily with the business purpose of operating gaming halls. With these acquisitions, the Group is enhancing its market position in this important European gaming market.

Following the opening of Casino Admiral San Roque north of Gibraltar in July 2016, NOVOMATIC acquired another casino in Spain with the Gran Casino Aljarafe in Seville. Revenues of all Spanish gaming companies of the NOVOMATIC Group reached EUR 35.0 million in 2016.

Netherlands

Since its market entry in 2013, NOVOMATIC has been one of the most important operators of gaming machines in the Dutch single site market (i.e. the operation of gaming machines at third-party locations such as bars). During the financial year 2014, the NOVOMATIC Group was able to enter the Dutch gaming arcade market. The Dutch market for commercial machine gaming is in a consolidation phase and can be described as fiercely competitive. The area of gaming arcades is dominated by a small number of large companies that continue to invest in gaming offers and successively acquire smaller competitors or push them out of the market.

The single site market, which is also fiercely contested, has been following a downward trend during the past few years as the number of available sites to install gaming machines steadily declined. Although the possibilities for organic growth are limited due to the maturity of the market, the Dutch Group of companies falling into the Gaming Operations segment was able to increase revenues to EUR 64.4 million in 2016, compared to EUR 62.2 million in the previous year.

Central and Eastern Europe (CEE) and South Eastern Europe (SEE)

The companies falling into the Gaming Operations segment within the regions of CEE and SEE were able to achieve a very satisfactory business development during the financial year 2016. In short, not only did the total number of locations increase, along with the number of operated gaming machines, but revenues also increased, from EUR 262.3 million in 2015 to EUR 296.9 million in the year under review.

In 2016, the Croatian operating companies were able to once again significantly increase the number of facilities operated and their revenues, both through organic growth as well as the acquisition of a smaller company.

The Serbian and Macedonian gaming operations also achieved a positive development, with revenues rising noticeably.

In Latvia, NOVOMATIC's most important market within the CEE region, the two subsidiaries, Admiralu Klubs SIA and Alfor SIA, with a total of 126 gaming facilities, defended their strong market position. The development of revenues in Latvia was very positive, posting an increase to EUR 94.5 million.

Rest of the World

The Peruvian gaming market is experiencing strong competitive pressure, although NOVOMATIC was also able to defend its market position in the year under review. The number of Peruvian gaming arcades operated remained stable during the reporting period, while revenues also demonstrated a stable development compared to the previous year at EUR 28.6 million.

Other

The external revenues in the segment Other amounted to EUR 20.4 million in the reporting period, representing a decrease compared to the previous year's level of EUR 22.0 million. Revenues in the segment 'Other' are also entirely attributable to the I-New Group.

I-New Group

I-New Unified Mobile Solutions AG (I-New), headquartered in Mattersburg, is one of the leading global technology providers for mobile virtual network operators (MVNO). The company's technology is now in use on almost all continents.

Over the past few years, I-New has benefited in particular from the dynamic development in Latin America and is now well-established with its MVNO solution. With renowned customers such as Virgin Mobile and Falabella (the largest retailer in Latin America), successful projects have been carried out in markets such as Chile, Colombia and Mexico. During the past financial year, revenues declined, mainly due to the I-New subsidiary in Mexico.

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

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

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

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

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

Earnings Position

During the past financial year, NOVOMATIC AG's sales revenue amounted to EUR 76.6 million, remaining almost unchanged against the previous year.

Personnel expenses decreased against the previous year's level to EUR 7.4 million. This was mainly due to effects in connection with a company reorganization towards the end of 2015.

Other operating expenses decreased compared to the previous year's level, reaching a total of EUR 74.2 million. The cause for this decline was largely due to a reduction in the expenses for development work.

Earnings before interest, taxes, depreciation and amortization (EBITDA) improved as a result of the optimized cost structure to EUR -1.6 million compared to EUR -15.3 million in the previous year.

Depreciation and amortization fell slightly during the financial year 2016 from EUR 31.3 million to EUR 25.0 million.

The financial result decreased significantly against the previous year from EUR 79.7 million to EUR 28.9 million, essentially due to substantially lower income from shareholdings.

Financial Key Figures NOVOMATIC AG

in million EUR	2016	2015	Change
Revenue	76.6	78.5	-1.9
Personnel costs	-7.4	-12.8	5.4
Depreciation and amortization	-25.0	-31.3	6.3
Other operating expenses	-74.2	-79.3	5.1
EBITDA	-1.6	-15.3	13.7
Financial result	28.9	79.7	-50.8
Annual profit	9.3	40.6	-31.3

After the addition of income taxes amounting to EUR 6.9 million, taking the Group taxation into consideration, net profit for the year was EUR 9.3 million compared to EUR 40.6 million in 2015.

Assets Position

Fixed assets increased by EUR 211.5 million against the previous year to a total of EUR 1,430.6 million. This change was largely attributable to increases in the area of financial assets.

Compared to the previous year, current assets rose by EUR 306.0 million to EUR 527.4 million, mainly caused by higher bank deposits due to the issuance of a bond in January 2016.

In the course of a capital increase, the company's share capital increased slightly from EUR 26.0 million to EUR 26.6 million. Due to the capital increase, there was a significant increase of EUR 84.4 million in capital reserves to EUR 85.4 million. With retained earnings of EUR 1.6 million and a balance sheet profit of EUR 111.2 million being taken into consideration, equity capital increased to a total of EUR 224.8 million. Equity capital's share of total capital amounted to 11.4 percent in the year under review, compared to 12.4 percent in the previous year.

While provisions were up slightly by EUR 1.9 million, liabilities saw a significant rise. Due to the largest capital market financing action in the history of NOVOMATIC, the liabilities from bonds increased from EUR 600.0 million to EUR 1,100.0 million. Overall, liabilities increased by EUR 475.7 million to EUR 1,733.8 million.

During the past financial year, NOVOMATIC AG's balance sheet total increased by 35.9 percent to EUR 1,975.0 million.

6. Non-Financial Performance Indicators

Social and Employee Issues

During the reporting year 2016, the number of employees in the NOVOMATIC Group increased by 18.1 percent to a total of 23,849 employees (headcount as of the balance sheet date, December 31, 2016). This increase reflects the continuation of the Group's growth trajectory.

As a company with a strong international alignment, particular emphasis is placed on networking in the areas of international human resources staff. This takes place within the framework of a global HR circle, in which the strategic alignments of this area are also discussed and rolled out. The HR strategy focuses above all on matters concerning the further establishment of a compliance culture, the development of the employer brand through operational measures and further improving efficiency in the HR organizations.

When it comes to improving efficiency, the strategic project "novopeople.net" is particularly noteworthy. In the course of this HR software project, cross-border standard processes in the area of application and talent management are defined and successively implemented in the individual countries by means of this software solution. The applicant management solution was rolled out in August 2016, as part of an international pilot project with the application of the Swiss company, Umantis. Since this time, over 8,000 applications have been digitally processed into this system.

Aside from the digital components, treating future employees respectfully is very important to the Group. The NOVOMATIC career portal was the subject of a major overhaul in the course of the project, now providing a strong, Group-internal job market as well as application processes that meet the demands of Generation Y. In addition to web-based processes, the recruitment channels were also supplemented by active sourcing methods. In a study on recruitment quality in the German-speaking region, NOVOMATIC is among the top 10 of the industry ranking of BEST RECRUITERS 2016/17 in Austria and, with this result, was awarded the silver BEST RECRUITERS seal of approval for the third time in a row.

A particular focus is qualification measures across all levels, which support the innovative power of the NOVOMATIC Group and thus the ability of the Group to continue working in the future. Related topics include the further digitalization of business processes and the associated production environment (Industry 4.0) and the training of international casino/arcade managers.

A partnership with the largest external training institute in the German-speaking region – the HAUFE Academy – was concluded in 2016 to improve the depth of professional knowledge and process efficiency. The Haufe Group is, with over 1,500 employees, a specialist for professional and management knowledge in a business context, offering customers in the field of training online communities, expert portals as well as further education and training opportunities. In addition to professional depth, all operational training processes have been supported by an external provider since September 2016. Work has begun to offer the training courses around the world via partners of the HAUFE Academy. For instance, the partner Fast Lane offers globally qualified IT training courses on different topics.

Industry 4.0 – often referred to as the fourth industrial revolution – has already begun and is characterized by the increasing digitalization and networking of products, value creation chains and business models. To prepare the NOVOMATIC Group for this transformation towards greater digitalization in the economy/society, NOVOMATIC has already been a partner in an Austrian industry cluster with ten other leading globally active companies and a network comprising domestic and foreign universities under the project title "Enterprise 4.0" for one year. In addition to technological challenges, the primary focus is on preparing employees and managers in time for this change through qualification measures that have been integrated into the training program. In the course of an "Enterprise 4.0" meeting organized by NOVOMATIC in November 2016, the top management levels were brought together for the first time with the project managers of use cases to be handled by the companies involved as well as international university professors for applied research and the transfer of know-how.

The NOVOMATIC Group has a high acquisition rate, notably in the area of Operations. To take account of this trend, a high-quality training program for potential casino managers and area managers for arcades was launched. The program has been designed as cross-border training, combining professional training topics as well as practical work in the area of Operations. These measures are complemented by coaching and individual measures. In a next step, there are plans to offer this program in cooperation with several universities as a certified program with an academic qualification.

NOVOMATIC pursues a sustainable course when it comes to the topic of diversity. The Group holding company NOVOMATIC AG and the Austrian producing subsidiary NOVOMATIC Gaming Industries GmbH had themselves audited in this important area as part of the certificate for an age-appropriate working world, and NOVOMATIC was awarded the "NESTOR^{GOLD}" certificate in November 2016. The two Austrian subsidiaries falling into the Gaming Operations segment, ADMIRAL Casinos & Entertainment AG and Admiral Sportwetten GmbH, received the "NESTOR^{GOLD} Bewegt" certificate for their initiatives in respect of responsible generation management. The demographic development shows that sustainable generation management is important to keep employees healthy and motivated for longer at work. Investing in employees and promoting the dialog of generations among employees is essential to be able to safeguard the retention and transfer of knowledge in the NOVOMATIC Group over the long term.

7. Prospective Development of the Group

In its latest analysis, the International Monetary Fund (IMF) assumes a global growth rate of 3.4 percent[5] for 2017. Analysts at GBGC[6] also expect a similar trend, forecasting an increase in global gaming expenditures of 3.5 percent in 2017. NOVOMATIC plans to continue its successful growth strategy, aiming to achieve market-leading positions in large, regulated markets. During the financial year 2017, revenues are expected to rise further, although it can be assumed that the regulatory environment will also remain challenging in the key markets in the coming year.

In the home market of Austria, licenses for state-licensed gaming in Lower Austria and Burgenland were repealed by the Federal Administrative Court (VwGH). After continued proceedings, the gaming license for 1,339 gaming machines in Lower Austria was issued again to ADMIRAL Casinos & Entertainment AG (ACE) in December 2016. This notice was then contested through complaints by three competitors. A decision by the Lower Austrian Provincial Administrative Court is expected in the second quarter of 2017. Continued operations are guaranteed until November 2017, due to the statutory duty to continue operations and a declaratory notice. The continued operation of the 110 approved gaming machines in Burgenland is guaranteed until June 2017, and a decision concerning the ongoing selection procedure is still pending.

The First State Treaty amending the current Interstate Gambling Treaty in Germany (Glücksspieländerungsstaatsvertrag, GlüÄndStV) came into effect on July 1, 2012. A further amendment concerning the area of sports betting is currently being reviewed by the European Commission. The First State Treaty amending the current Interstate Gambling Treaty in Germany essentially involves creating distance regulations between gaming arcades and youth facilities. It also includes a ban on multiple concessions, thereby limiting a site to a maximum of 12 gaming machines. A (fundamental) transitional period of five years was granted to implement the restrictive new regulations, which means that the provisions are applicable from July 1, 2017. It is to be expected that the current legal situation will have an even greater impact on the restrained and muted willingness of the German gaming industry to invest in the future. Furthermore, there is a risk that players will move into unregulated markets or take advantage of illegal offers. NOVOMATIC expects a declining market in the German Gaming Arcades segment from July 1, 2017, although higher device utilization should have a certain compensatory effect. If gaming arcades need to be made smaller or closed, this will, however, have a negative impact on revenues (from the rental of gaming machines or the operation of gaming machines).

In the core market of Italy, the government is considering a further increase in gaming-related taxes for the financial year 2017. At the time the Group management report was prepared, it was unclear whether, when and to what extent such measures will be decided. If implemented, however, additional pressure on earnings can be expected. In 2016, numerous licenses for online gaming, sports betting and bingo in Italy expired which, however, were prolonged pending a new tender expected during 2017. The reason for the delay of the new tender is due to both the unexpected change in government as a result of the failed referendum on constitutional reform in 2016 and the lack of coordination between municipalities and the federal government to reach an agreement on the framework conditions for the gaming and betting business. Despite the challenging regulatory environment, NOVOMATIC expects a further increase in revenues as a result of organic and acquisition-driven growth.

In the large European gaming markets of the United Kingdom and Spain, further revenue increases are forecast, due to the recently completed acquisitions. In both markets, this increase is mainly due to the developments within the Gaming Operations segment.

In the regions of Central and Eastern Europe (CEE) and South Eastern Europe (SEE), rising revenues are expected. Countries such as Romania and Croatia, which offer stable gaming markets, contribute significantly to this positive development.

The acquisition of approximately 53 percent of the shares in Ainsworth Game Technology Ltd. (Ainsworth), the closing of which is still outstanding due to formal approval requirements from various international licensing and regulatory authorities and not expected before the third quarter of 2017, represents another milestone in the history of NOVOMATIC. The acquisition is of major

[5] According to the World Economic Outlook provided by the International Monetary Fund (IMF)

[6] Global Gambling Report by GBGC

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.

For 2017, the NOVOMATIC Group companies active in the area of online gaming are likely to be confronted with a challenging market environment. Growth rates will slow further as a result of increased competitive pressure. At the same time, higher costs for acquiring new customers and securing customer loyalty, as well as rising taxes, will influence profitability.

8. Risk Management

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

Risk Management System

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

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

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

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

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

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

Control Environment

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

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

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

Risk Assessment

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

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

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

Control Activities

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

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

Information and Communication

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

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

Monitoring

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

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

Compliance

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

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

The Group's compliance system is based on NOVOMATIC's Code of Conduct, a set of guidelines that is binding for all employees and all business areas. In the Code of Conduct, employees find guidelines and principles for values-based and lawful behavior during day-to-day business activities. This Code of Conduct also provides the basis for training activities related to integrity and compliance. Depending on the risk and 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 ensure that ethical and rule-abiding behavior is sustainably anchored throughout the entire company.

Significant Risks and Uncertainties

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

Business and Market Risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks due to product liability or product defects

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

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

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

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

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

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

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

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

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

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

The security mechanisms of the NOVOMATIC organization could fail

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

Risks related to changes in customer behavior

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

The NOVOMATIC Group is subject to competitive risks

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

The NOVOMATIC Group is dependent on certain markets

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

Legal and Geographic Risks

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

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

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

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

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

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

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

Within the core market of Austria, NOVOMATIC is applying and has applied for concessions required to operate casinos and electronic casinos. NOVOMATIC cannot guarantee that its participation in such procedures for the awarding of concessions will be successful or that the awarding of a concession will not be subsequently successfully contested.

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

Risks related to legal proceedings and arbitration proceedings

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

Risks due to the possible tightening of regulatory measures

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

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

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

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

The NOVOMATIC Group is subject to risks related to intellectual property

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

NOVOMATIC is also subject to the risk that third-party components included in its own products might violate certain intellectual property rights. In such cases, NOVOMATIC could be obligated to either not use said intellectual property rights or to pay considerable licensing fees to third parties. NOVOMATIC is also subject to the risk that third parties might acquire patents or other intellectual property in order to initiate actions for damages, etc.

The gaming industry is characterized by rapid technological development, which forces the NOVOMATIC Group to continuously develop new products and enter new markets. The NOVOMATIC Group's success, therefore, depends on its ability to continuously enhance the development of its products and systems in order to integrate new technologies and expand into new markets created by new technologies. Should certain technologies be protected by intellectual property rights held by third-parties, including by competitors, NOVOMATIC might not be able to offer certain products or expand into certain markets.

The NOVOMATIC Group is subject to the risk of being unable to sufficiently protect its customer data

The NOVOMATIC Group holds information about its customers which is in part sensitive (name, address, age, bank data and gaming tendencies) and must follow the strict data protection rules stipulated by the EU and other jurisdictions. Despite the security systems implemented by NOVOMATIC, there is the risk that customer data could be retrieved and/or used illegally, either by employees or by customers or third-parties. There is also the risk that customer data might be deleted, disclosed or edited involuntarily or in violation of data protection regulations. Should NOVOMATIC or one of its external service providers transmit customer data without sufficient protection, or should confidential customer data be lost in any other way, NOVOMATIC might be held liable under data protection laws, which would also damage the Group's reputation.

Risks due to a tightening of international anti-money laundering provisions (Financial Action Task Force)

In the countries where NOVOMATIC pursues business activities, the operation of gaming facilities such as casinos is subject to numerous and increasingly strict legal and regulatory provisions regarding money laundering. At an international level, organizations such as the Financial Action Task Force and the EU continuously adapt and tighten the regulations and standards related to anti-money laundering provisions. A further tightening of these standards and regulations could result in additional organizational measures as well as further financial expenses for NOVOMATIC's business operations.

Risks due to audits by tax authorities

During the course of tax audit procedures carried out by the tax authorities, the NOVOMATIC Group could be obligated to pay additional taxes or charges. Should the total amount of taxes or charges payable in arrears result in a substantial figure, this could have a negative impact on the NOVOMATIC Group's liquidity and earnings position.

Financial Risks and Usage of Financial Instruments

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

Extensive descriptions of the individual risks, including the methods used to hedge the risks mentioned above, are provided in the notes to the consolidated financial statement.

9. Research and Development

Thanks to its numerous technology centers, the NOVOMATIC Group is a pioneer in the development of innovative products and system solutions in the area of gaming. The Group's development activities focus both on "Distributed Gaming Solutions" and on gaming content and application software. Prominent among these developed software system solutions are management information systems, ticketing and smart card systems, access systems, video lottery systems, biometric player recognition, links to government regulatory authorities, player protection programs, "gaming as a service", online and mobile gaming system solutions, jackpot systems, multiplayer and community gaming systems, and a new tournament for NOVO LINE under the name "World Championship of Slots". Both 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 start new industry trends, industrial design is an extremely important factor. Innovations in terms of hardware include new and ergonomic cabinet designs for casino, video lottery and AWP gaming markets with control possible via up to five monitors; skill-based roulette facilities with state-of-the-art ball release mechanisms; the new GAMINATOR® Scorpion cabinet and V.I.P. terminals with giant screen technology and dynamic lighting effects via LED technology. In terms of data security, increasing emphasis is being placed on physical random number generators that use quantum mechanics.

New categories of game features included in the portfolio are "Allpay", "ExtraBet", "Quattro", "Reel Refill", "Fixed Wilds", "Xtra Stax" and "WinWays", to name a few. Standalone progressive jackpots (referred to as "SAP Jackpots") further expand gaming offerings, as does a new Egyptian-themed jackpot named "Kingdom of Ra". NOVOMATIC is also represented in the field of branded games through licenses for Christopher Nolan's Batman trilogy and the Sherlock Holmes films by Guy Ritchie. A license for the cult TV series MacGyver could be acquired as the most recent brand.

Development is supported by hardware and software development teams in Austria, Germany, Great Britain, 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 more than 4,000 registered IP rights and in excess of 100 registrations per year, this area is paid special attention. The Group is constantly developing new products and product variations, resulting in over 300 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. 20 companies around the world are now working with this SDK, thereby adding to NOVOMATIC's already extensive portfolio of games.

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

10. Acknowledgments

We would like to thank all employees of the NOVOMATIC Group for their strong commitment, with which they have made a major contribution to the company's further development and success. We are especially indebted to the owner, Prof. Johann F. Graf, as well as to the Supervisory Board active in the reporting year chaired by Senator Herbert Lugmayr – they have contributed significantly to the positive development of the NOVOMATIC Group. We would also like to acknowledge the positive relationships with our capital providers and business partners, relationships which have always been characterized by a pleasant collaboration.

Gumpoldskirchen, March 31, 2017

Harald Neumann
Chairman,
Chief Executive Officer, CEO

Ryszard Presch
Deputy Chairman,
Chief Operating Officer, COO

Thomas Graf
Chief Technology Officer, CTO

Peter Stein
Chief Financial Officer, CFO

Dr. Christian Widhalm
Chief Investment Officer, CIO

Consolidated Balance Sheet as of December 31, 2016

EUR m	Notes	12/31/2016	12/31/2015
ASSETS			
Non-current assets			
Intangible assets	(7.1, 7.3)	702.8	498.2[1]
Property, plant and equipment	(7.2, 7.3)	955.1	856.9[1]
Investment property	(7.4)	21.1	18.7
Investments in associated companies	(7.5)	0.2	0.2
Financial assets	(7.6)	237.8	204.1
Deferred tax assets	(7.7)	93.2	94.3
Other non-current assets	(7.8)	116.9	111.3
		2,127.1	**1,783.7**
Current assets			
Inventories	(7.9)	225.5	191.9
Trade receivables, other receivables and assets	(7.10)	372.5	359.2
Current tax receivables	(7.7)	34.0	30.5
Current financial assets	(7.11)	31.3	32.3
Cash and cash equivalents	(7.12)	877.8	585.4
Assets held for sale	(7.13)	0.0	0.2
		1,541.1	**1,199.5**
Total ASSETS		**3,668.2**	**2,983.2**
EQUITY AND LIABILITIES			
Equity			
Share capital	(7.14)	26.6	26.0
Capital reserves	(7.15)	85.4	1.0
Retained earnings	(7.16)	1,245.6	1,172.5[1]
Revaluation reserve	(7.17)	5.2	-8.6
Currency translation adjustment	(7.18)	-53.8	-24.1[1]
		1,309.1	1,166.9
Non-controlling interests	(7.19)	62.5	48.4[1]
		1,371.6	**1,215.3**
Non-current liabilities			
Non-current financial liabilities	(7.20)	1,395.1	1,043.7
Non-current provisions	(7.21)	66.1	52.1
Non-current tax liabilities	(7.7)	11.0	18.3
Deferred tax liabilities	(7.7)	90.4	66.0[1]
Other non-current liabilities	(7.22)	19.6	24.8
		1,582.3	**1,204.8**
Current liabilities			
Current financial liabilities	(7.23)	210.8	36.9
Current provisions	(7.24)	68.7	48.1
Current tax liabilities	(7.7)	33.9	27.8
Trade payables and other liabilities	(7.25)	401.0	450.4
		714.4	**563.1**
Total EQUITY AND LIABILITIES		**3,668.2**	**2,983.2**

1) Adjustment of previous year's figures pursuant to IAS 8 or IFRS 3 "Business combinations"

Consolidated Profit and Loss Account for Financial Year 2016

EUR m	Notes	01–12/2016	01–12/2015
Revenues	(8.1)	2,294.1	2,086.3
Gaming taxes and betting fees	(8.2)	-238.3	-191.4[1]
Revenues less gaming taxes and betting fees		**2,055.9**	**1,894.9[1]**
Changes in inventories of finished goods and work in progress	(8.3)	21.0	8.2
Own work capitalized	(8.3)	194.6	147.6
Other operating income	(8.4)	109.0	124.6
Cost of material and other purchased services	(8.5)	-358.6	-282.8
Personnel costs	(8.6)	-676.8	-567.8
Amortization, depreciation, impairment and reversal of impairment for intangible assets, property, plant and equipment, and investment property	(8.7)	-324.4	-301.3[1]
Other operating expenses	(8.8)	-756.7	-707.9
Operating profit		**264.1**	**315.4**
Interest income	(8.9)	7.8	8.4
Other financial income	(8.10)	12.6	24.4
Interest expenses	(8.11)	-37.2	-32.1
Other financial expenses	(8.12)	-12.1	-13.4
Currency exchange gains/losses from intra-group financing	(8.13)	-5.8	5.8
Financial result		**-34.7**	**-7.0**
Earnings before taxes		**229.4**	**308.5**
Income taxes	(8.14)	-75.0	-95.8[1]
Net income for the year		**154.4**	**212.7**
thereof attributable to non-controlling interests		6.8	4.5
thereof attributable to shareholders of the parent (net profit)		147.6	208.2[1]

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

Consolidated Statement of Comprehensive Income for Financial Year 2016

EUR m	Notes	01–12/2016	01–12/2015
Net income for the year		**154.4**	**212.7**
Amounts that will be reclassified to profit and loss account in subsequent periods			
Currency translation	(7.18, 7.19)	-29.9	6.8[1]
Market value of financial assets available for sale	(7.17)	18.4	1.0
Apportionable income tax		-4.6	-0.2
Amounts that will not be reclassified to profit and loss account in subsequent periods			
Revaluation of the net defined benefit liability	(7.16)	-3.0	-0.8
Apportionable income tax		0.8	0.2
Other comprehensive income after taxes		**-18.3**	**7.0**
Total comprehensive income		**136.1**	**219.8**
thereof attributable to non-controlling interests		6.7	4.4
thereof attributable to shareholders of the parent (net profit)		129.4	215.3[1]

[1] Adjustment of previous year's figures pursuant to IAS 8 or IFRS 3 "Business combinations"

Consolidated Cash Flow Statement for Financial Year 2016

EUR m	Notes	01–12/2016	01–12/2015
Operating profit		**264.1**	**315.4**[1]
Loss (+) / Gain (-) from the disposal of fixed assets		-9.6	-13.1
Depreciation (+) / Appreciation (-) of fixed assets		324.4	301.3[1]
Other non-cash income and expenses		-33.2	-44.4
Interest received and interest-related income		13.0	10.3
Taxes paid		-89.7	-125.9
		469.0	**443.7**
Increase (-) / Decrease (+) in inventories		-30.4	-9.8
Increase (-) / Decrease (+) in receivables		-31.8	-38.8
Increase (+) / Decrease (-) in provisions		24.9	0.3
Increase (+) / Decrease (-) in liabilities		-2.4	22.0
Cash flow from operating activities		**429.2**	**417.4**
Proceeds from the disposal of fixed assets (excluding financial assets)		76.2	63.6
Proceeds from the disposal/repayment of financial assets		106.3	6.2
Proceeds from the sale of consolidated companies, net of cash		51.9	54.8
Acquisition of intangible assets, property, plant and equipment		-415.3	-308.0
Acquisition of financial assets and other financial investments		-139.4	-176.3
Acquisition of consolidated companies, net of cash		-199.8	-89.5
Results from associated companies and investments		0.3	0.0
Investment income from other investments		0.0	9.3
Cash flow from investing activities		**-519.8**	**-439.9**
Proceeds from capital increase		85.0	0.0
Dividend payments		-50.8	-161.3
Proceeds from non-controlling interests		0.3	0.0
Expenditures from change in interests in subsidiaries (without change of control)		-16.5	-18.2
Proceeds from the issuance of bonds		492.7	0.0
Expenditures from the redemption of bonds		0.0	-189.4
Proceeds from bank loans and financial liabilities		135.7	430.6
Payouts from bank loans and financial liabilities		-133.0	-120.2
Interest paid and interest-related expenses		-38.9	-46.7
Cash flow from financing activities		**474.5**	**-105.2**
Net change in cash and cash equivalents		**383.9**	**-127.7**
Currency translation adjustments		-8.6	2.5
Changes in cash and cash equivalents due to changes in scope of consolidation		0.1	0.5
Net change in cash and cash equivalents		**375.3**	**-124.7**
Cash and cash equivalents at the beginning of the period	(7.12, 9)	502.5[2]	627.2
Cash and cash equivalents at the end of the period	(7.12, 9)	877.8	502.5[2]
Net change in cash and cash equivalents		**375.3**	**-124.7**

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

2) The cash and cash equivalents shown on the balance sheet amounted to EUR 585.4 million in 2015. The deviation of EUR 82.9 million against the cash and cash equivalents disclosed in the cash flow statement was the result of funds tied up for tax liabilities. Further details are provided in note (7.12) and (9).

Consolidated Statement of Changes in Equity for Financial Year 2016

	Shares of shareholders of NOVOMATIC AG						Non-controlling interests	Equity
EUR m	Share capital	Capital reserve	Retained earnings	Revaluation reserves	Currency translation adjustment	Total		
As of 1/1/2016	**26.0**	**1.0**	**1,172.5**	**-8.6**	**-24.1**	**1,166.9**	**48.4**	**1,215.3**
1) Total comprehensive income								
Net income for the year	0.0	0.0	147.6	0.0	0.0	147.6	6.8	154.4
Other comprehensive income	0.0	0.0	-2.1	13.8	-29.9	-18.2	0.0	-18.3
2) Dividend payments	0.0	0.0	-50.0	0.0	0.0	-50.0	-0.8	-50.8
3) Change in non-controlling interests	0.0	0.0	-14.1	0.0	0.1	-14.0	-2.5	-16.5
4) Changes in the scope of consolidation	0.0	0.0	0.3	0.0	0.0	0.3	10.4	10.7
5) Obligation from written put options for non-controlling interests	0.0	0.0	-8.6	0.0	0.0	-8.6	0.0	-8.6
6) Capital increase	0.6	84.4	0.0	0.0	0.0	85.0	0.3	85.3
As of 12/31/2016	**26.6**	**85.4**	**1,245.6**	**5.2**	**-53.8**	**1,309.1**	**62.5**	**1,371.5**

	Shares of shareholders of NOVOMATIC AG						Non-controlling interests	Equity
EUR m	Share capital	Capital reserve	Retained earnings	Revaluation reserves	Currency translation adjustment	Total		
As of 1/1/2015	**26.0**	**1.0**	**1,139.9**	**-9.4**	**-30.9**	**1,126.5**	**47.8**	**1,174.3**
1) Total comprehensive income								
Net income for the year	0.0	0.0	208.2[1]	0.0	0.0	208.2	4.5	212.7
Other comprehensive income	0.0	0.0	-0.6	0.9	6.9[1]	7.1	-0.1	7.0
2) Dividend payments	0.0	0.0	-152.0	0.0	0.0	-152.0	-9.3	-161.3
3) Change in non-controlling interests	0.0	0.0	-9.6	0.0	0.0	-9.6	-5.3	-14.9
4) Changes in the scope of consolidation	0.0	0.0	-11.7	0.0	0.0	-11.7	10.7[1]	-1.1
5) Obligation from written put options for non-controlling interests	0.0	0.0	-2.8	0.0	0.0	-2.8	0.0	-2.8
6) Other equity transactions	0.0	0.0	1.2	0.0	0.0	1.2	0.0	1.2
As of 12/31/2015	**26.0**	**1.0**	**1,172.5**	**-8.6**	**-24.1**	**1,166.9**	**48.4**	**1,215.3**

[1] Adjustment of previous year's figures pursuant to IAS 8 according to IFRS 3 "Business combinations"

CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Consolidated **Financial Statements**

as of December 31, 2016

(1) Information about the Company

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

The NOVOMATIC Group is a globally operating, integrated gaming technology and entertainment company. The Group develops, manufactures and sells gaming products, lottery technologies and networked system solutions for domestic and international gaming and betting markets. The NOVOMATIC Group, furthermore, operates more than 1,700 gaming facilities worldwide, including casinos, automated casinos, bingo facilities and sports betting outlets.

In addition to the development of gaming equipment, the NOVOMATIC Group has also established itself as a content provider of games for licensed online and offline suppliers and as an operator of online gaming platforms. The NOVOMATIC Group is aware of its considerable social responsibility and pursues business activities only in markets with a clearly defined legal framework.

(2) Accounting Principles

The present consolidated financial statement as of December 31, 2016, was prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as well as with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (EU). The requirements of Sec. 245a para 1 of the Austrian Commercial Code have likewise been fulfilled.

The financial year corresponds to the calendar year. The financial statements of every fully consolidated domestic or foreign company included in the consolidated financial statement for 2016 were prepared as of the balance sheet date of the consolidated financial statements.

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

(3) Scope of Consolidation

This consolidated financial statement covers NOVOMATIC AG and the companies that it controls. The control over a subsidiary is assumed if NOVOMATIC AG can exercise control over the associated company either directly or indirectly, is exposed to fluctuating returns on its investment, and can influence returns in terms of their size due to the power to control. Subsidiaries are fully consolidated from the acquisition date, i.e. the date on which the Group gains control over the company. Inclusion in the consolidated financial statement ends when the parent no longer exercises control over the subsidiary.

The equity method is applied for companies that are significantly influenced – but cannot be considered to be controlled – by NOVOMATIC AG. In cases of joint operations, the attributable assets and liabilities are recognized.

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

The scope of consolidation developed as follows:

Scope of consolidation	Fully consolidated	Valued at equity	Joint activity
As of 1/1/2016	188	1	1
First time inclusion in 2016	40	0	0
Disposed of in 2016	-4	0	0
Merged in 2016	-7	0	0
Switched from valuation using the equity method to fully consolidated in 2016	0	0	0
As of 12/31/2016	217	1	1
thereof non-Austrian companies	198	0	1

A summary of fully consolidated subsidiaries, companies consolidated using the equity method, joint operations and non-consolidated affiliated companies can be found under other disclosures.

During 2016, the Group acquired or founded the following subsidiaries:

- Admiral Gaming Castilla y Leon S.L., Spain
- AGI Novomatic Tunisia S.A.R.L., Tunisia
- Ainsworth UK Ltd., United Kingdom
- Albanisch Österreichische Lotterien Holding Gesellschaft m.b.H., Austria
- Automaten Service Playtime GmbH, Germany
- BeKu Automaten & Gastronomie Service GmbH, Germany
- Bingo Time Vicenza S.r.l., Italy
- Blue Sky d.o.o., Croatia
- Bolus d.o.o., Croatia
- City Freizeitanlagen GmbH, Germany
- Casino delle Alpi S.r.l., Italy
- Casino Rixos GmbH, Germany
- Comercial Txartel S.L., Spain
- El Dolar de plata Linense S.L., Spain
- El Dorado Derby S.L., Spain
- Electro System S.p.A., Italy
- Ellepi Ges. S.r.l., Italy
- EZEA GmbH, Germany
- Gran Casino Aljarafe S.A., Spain
- I-New Peru S.A.C., Peru

- Königstraße Spielstätten und Automaten UG, Germany
- Lotaria Kombëtare Sh.p.k., Albania
- MG Gaming S.r.l., Italy
- Millenium S.r.l., Italy
- Moislinger Spielstätten und Automaten UG, Germany
- Mühlenstraße Spielstätten und Automaten UG, Germany
- Novomatic Services Spain S.L., Spain
- Orione S.r.l., Italy
- Otiumgi S.L., Spain
- Promotrice Giocchi S.r.l., Italy
- RAL Ltd., United Kingdom
- Recreativos Hispajuegos S.L., Spain
- Red Devil Spielothek GmbH, Germany
- S4Gaming S.L., Spain
- Super Sansa d.o.o., Croatia
- Talarius Ltd., United Kingdom
- Turhan Spielsalon GmbH, Germany
- Verajuegos S.L., Spain
- ZS Casino Emsland GmbH, Germany

Novo Panama S.de R.L. was moved from the non-consolidated companies to the scope of fully consolidated companies as of January 1, 2016.

Subsidiaries in Iceland, Croatia, Romania, Slovakia and Austria were merged.

(4) Accounting Policies

Standards and Interpretations to be Applied for the First Time in Financial Year 2016

The following new or revised standards and interpretations were adopted by EU legislation and implemented for the first time in the financial year 2016:

Standard/Interpretation	
IAS 1	Disclosure Initiative
IAS 16, IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization
IFRS 11	Acquisition of an Interest in a Joint Operation
Miscellaneous	Annual Improvements to IFRS 2010 – 2012
Miscellaneous	Annual Improvements to IFRS 2012 – 2014

When implementing IAS 1 "Disclosure Initiative", the structure of the notes was redesigned, and the notes and explanations realigned in consideration of materiality and relevance. The application of the other amendments had no significant impact on the consolidated financial statement.

Standards and Interpretations Already Published, but only to be Applied in Future Periods

At the date upon which this financial statement was authorized for publication, the following standards and interpretations relevant to the NOVOMATIC Group were already published but not yet mandatory and were not voluntarily applied in advance:

Standard/Interpretation		Obligatory application for the financial years from
IAS 7	Disclosure Initiative	January 1, 2017[1]
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017[1]
IFRS 10, IAS 28	Sales or Contributions of Assets between an Investor and its Associate or Joint Venture	moved[1]
IAS 40	Investment Property	January 1, 2018[1]
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
	Clarification to IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018[1]
IFRS 16	Leasing	January 1, 2019[1]
Miscellaneous	Annual Improvements to IFRS 2014 – 2016	January 1, 2017 and 2018[1]
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018[1]

[1)] Not adopted by EU legislation so far

The introduction and implementation of the aforementioned standards and interpretations in the NOVOMATIC Group are intended from the time of mandatory application taking into account any potential exemptions.

The new IFRS 9 "Financial Instruments" deals with the classification, recognition, measurement and derecognition of financial assets and liabilities. In addition, it introduces a new model for the impairment of financial assets geared to expected credit defaults. Furthermore, the regulations regarding hedge accounting were modified with the objective of allowing entities to better reflect risk management activities and measure their effectiveness more easily. According to current assessments, the application of IFRS 9 is expected to have an occasional impact on the categorization and measurement of financial assets. The regulations regarding the disclosure of impairments will tend to result in an earlier recognition of credit default losses (as well as with regards to trade receivables).

IFRS 9 also requires comprehensive new disclosures and changes in the presentation. This relates in particular to the areas of hedge accounting and impairments. It is to be expected that these requirements will influence the nature and extent of disclosures concerning financial instruments in the year of first-time application.

IFRS 9 is to be applied for the first time in the financial years commencing on or after January 1, 2018. NOVOMATIC does not plan to adopt the new standard early.

The new IFRS 15 "Revenue from Contracts with Customers" regulates the recognition of revenue and thus replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. Pursuant to IFRS 15, revenues are to be recognized when the customer acquires the power to dispose of the agreed goods and services and may derive a benefit from them. 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 divide up the contractual performance obligations. NOVOMATIC generates revenue primarily in the following areas:

- Revenue from the operation of gaming machines
- Rental and management revenue from gaming machines
- Sales revenues from gaming machines
- Revenue from eBusiness
- Betting revenues

NOVOMATIC is just starting a project to determine and evaluate the possible effects of the future application of the new standards. Work is currently beginning to analyze the regulations of IFRS 15 for the individual areas listed above, with a focus on:

- Examining the summary of contracts
- Examining the contract for individual lease obligations
- Handling any variables in the transaction price
- Interaction of IFRS 15 and IFRS 16 in the rental business

The current status of the investigation does not permit any deeper explanations of possible effects from the future application of IFRS 15.

IFRS 15 is to be applied for the first time in the financial years commencing on or after January 1, 2018. NOVOMATIC does not plan to adopt the new standards early.

The new IFRS 16 "Leasing" regulates the recognition, measurement and reporting, as well as the disclosure requirements, regarding leases. For the lessee, the standard provides a single accounting model. This model results in the lessee having to recognize all assets and liabilities from lease agreements in the balance sheet. The only exceptions are for current leases and leases for low-value assets. Lessors, on the other hand, continue to differentiate between financing and operating leases. The NOVOMATIC Group will initiate a detailed analysis of the impact of IFRS 16 shortly. At a general level, it is expected that the recognition of usage rights and leasing liabilities from the contracts previously classified as operating leases, where the Group acts as lessee, will be enhanced. The most important effect is apparent in the area of operated gaming arcades or locations that are largely rented by third-parties. As of the balance sheet date, the NOVOMATIC Group had non-cancellable operating lease agreements of EUR 275.1 million (reference to note pursuant to IAS 17).

IFRS 16 is to be applied for the first time in the financial years commencing on or after January 1, 2019. NOVOMATIC does not plan to adopt the new standards early.

The NOVOMATIC Group does not expect any significant impact on its net assets, or its financial and earnings position due to the first-time application of the other standards and interpretations.

Basis of Consolidation

First-time consolidation of acquired companies is carried out according to the purchase method at the date of acquisition. The consideration transferred in the case of a business combination is measured at its fair value, which is an aggregate of the fair values of assets acquired and liabilities taken over from the former owner of the acquired company at the date of acquisition in exchange for control of the company. The contingent consideration is treated as part of the transferred consideration and is measured at its fair value at the date of acquisition. If the business combination is achieved in stages, the previously held interest in the acquired entity is revalued at the fair value prevailing at the acquisition date, and the resulting profit or loss is recognized in the Consolidated Profit and Loss Account. Additional acquisition costs are directly recognized as an expense.

The acquired identifiable assets and liabilities are measured at their fair value at the date of acquisition, unless there are exceptions. In accordance with IFRS 3, any excess of the consideration transferred over the fair values of the identifiable net assets acquired is recognized as goodwill. If the consideration transferred is below the identifiable net assets, the difference is recognized against income after a reevaluation of the acquired net assets.

Non-controlling interests are valued initially at either their respective share of the identifiable net assets or their fair value. During the subsequent accounting, the profit/loss of the subsidiary is attributed proportionally to the non-controlling interests, even if this results in a negative balance. The presentation is within the equity and separate from the equity attributable to the share-holders of NOVOMATIC AG.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Profit and Loss Account from the effective date of acquisition or up to the effective date of disposal.

Changes in interests in subsidiaries without loss of control are recognized as equity transactions.

The results, as well as the assets and liabilities of associated companies, are included using the equity method. Investments in associated companies are recognized on the balance sheet at acquisition costs, adjusted by post-acquisition changes of the Group's share of net assets, as well as by losses resulting from impairment. Losses exceeding the Group's share of the associated company are not taken into account.

In the case of joint operations, the Group recognizes its share in jointly held assets, incurred debts, revenues and expenses.

All significant intercompany receivables, liabilities, expenses and earnings, as well as intragroup profits, are eliminated.

Foreign Currency Translation

For the currency translation of foreign financial statements, the concept of the functional currency is used. For all companies, this is the local currency, as these entities conduct their business independently in terms of financial, economic and organizational aspects.

Apart from the positions within equity, all balance sheet items are translated into the reporting currency at the exchange rate prevailing on December 31, 2016. Income and expense items of foreign consolidated companies are translated at average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income. Upon the elimination of a foreign company from the consolidation scope, the exchange difference is recognized in profit or loss.

The exchange rates used for currency translation developed as follows:

Equivalent amount = EUR 1	Exchange rate prevailing at the balance sheet date		Average exchange rate for the year	
	12/31/2016	12/31/2015	2016	2015
British Pound	0.8575	0.7350	0.8228	0.7240
Croatian Kuna	7.5500	7.6410	7.5310	7.6164
Macedonian Dinar	61.5520	61.5817	61.5594	61.5516
Peruvian New Sol	3.5200	3.7228	3.7165	3.5337
Romanian Leu	4.5420	4.5240	4.4922	4.4398

Intangible Assets and Goodwill

Acquired intangible assets are capitalized at acquisition costs and amortized on a scheduled straight-line basis according to their economic useful life or contract period, with the exceptions of client base and technology, which are written off using the diminishing balance method. Internally generated intangible assets are capitalized at production costs if the criteria for inclusion are met and amortized on a scheduled straight-line basis according to their economic useful life.

Trademarks and licenses can have indefinite useful lives. The assessment of intangible assets with an indefinite useful life is reviewed once a year to decide if the assumption of an indefinite useful life is still justified. If this is not the case, the assumption of an indefinite useful life is changed prospectively to a limited useful life.

For intangible assets with an indefinite useful life, an impairment test is carried out at least annually or, in cases where indications of impairment arise, also during the year. Impairment is given if the recoverable amount is lower than the book value. The recoverable amount is the higher value of the fair value and the value-in-use. Impairment is recognized in the year during which the event causing the impairment arises. Where an impairment loss subsequently reverses, the assets are written up.

In the case of business combinations, any excess of the consideration transferred over the fair values of the identifiable net assets acquired is shown as goodwill and allocated to cash-generating units for the purpose of an impairment test. The allocation to cash-generating units or groups of cash-generating units is carried out on the identified business segments that are expected to profit from it. The carrying amount of the goodwill is subject to an impairment test annually as of September 30, or if there is any indication of impairment. The book value is compared to the recoverable amount for the cash-generating unit to which it is allocated. Any impairment loss is immediately charged against income and is not reversed in any later period.

The estimated useful lives for intangible assets and goodwill are:

	Useful life in years	
	from	to
Goodwill		indefinite
Software	3	5
Patents and trademarks	3	20 or indefinite
Licenses	5	20 or indefinite
Customer relationships	3	20
Other intangible assets	3	10

Property, Plant and Equipment

Property, plant and equipment are stated on the balance sheet at acquisition or production costs less the scheduled straight-line depreciation and amortization. Depreciation of property, plant and equipment begins when they are ready for use. For the determination of the estimated useful life of property, plant and equipment, their expected economic life is taken into account. Concerning impairment tests in cases where the corresponding indications arise, we refer to the remarks above.

The estimated useful lives for property, plant and equipment are:

	Useful life in years	
	from	to
Buildings	20	50
Investments in rented property	10	20
Machines	3	10
Gaming machines	3	7
Equipment	3	10

Investment Property

Investment property denotes land and buildings held but not used in business operations. They are stated at amortized cost. Buildings are written off over their estimated useful lives of 25 to 50 years using the straight-line method.

Leasing

Agreements by which all risks and rewards of ownership related to the use of the assets transferred to the Group are classified as finance leases. Assets held as finance leases are recognized initially at their fair value or, if lower, at the present value of the minimum lease payments, and are written off over their estimated useful life or over the shorter term of the leasing contract, if applicable. The capitalized assets are shown on the balance sheet along with the present value of the liability from all lease payments outstanding at the balance sheet date.

For agreements where the Group is lessor, the amounts payable by the lessee based on finance lease relationships are shown as receivables amounting to the net investment in the lease of the Group.

All other leases are qualified as operating leases. Rentals are shown as an expense or income.

Inventories

Inventories are stated at acquisition or production cost, or at the lower net realizable value. Costs of raw materials and supplies are calculated using the weighted average price method. Aside from individual manufacturing and material costs, finished and unfinished goods contain reasonable shares of material and production overheads. Inventories are reviewed for slow movement or obsolete items and, if necessary, appropriate adjustments are made. Advance payments concerning inventory are related to advance payments for deliveries.

Other Assets

Precious metals (gold) are valued and recognized in accordance with the current market value. Due to the high liquidity and volatility, a measurement at fair value is usual and considered the most suitable valuation method.

Financial Instruments

A financial instrument is a contract that is simultaneously recognized by one entity as a financial asset and by that entity's counterparty as a financial liability or an equity instrument. The recognition of the financial instrument in the balance sheet occurs only when the Group is a party to the contract.

The valuation of financial instruments is dependent on the categories to which the specific instruments belong, as defined in accordance with IAS 39. In the NOVOMATIC Group's balance sheet, the following financial instruments are disclosed:

- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities recognized at amortized cost
- Financial liabilities measured at fair value through profit or loss

Loans and Receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted on tradable markets are recognized under this category. Such assets primarily include trade receivables, loans and other receivables, as well as cash and cash equivalents. Loans and receivables are carried at amortized cost less impairment. Foreign currency receivables are valued using the prevailing rates as of the balance sheet date, and the resulting currency translation differences are recognized in profit or loss.

Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that have been either designated as such or not classified in any of the other categories in accordance with IAS 39. These include securities, investments in affiliated, non-consolidated entities and other participating interests. The valuations of available-for-sale assets are carried at fair value.

The valuation of securities is made to correspond with market values – the values of which can be derived from quoted market prices on the balance sheet date. Any changes in value resulting from fluctuations in fair value are recognized in other comprehensive income, accumulated under changes in revaluation reserve (IAS 39). When the investment is impaired, the cumulative gains or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

In some cases, the valuation of holdings in affiliated, non-consolidated entities and other participating interests cannot be reliably determined. Therefore, such assets are carried at amortized cost less impairment. If the reasons for the impairment no longer exist, the assets will be appreciated up to the maximum of their original acquisition costs.

Financial Liabilities Recognized at Amortized Cost

Financial liabilities, which include bonds, borrowings from banks and other liabilities, are carried at amortized cost. Non-current liabilities are discounted using the effective interest method, with the interest expense, calculated in accordance with the effective interest rate, recognized in profit or loss. Foreign currency liabilities are valued using the prevailing rates on the balance sheet date, and the resulting currency translation differences are recognized in profit or loss.

Financial Liabilities Measured at Fair Value through Profit or Loss

A financial liability is measured at fair value through profit or loss when it is classified as a derivative or contingent consideration.

The Group uses derivatives as hedging instruments against interest and currency risks. These derivatives are valued at fair value on the basis of generally accepted financial mathematical models. Derivatives are recognized as assets when their fair value is positive, and as liabilities when their fair value is negative. This method of recognition applies to all derivatives within the Group, as they do not fulfill the criteria of a hedging relationship as prescribed in IAS 39. The principle of hedge accounting is not applicable.

For the initial recognition of contingent considerations in a business combination, the facts and circumstances surrounding the contingent consideration that existed at the time of acquisition are disclosed. Subsequent valuation is measured at fair value through profit or loss.

Impairment of Financial Assets

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected negatively. Losses expected to arise from possible future events, regardless of their likelihood of occurrence, cannot be recognized.

For the purposes of determining the recoverability of receivables, the creditworthiness of customers, existing collaterals, changes in payment history and behavior, and past experiences, are taken into account. Expected default risks are calculated into value adjustments or write-downs.

Recognition and Derecognition

Financial assets and financial liabilities are recognized on the Group's balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. Recognition and derecognition are booked at the trading date.

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset along with all significant risks and rewards associated with ownership of the asset to another entity.

The Group derecognizes a financial liability when the Group's obligations related to that financial liability have been discharged or canceled, or have expired.

Provisions

Provisions for pensions or similar obligations, as well as provisions for severance and jubilee payments, are measured according to the regulations of IAS 19 using the projected unit credit method. The costs of the estimated benefit entitlements are allocated over the full period of employment. Future increases in remuneration are taken into account. Actuarial gains and losses concerning provisions for severance payments and pensions are recognized in other comprehensive income or charged against income when it comes to jubilee payments. Past service costs are recognized as an expense at the time of plan adjustment. Provisions correspond to the present value of the obligations (DBO). The accrued amounts are based on expert opinion of qualified actuaries as of the respective balance sheet date.

Other provisions are stated at the amount necessary to cover uncertain payment obligations and result from careful consideration of all the facts involved.

Contingent Liabilities

Contingent liabilities are possible current obligations that arise from past events, where an outflow of resources is nonetheless improbable. If in rare cases, a present obligation is not recognized in the consolidated financial statement as a provision because the amount of the obligation cannot be measured with sufficient reliability, this is also classified as a contingent liability. Contingent liabilities are not stated in the consolidated balance sheet but are disclosed in the notes to the consolidated financial statement.

Revenue and Expense Recognition

The Group recognizes revenues from the sale and rental of gaming machines, the operation of gaming halls and electronic gaming machine casinos, as well as from online gaming and betting. Revenues from the sale of gaming machines are recognized when the products are delivered, and risk and ownership have passed to the customer. Rental revenues are recognized at the rendering of service; obtained special rent payments are deferred on a straight-line basis over the service performance period (basic rental period). Revenues from the operation of gaming halls and electronic gaming machine casinos are shown as the net amount of bets placed by customers and payouts received by them and are recognized at the time of settlement. In cases where the supply and networking of account settlement systems represent the core business activity, the consideration received is shown as revenue. Revenue from online gaming is recognized as soon as the underlying games have taken place or the service has been provided.

Betting income is recognized according to the number of bets placed up to the balance sheet date, insofar as the underlying bets have already taken place. Revenues from betting operations are shown as net amounts resulting from bets and payouts from betting. Operating expenses are recognized when incurred or at the date of use of the service.

Financial Result

Interest expense is comprised of interest accrued on debt financing and finance leases. Other finance cost relates to the impairment of financial assets, losses on the disposal of financial assets and expenses related to derivatives.

Interest income includes realized interest income from the investment in funds and investments in financial assets. Other finance income is comprised of dividends and similar income, profits from the sale of financial assets, and income from derivatives.

Foreign currency effects resulting from intragroup financing are stated separately in the financial result because of their close connection to financing activities.

Taxes

The income tax expense disclosed is comprised of the income tax payments by each subsidiary based on its taxable profit for the year and calculated using the applicable tax rate for the respective jurisdiction (“actual taxes”), as well as of changes in the deferred taxes.

Deferred taxes are accounted for using the balance sheet liability method and recognized for temporary differences arising between the carrying amounts stated in the consolidated balance sheet as per IFRS and the corresponding tax base used on the balance sheet of the subsidiary. Furthermore, the probable tax advantages resulting from tax loss carried forward are also taken into account for the determination of deferred taxes. Temporary differences arising from non-deductible goodwill or (under certain circumstances) from the initial recognition of an asset or liability are not recognized.

Deferred tax assets and liabilities are shown net in the Group if a right of set-off exists and the taxes relate to taxpayers in the same tax group.

Important average tax rates used by Group companies are:

Country	2016 tax rate	2015 tax rate
Chile	24 %	22.5 % and 24 %
Germany	15.825 %–57.2 %	15.825 %–57.2 %
United Kingdom	20 %	18 % and 20 %
Italy	27.5 % to 31.4 %	24 %–31.4 %
Croatia	20 %	20 %
Latvia	15 %	15 %
Malta	5 % and 35 %	5 % and 35 %
Macedonia	10 %	10 %
Netherlands	25 %	25 %
Austria	25 %	25 %
Peru	28 %	28 %
Romania	16 %	16 %
Spain	25 %	25 % and 28 %
United States	40 %	40 %

Fair Value Measurement

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The NOVOMATIC Group uses the following hierarchy to allocate certain assets and/or liabilities, which are either to be stated at fair value or at least where the fair value has to be disclosed, to a certain measurement method:

Level 1: Measurement on the basis of quoted (unadjusted) prices in active markets.

Level 2: Measurement on the basis of market prices for similar instruments or on the basis of valuation methods, relying solely upon parameters observable in the market.

Level 3: Measurement on the basis of parameters that significantly affect the fair value and are not based on observable market data.

In the face of varying influential factors, the fair values presented can only be considered as indicators of the values that could actually be generated in the market.

Estimates and Judgments

For the preparation of the financial statement, assumptions and estimates were made that influence the amount of assets and liabilities, income and expenses, for the review period. Even under a high degree of diligence, these assumptions may differ from the actual circumstances.

For the following situations, the assumptions made at the balance sheet date are of particular importance:

The assessment of recoverability of intangible assets and property, plant and equipment is based on assumptions for the future. For the impairment tests, several assumptions to determine the recoverable amount are taken into account. Of particular importance are future cash flows as well as the discount rate. Cash flow predictions are based on financial plans approved by the management. In addition, assumptions for the presence of indicators for impairments or the reversal of impairments are necessary.

Concerning purchase price allocations performed for business combinations, assumptions are made concerning the existence and valuation of assets (in particular intangible assets), liabilities and contingent liabilities received. The evaluation of their fair value is based on several different assumptions, especially for future cash flows and the discount rate. For the evaluation of contingent considerations, assumptions are made concerning the probability of achieving the defined objectives.

Assumptions are necessary for estimating the useful life of property, plant and equipment, and intangible assets.

Deferred tax assets are recognized to the extent that it is probable that sufficient taxable income will be generated in future periods to utilize deductible temporary differences or existing tax loss carryforwards.

The fair value of financial assets (if reliably determinable), as well as derivatives, is derived based on market information available on the balance sheet date. When calculating the market value of financial investments, a multiplier method is used as there is no active market available for this. The parameters used in the measurement may be fraught with predictive uncertainty and, similarly, the selection of the suitable peer group requires assumptions about their comparability. In the face of varying influencing factors, the values disclosed may deviate from values realized at a later point in time.

Concerning the valuation of inventories, assumptions must be made regarding market development and economic exploitability.

Concerning receivables, individual value adjustments are made based on assumptions about the probability of default.

Additionally, the preparation of financial statements requires that assumptions are made about future developments. Concerning social capital obligations, assumptions are made about the employees' retirement age and life expectancy as well as about future pension and salary increases.

The assumptions upon which estimates are based are subject to constant scrutiny and adjustment.

Changes in Recognition

Gaming taxes and betting fees are levied in different amounts in the jurisdictions in which the NOVOMATIC Group is active as operator of gaming arcades and casinos, as well as betting shops and sports betting outlets. The different taxes range from fixed taxes to taxes that depend on gross gaming revenue (GGR) or insertion (IN), although, within these categories, there may be an arrangement for minimum and maximum amounts. The tendency has been for the calculation basis for gaming taxes and betting fees in the Group's core markets to become a variable form of taxation.

The recognition of gaming taxes and betting fees is therefore, from this financial year, directly in revenues in the consolidated profit and loss account, so as to achieve an informative presentation for the target audience of the financial statement.

Adjustment of the Comparative Information of the Consolidated Financial Statement as of December 31, 2015

The values as of December 31, 2015, were corrected as per IAS 8.41 et seq.

At the end of December 2015, a long-standing contract on the provision of services in the field of software for a Scandinavian customer was, contrary to expectations, not extended. This means that the existing contract expires at the end of 2017. The effects on capitalized customer relationships were not taken into account in the consolidated financial statement as of December 31, 2015. An impairment of EUR 10.0 million should have been recognized for customer relationships.

The following tables show the effects of the adjustments on the individual items of the consolidated balance sheet and the consolidated statement of comprehensive income. There is no effect on the opening balance of the previous year.

	Effects as a result of error correction		
EUR m	Previously reported 12/31/2015	Adjustment 12/31/2015	Adjusted 12/31/2015
Non-current assets			
Intangible assets	507.5	-10.0	497.5
Equity			
Retained earnings	1,180.5	-8.0	1,172.5
Non-current liabilities			
Deferred tax liabilities	70.4	-2.0	68.4

	Effects as a result of error correction		
EUR m	Previously reported 12/31/2015	Adjustment 12/31/2015	Adjusted 12/31/2015
Amortization, depreciation, impairment and reversal of impairment for intangible assets, property, plant and equipment, and investment property	-291.3	-10.0	-301.3
Operating profit	**325.4**	**-10.0**	**315.4**
Earnings before taxes	**318.5**	**-10.0**	**308.5**
Income taxes	-97.8	2.0	-95.8
Net income for the year	**220.7**	**-8.0**	**212.7**

(5) Company Acquisitions in 2016

Talarius Group, United Kingdom

As of June 24, 2016, the Group company NOVOMATIC UK Ltd. acquired 100 percent of the shares in the British gaming operator Talarius Ltd. The acquired company operates 7,500 gaming terminals in 162 gaming facilities via its operating subsidiary RAL Ltd. With this acquisition, the Group is continuing its expansion strategy, becoming the largest operator of adult gaming centers in the UK.

The Talarius Group has been included on the basis of provisional fair values for the acquired assets and assumed liabilities. When recording the acquisition on the balance sheet, trademarks and usage rights in particular for the operation of approved gaming arcades (licenses) were identified and valued. The allocation of the total purchase price has not yet been completed. There may be changes uncovered in particular regarding intangible assets and goodwill.

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

EUR m	Fair values
Intangible assets	102.9
Property, plant and equipment	22.0
Other non-current assets	1.3
Deferred tax assets	4.8
Inventories	0.1
Cash and cash equivalents	8.6
Other current assets	3.6
Non-current liabilities and provisions	-3.7
Deferred tax liabilities	-18.6
Current liabilities and provisions	-15.4
Net assets	**105.6**
Non-controlling interests	**0.0**
Goodwill	20.1
Consideration	**125.7**

The consideration amounting to EUR 125.7 million has been paid in cash. Goodwill resulting from the acquisition reflects expected strategic advantages for the Group due to the expansion of operational business activities and further potential growth through synergies. None of the goodwill resulting from this acquisition is tax-deductible.

Revenue amounts to EUR 45.9 million since the acquisition date, whereas the result for the period since the acquisition date amounts to EUR 3.9 million.

Other Company Acquisitions

Germany

On January 25, 2016, 100 percent of the shares in the newly founded company Turhan Spielsalon GmbH were acquired, followed by the transfer of 5 gaming arcades. This means that the acquired company operates 5 gaming arcades in Schleswig-Holstein.

On April 1, 2016, 100 percent of the shares in Red Devil Spielothek GmbH were also acquired. The acquired company operates 4 gaming arcades in Baden-Württemberg.

On May 2, 2016, 100 percent of the shares in the three German companies Königstrasse Spielstätten und Automaten UG, Moislinger Spielstätten Automaten UG, and Mühlenstrasse Spielstätten und Automaten UG were acquired, respectively. The acquired companies operate a total of 3 gaming arcades in Schleswig-Holstein.

The acquisition of 100 percent of the shares in Casino Rixos GmbH as of June 7, 2016, ZS Casino Emsland GmbH as of July 15, 2016, and EZEA GmbH as of July 25, 2016, was also completed. The acquired companies operate a total of 18 gaming arcades spread across Hesse, Lower Saxony and North-Rhine Westphalia.

On June 7, 2016, 100 percent of the shares in Automaten Service Playtime GmbH were acquired. The acquired company operates 3 gaming arcades in Schleswig-Holstein.

On September 15, 2016, 100 percent of the shares in City Freizeitanlagen GmbH were acquired. The acquired company operates 5 gaming arcades in Schleswig-Holstein.

On December 2, 2016, 100 percent of the shares in Beku Automaten & Gastronomie Service GmbH were acquired. The acquired company operates 7 gaming arcades in North Rhine-Westphalia.

These acquisitions were carried out to enhance the Group's presence as an operator within the German gaming market.

Italy

On January 1, 2016, 75 percent of the shares in Electro System S.p.A. were acquired. The acquired company develops and manufactures CPUs for AWP gaming machines. Call and put options have been agreed upon for the remaining 25 percent stake of non-controlling interests. The obligation resulting from the written put option was balanced as a liability. With this acquisition, the Group enhances its production capacity for the Italian market.

On January 29, 2016, Allstar S.r.l. acquired 100 percent of the shares in Alpina Entertainment S.r.l. and promptly merged. The subject of the transaction is the placement of 460 AWPs in hospitality establishments. Furthermore, on July 7, 2016, 100 percent of the shares in MG Gaming S.r.l. were acquired. The subject of the transaction is primarily the placement of 636 AWPs in hospitality establishments. This and the aforementioned acquisition enhance the Group's market position in the Italian market for machine placement.

On February 19, 2016, 100 percent of the shares in Newco S.r.l., an operator of 7 gaming arcades in the Emila-Romagna region were acquired and promptly merged with Allstar S.r.l. Furthermore, on August 5, 2016, 51 percent of the shares in Casino delle Alpi were acquired. The acquired company operates 5 gaming arcades in several regions in Italy. With this acquisition, the Group enhances its activities as an operator of gaming arcades.

On April 1, 2016, 100 percent of the shares in Promotrice Giochi S.r.l. were acquired. The company operates a bingo hall in the area of Milan. On June 10, 2016, 100 percent of the shares in Ellepi Ges S.r.l., an operator of a bingo hall in the Latium region, were acquired. Furthermore, on July 15, 2016, 100 percent of the shares in Orione S.r.l., an operator of a bingo hall in the area of Abruzzo, were acquired. On November 30, 2016, 100 percent of the shares in Bingo Time Vicenza S.r.l., which operates two bingo halls in the Veneto region, were also acquired. With these acquisitions, the Group has expanded its existing portfolio in Italy to include bingo activities.

Spain

On July 7, 2016, 60 percent of the shares in Verajuegos S.L. and Recreativos Hispajuegos S.L. were acquired. The two acquired companies operate a total of 7 existing gaming arcades and 3 new sites in Andalusia.

On July 11, 2016, 100 percent of the shares in El Dolar de Plata Linense S.L., an operator of a gaming arcade in Cádiz, were acquired.

On September 26, 2016, 80 percent of the shares in El Dorado Derby S.L. and Comercial Txartel S.L. were acquired. These two acquired companies operate a total of 8 gaming arcades in the Basque Country.

With these acquisitions, the Group has successfully increased its presence as an operator of gaming arcades in several regions across Spain and entered the market in the Basque Country.

On July 21, 2016, 60 percent of the shares in OTIUMGI S.L., as well as its wholly owned subsidiary S4Gaming S.L., were acquired. The acquired companies develop video bingo software for customers primarily in Latin America. With these acquisitions, the Group would like to expand in the Latin American market with regards to video bingo technology.

On July 29, 2016, 99.46 percent of the shares in Gran Casino Aljarafe S.A. were acquired. The other non-controlling shares have also since been acquired. The company is the only casino operator in the region of Seville. The current license issued allows the casino to be operated until 2023. With this acquisition of a casino operator, the Group has expanded the scope of its activities in Spain.

United Kingdom (other acquisitions)

On April 15, 2016, NOVOMATIC UK Ltd. acquired 100 percent of the shares in Ainsworth (UK) Ltd. The acquired company is a company selling AWP gaming machines of the Australian manufacturer Ainsworth to the European market. With this transaction, the Group has expanded its sales channels.

Croatia

On May 17, 2016, Novo Gaming d.o.o. acquired 100 percent of the shares in Bolus d.o.o., as well as its subsidiary Super Sansa d.o.o. The acquired companies operate 96 betting shops and 2 gaming arcades, each with 30 AWP gaming machines.

On June 1, 2016, the Group company also acquired 100 percent of the shares in Blue Sky d.o.o. The acquired company operates a casino in Split, with 13 live game gaming tables, 1 multiplayer roulette and 177 AWP gaming machines.

With these acquisitions, the Group continues its expansion strategy in the Croatian gaming market. With a view to concentrating operating activities, all acquired companies were merged with the existing Group company Interigre d.o.o.

Albania/Austria

On November 30, 2016, 100 percent of the shares in the Albanisch Österreichische Lotterien Holding Gesellschaft m.b.H., Austria, and indirectly in its wholly owned subsidiary Lotaria Kombëtare Sh.p.k., Albania, were acquired. The Albanian company runs the national lottery in Albania until 2023 due to a state concession. With this acquisition, the Group has expanded its activities in the area of lotteries.

The recognition of the individual company acquisitions pursuant to IFRS 3 in Germany, Italy, the United Kingdom (other acquisitions), Croatia and Albania/Austria was largely completed as of the reporting date, whereas provisional values are still being used for this in Spain. 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 financial statement is therefore partially based on provisional fair values.

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

EUR m	Fair values
Intangible assets	76.9
Property, plant and equipment	23.7
Other non-current assets	2.7
Deferred tax assets	2.2
Inventories	3.7
Cash and cash equivalents	15.9
Other current assets	13.8
Non-current liabilities and provisions	-29.9
Deferred tax liabilities	-21.3
Current liabilities and provisions	-24.6
Net assets	**63.0**
Non-controlling interests	**-10.4**
Goodwill	62.4
Received surpluses recognized in profit and loss	-1.4
Consideration	**113.6**

The consideration for the listed acquisitions amounted to EUR 113.6 million, with EUR 93.1 million paid in cash, EUR 7.6 million resulting from contingent considerations and EUR 13.0 million resulting from offsetting with receivables. The contingent purchase price has been calculated depending on the development of the underlying performance indicators of 2016.

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

Provisional goodwill resulting from the acquisitions reflects the strategic advantages that are expected for the Group from the expansion of operating activities in the respective market, as well as the expected synergies. Based on a preliminary assessment, goodwill will not be tax-deductible.

Other current assets consist mainly of trade receivables with a fair value of EUR 6.9 million or EUR 7.3 million gross.

Revenue amounts to EUR 52.0 million since the acquisition dates, and the results for the period amount to EUR -1.4 million.

Further Comments on the Acquisitions

Assuming that the acquisition dates for business combinations – Talarius Group and the other company acquisitions – were at the start of the reporting periods, revenues in the present consolidated financial statement would come to EUR 2,153.6 million and the annual profit to EUR 222.4 million.

(6) Company Acquisitions in 2015

The individual company acquisitions are detailed in NOVOMATIC AG's consolidated financial statement as of December 31, 2015.

Playnation Group

As of the time of preparation of the 2015 consolidated financial statement, the Playnation Group was included based on provisional fair values, as the values in the opening balance, as well as the valuation of intangible assets, had not yet been conclusively determined.

The final values for this business combination are now available and have been taken into account retroactively:

EUR m	Provisional fair values	Final fair values
Intangible assets	24.9	25.1
Property, plant and equipment	34.1	29.4
Other non-current assets	4.9	4.9
Deferred tax assets	0.5	0.5
Inventories	3.3	3.3
Cash and cash equivalents	8.1	8.1
Other current assets	6.5	6.5
Non-current liabilities and provisions	-25.4	-25.4
Deferred tax liabilities	-6.6	-6.0
Current liabilities and provisions	-17.8	-17.6
Net assets	**32.6**	**28.8**
Goodwill	0.0	3.8
Consideration	**32.6**	**32.6**

Goodwill resulting from the acquisition reflects expected strategic advantages for the Group due to the expansion of operational business activities and further potential growth through synergies. None of the goodwill resulting from this acquisition is tax-deductible.

The other disclosures from 2015 remained unchanged.

Other Acquisitions

At the time of preparation of the 2015 consolidated financial statement, the accounting for the company acquisition in Spain had not yet been completed, in particular with regards to intangible assets, meaning provisional fair values had been used. The final values for this business combination are now available and have been taken into account retroactively.

The following overview provides a summary for the company acquisitions in Germany, Italy, Canada, the USA, Croatia, Serbia, the UK (other acquisitions) and Spain:

EUR m	Provisional fair values	Final fair values
Intangible assets	71.2	65.1
Property, plant and equipment	15.8	15.8
Other non-current assets	1.2	1.2
Deferred tax assets	0.7	0.7
Inventories	0.0	0.0
Cash and cash equivalents	12.2	12.2
Other current assets	5.0	5.0
Non-current liabilities and provisions	-20.8	-20.8
Deferred tax liabilities	-18.1	-16.3
Current liabilities and provisions	-9.6	-9.6
Net assets	**57.5**	**53.3**
Non-controlling interests	**-12.1**	**-10.6**
Goodwill	27.4	30.2
Consideration	**72.9**	**72.9**

Goodwill resulting from the acquisitions reflects expected strategic advantages for the Group due to the expansion of operational business activities in the respective markets. None of the goodwill resulting from these acquisitions is tax-deductible.

The other disclosures from 2015 remained unchanged.

(7) Notes to the Consolidated Balance Sheet

(7.1) Intangible Assets EUR m

Acquisition costs	Goodwill	Trademarks and patents	Licenses and concessions	Customer relationships	Software	Other intangible assets	Total
As of 1/1/2015	140.5	32.0	255.8	61.8	126.9	68.0	685.0
Currency translation adjustments	1.4	1.0	2.0	3.5	1.1	0.1	9.1
Acquisitions through business combinations	34.1[1]	2.1	56.2[1]	26.6[1]	4.8	1.0	124.8
Additions	0.0	0.0	1.7	0.0	6.5	8.8	17.1
Disposals	-1.9	-3.6	-3.4	0.0	-5.9	-5.6	-20.4
Reclassifications	0.0	-0.3	0.7	0.0	0.4	-0.7	0.1
As of 12/31/2015	**174.0**	**31.3**	**313.0**	**91.9**	**133.8**	**71.6**	**815.6**

Acquisition costs	Goodwill	Trademarks and patents	Licenses and concessions	Customer relationships	Software	Other intangible assets	Total
As of 1/1/2016	174.0	31.3	313.0	91.9	133.8	71.6	815.6
Currency translation adjustments	-4.7	-2.8	-9.9	-1.6	-0.5	-0.3	-19.7
Acquisitions through business combinations	82.5	12.0	143.7	18.7	6.2	1.2	264.2
Additions	0.0	0.0	21.2	0.0	14.3	8.4	44.0
Disposals	-0.4	0.4	-5.8	0.0	-1.8	0.6	-7.0
Reclassifications	0.0	0.0	-0.1	0.0	0.9	-1.0	-0.2
As of 12/31/2016	**251.4**	**40.9**	**462.1**	**109.0**	**153.0**	**80.5**	**1,096.9**

Cumulative depreciation and amortization	Goodwill	Trademarks and patents	Licenses and concessions	Customer relationships	Software	Other intangible assets	Total
As of 1/1/2015	34.5	9.8	93.7	8.6	68.5	31.3	246.3
Currency translation adjustments	0.0	0.1	0.0	0.3	0.1	0.0	0.5
Acquisitions through business combinations	0.0	0.0	0.1	0.0	0.1	0.0	0.2
Additions	0.0	0.9	18.8	16.6[1]	21.6	6.4	64.3
Impairment	8.0	2.2	3.5	0.1	0.2	1.6	15.7
Disposals	-0.3	0.0	-3.3	0.0	-4.4	-0.8	-8.9
Reclassifications	0.0	-0.2	0.7	0.0	0.2	-0.7	0.1
Impairment reversals	0.0	0.0	-0.7	-0.1	0.0	0.0	-0.8
As of 12/31/2015	**42.2**	**12.9**	**112.7**	**25.5**	**86.4**	**37.8**	**317.4**

Cumulative depreciation and amortization	Goodwill	Trademarks and patents	Licenses and concessions	Customer relationships	Software	Other intangible assets	Total
As of 1/1/2016	42.2	12.9	112.7	25.5	86.4	37.8	317.4
Currency translation adjustments	0.5	-0.1	0.4	2.1	-0.2	-0.2	2.5
Acquisitions through business combinations	0.0	0.0	0.0	0.0	1.9	0.0	2.0
Additions	0.0	1.5	24.6	9.6	22.5	6.0	64.1
Impairment	0.6	1.2	10.3	0.0	0.9	2.0	14.9
Disposals	-0.2	0.4	-5.8	0.0	-1.6	1.1	-6.1
Reclassifications	0.0	0.0	-0.1	0.0	0.2	-0.1	0.0
Impairment reversals	0.0	0.0	-0.7	0.0	0.0	0.0	-0.7
As of 12/31/2016	**43.1**	**15.9**	**141.3**	**37.1**	**110.2**	**46.5**	**394.1**

Book values as of 12/31/2015	**131.8**	**18.4**	**200.3**	**66.4**	**47.4**	**33.8**	**498.2**
Book values as of 12/31/2016	**208.4**	**25.0**	**320.8**	**71.9**	**42.8**	**34.0**	**702.8**

[1] Adjustment of previous year's figures pursuant to IAS 8 or IFRS 3 "Business combinations"

Goodwill

Goodwill is allocated to the following groups of cash-generating units:

EUR m	12/31/2016	12/31/2015
Gaming Operations – Germany	25.7	12.4
Gaming Operations – United Kingdom	43.1	27.8
Gaming Operations – Italy	18.4	7.6
Gaming Operations – Netherlands	4.8	4.8
Gaming Operations – Online	10.3	10.3
Gaming Operations – Spain	13.5	2.7[1]
Gaming Technology – Spain Casinos	5.2	0.0
Gaming Technology – Italy	26.6	19.4
Gaming Technology – Online	10.3	10.1
Gaming Technology – Spain	7.7	4.5
Gaming Technology – United Kingdom	14.0	5.3[1]
Mobile Virtual Network	4.4	4.4
Other	24.3	22.5[1]
Total	**208.4**	**131.8**

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

Goodwill with a single value below EUR 4.0 million is summarized under "Other."

Intangible Assets with Indefinite Useful Lives

Intangible assets comprise licenses with an indefinite useful life amounting to EUR 144.3 million (previous year: EUR 61.5 million) and trademarks with an indefinite useful life amounting to EUR 1.5 million (previous year: EUR 10.9 million). The licenses and trademarks are allocated to the following groups of cash-generating units. Single values below EUR 4.0 million are summarized under "Other."

Licenses EUR m	12/31/2016	12/31/2015
Gaming Operations – Latvia	18.6	18.6
Gaming Operations – United Kingdom	124.1	40.1
Other	1.5	2.9
Total	**144.3**	**61.5**

Trademarks EUR m	12/31/2016	12/31/2015
Gaming Operations – United Kingdom	0.0	9.8
Other	1.5	1.1
Total	**1.5**	**10.9**

The useful life of the preceding intangible assets is indefinite because there is currently no prospect of an end to their economic use.

However, in the case of Gaming Operations - UK, a rebranding process was started, meaning it may now be assumed that trademarks have a foreseeable useful life. As result, the amortization methods and periods of these trademarks were adjusted and will be spread over the planned transformation period.

Impairments and Reversals of Impairments

Details concerning impairment tests for intangible assets may be found under note (7.3).

Research and Development Expenses

Internally generated intangible assets are only capitalized if the criteria stipulated by IAS 38.57 are fulfilled. In the financial year, non-capitalizable development costs have been charged against income in the amount of EUR 95.0 million (previous year: EUR 84.7 million) as personnel costs, other expenses, as well as depreciation and amortization on property, plant and equipment, and intangible assets.

(7.2) Property, Plant and Equipment EUR m

Acquisition costs	Land and buildings	Plant and machinery	Factory and office equipment	Prepayments and property under construction	Total
As of 1/1/2015	629.9	809.2	328.1	16.5	1,783.7
Currency translation adjustments	1.1	2.4	1.9	0.0	5.4
Acquisitions through business combinations	9.7	37.3[1]	27.2	0.0	74.2
Additions	39.6	176.6	53.4	21.7	291.2
Disposals	-38.0	-127.6	-32.7	-7.7	-206.0
Reclassifications	2.9	3.5	-0.4	-6.5	-0.5
As of 12/31/2015	**645.2**	**901.4**	**377.6**	**24.0**	**1,948.1**

Acquisition costs	Land and buildings	Plant and machinery	Factory and office equipment	Prepayments and property under construction	Total
As of 1/1/2016	645.2	901.4	377.6	24.0	1,948.1
Currency translation adjustments	-2.9	-13.7	-5.8	0.1	-22.4
Acquisitions through business combinations	52.8	55.1	42.6	0.2	150.7
Additions	52.7	216.6	75.1	45.9	390.3
Disposals	-42.0	-93.2	-37.9	-29.5	-202.6
Reclassifications	4.7	3.9	2.7	-11.1	0.2
As of 12/31/2016	**710.5**	**1,070.0**	**454.2**	**29.6**	**2,264.3**

[1] Adjustment of previous year's figures according to IFRS 3 "Business combinations"

Cumulative depreciation and amortization	Land and buildings	Plant and machinery	Factory and office equipment	Prepayments and property under construction	Total
As of 1/1/2015	265.7	510.1	207.5	1.4	984.7
Currency translation adjustments	0.2	-0.8	1.1	0.0	0.5
Acquisitions through business combinations	3.7	11.0	14.3	0.0	29.0
Additions	34.0	132.4	41.3	3.8	211.5
Impairment	8.6	0.2	3.1	6.4	18.3
Disposals	-18.4	-101.9	-21.9	-0.3	-142.6
Reclassifications	0.4	2.6	-0.4	-2.7	-0.1
Impairment reversals	-5.3	-1.4	-1.7	-1.8	-10.2
As of 12/31/2015	**288.9**	**552.1**	**243.3**	**6.9**	**1,091.2**

Cumulative depreciation and amortization	Land and buildings	Plant and machinery	Factory and office equipment	Prepayments and property under construction	Total
As of 1/1/2016	288.9	552.1	243.3	6.9	1,091.2
Currency translation adjustments	-1.9	-7.1	-4.1	0.0	-13.1
Acquisitions through business combinations	35.8	39.4	29.9	0.0	105.0
Additions	36.5	146.6	50.6	1.2	234.9
Impairment	12.4	1.4	4.6	0.0	18.4
Disposals	-21.6	-73.5	-24.3	0.0	-119.4
Reclassifications	0.1	1.1	0.1	-1.2	0.0
Impairment reversals	-4.9	-0.5	-2.1	-0.4	-7.9
As of 12/31/2016	**345.3**	**659.5**	**297.9**	**6.5**	**1,309.2**

Book values as of 12/31/2015	**356.3**	**349.3**	**134.3**	**17.1**	**856.9**
Book values as of 12/31/2016	**365.2**	**410.5**	**156.3**	**23.1**	**955.1**

Plant and machinery contains slot machines with a book value of EUR 396.1 million (previous year: EUR 337.4 million) for the Group’s own operations and rental.

In order to collateralize loans, liens were registered on property, plant and equipment (particularly property) of EUR 1.7 million (previous year: EUR 5.9 million).

Impairments and Reversals of Impairments

Details concerning impairment tests for property, plant and equipment may be found under note (7.3).

(7.3) Impairments and Reversals of Impairments

7.3.1 Calculation Model and Principles

The recoverable amount is the higher value of the fair value less costs to sell and the value-in-use. Where capitalized earnings methods are applied, cash flow projections for a three-year period based on financial plans approved by the management are used. The cash flow projections are based on the detailed budget for the following financial year as well as forecasts for the subsequent two years derived therefrom. The main assumptions are based on the previous financial year, experiences of comparable businesses and the overall economic development. During the planning period, these base values are increased by development improvements estimated by the management in light of comparable projects, market potentials and risks. In substantiated cases, the cash flow projections are extended to a period of up to five years.

Cash flows occurring after this detailed planning period of between three and five years are perpetuated with a growth rate of 0.00 percent to 1.90 percent and finally calculated with a perpetual annuity. The discount rates used for the cash flow forecasts are post-tax interest rates when calculating the fair value less costs to sell and pre-tax interest rates when calculating the value-in-use, taking respective country-specific risks into consideration.

Groups of cash-generating units	Recoverable amount	Discount rate	Pre-tax/post-tax interest rate
Gaming Technology – Italy	Fair value*	9.19 %	Post-tax interest rate
Gaming Technology – Online	Value-in-use	14.87 %	Pre-tax interest rate
Gaming Technology – Spain	Fair value*	8.61 %	Post-tax interest rate
Gaming Technology – United Kingdom	Fair value*	7.04 %	Post-tax interest rate
Gaming Operations – Germany	Fair value*	6.08 %	Post-tax interest rate
Gaming Operations – Italy	Fair value*	8.57 %	Post-tax interest rate
Gaming Operations – Netherlands	Value-in-use	10.33 %	Pre-tax interest rate
Gaming Operations – Online	Value-in-use	10.67 %	Pre-tax interest rate
Gaming Operations – Spain	Fair value*	8.61 %	Post-tax interest rate
Gaming Operations – Spain casino	Value-in-use	10.87 %	Pre-tax interest rate
Gaming Operations – United Kingdom	Value-in-use	8.65 %	Pre-tax interest rate
Mobile Virtual Network	Value-in-use	10.52 %	Pre-tax interest rate
Other	Fair value* and value-in-use	6.14 % bis 14.56 %	Post-tax interest rate and pre-tax interest rate

*) Fair value less costs to sell

7.3.2 Goodwill and Intangible Assets with Indefinite Useful Lives

The comparison of book values with the recoverable amounts for the (groups of) cash-generating units that was undertaken as part of the annual impairment test for goodwill and intangible assets with indefinite useful lives, which was carried out as of September 30, 2016, resulted in an impairment in the amount of EUR 1.7 million (previous year: EUR 10.1 million) due to business not having developed as expected. The impairments made relate entirely to the (group of) cash-generating units Gaming Operations – Lithuania Casino. These comprise two companies that jointly operate casino locations in Lithuania. VSGA UAB holds the license to operate casinos in Lithuania, which is underpinned by an indefinite useful life and is attributable to the greatest share of the impairment.

- The capital costs (WACC before tax) considered in the model are 9.65 percent.
- The growth rate considered in the model is 1.9 percent.
- The detailed planning period is five years

The underlying cash flow forecasts are based on the financial plans approved by company management (detailed budget for the following financial year and the derived forecasts for the subsequent four years).

Impairment in the Gaming Operations segment last year came to EUR 3.0 million. No impairment was made in the Gaming Technology segment (previous year: EUR 7.1 million). Goodwill resulting from acquisitions completed after September 30, 2016, was tested as of the balance sheet date on December 31, 2016. No required impairment was identified. The recognized recoverable amounts of the (groups of) cash-generating units, therefore, correspond to Level 3 of the valuation hierarchy.

For the (group of) cash-generating units Gaming Technology – Spain, the recoverable amount (fair value) exceeded the book value by EUR 14.0 million. If the discount rate were to increase to 10.68 percent, the exceeding amount would be consumed. For the (group of) cash-generating units Gaming Operations – Spain casino, the recoverable amount (value-in-use) exceeded the book value by EUR 3.2 million. If the discount rate were to increase to 15.57 percent, the exceeding amount would be consumed.

Gaming Operations – United Kingdom

In June 2014, NOVOMATIC acquired 100 percent of the shares in Luxury Leisure Ultd. and SAL Leisure Ltd. With these acquisitions, NOVOMATIC succeeded in entering the British market for electronic casinos (adult gaming centers or AGCs). As part of the purchase price allocation, goodwill of EUR 27.6 million and intangible assets (in particular licenses and concessions) of EUR 40.8 million were accounted for this transaction.

In June 2016, 100 percent of the shares in Talarius Ltd. (Talarius) and its associated subsidiaries were acquired. With the conclusion of this acquisition, NOVOMATIC became the largest gaming facility operator in the area of adult gaming centers in the United Kingdom. As part of the purchase price allocation, goodwill of EUR 20.1 million and intangible assets (in particular licenses and concessions) of EUR 85.4 million were accounted for this transaction.

In 2015 and 2016, additional acquisitions were made of smaller companies also attributable to the area of adult gaming centers, but these are of minor importance compared to the aforementioned transactions.

With these acquisitions, NOVOMATIC implements its dual market strategy in the United Kingdom, which was already successfully implemented in other large gaming markets in Europe (in particular in Germany and Italy). In the stated markets of Germany and Italy, the companies falling into the Gaming Operations segment already contribute significant amounts to Group profit. A similar development is expected for the United Kingdom. Due to local reorganization (in particular mergers, combination of administrative units, other use of synergies etc.) and other measures (above all Group-wide uniform rebranding, investments in modern gaming equipment), initial costs are incurred. However, this leads to increased customer loyalty, improved efficiency and contributes to a significant increase in results in the medium term.

From a regulatory perspective, the area of adult gaming centers (from the current standpoint) is classified as very stable. Due to the fact that the maximum stakes and winnings of gaming machines approved in the gaming facilities (category B3, C and D machines with maximum stakes of between 10 pence and GBP 2) are very low, these are not seen as a risk (e.g. in respect of gaming addiction) by politicians, stakeholders and the media. In contrast, category B2 machines that are used in so-called licensed betting offices (LBOs) with stakes of up to GBP 100 are increasingly the subject of open discussions. The most important criticisms here are, in addition to the risk of gaming addiction, above all youth protection and potentially favorable conditions for money laundering. NOVOMATIC is not currently represented in the area of LBOs.

Due to the increasingly intense debate on the risks of gaming machines in the B2 category, it is not only possible but, from today's perspective, highly likely that the regulatory framework conditions will be tightened. If there is such a change in the maximum amounts that can be paid in and out, or a general ban on B2 machines is introduced, the area of adult gaming centers could see a huge increase in its attractiveness, attract new customer groups and see a significant improvement in its earnings. NOVOMATIC has not considered such scenarios in the planning assumptions underlying the impairment test for assets.

The impairment of assets in the Gaming Operations – United Kingdom cash-generating unit was tested by means of an impairment test and classified as sufficient.

- The capital costs (WACC before tax) considered in the model are 8.65 percent.
- The growth rate considered in the model is 1.9 percent.
- The detailed planning period is three years.
- The detailed revenue planning shown in the impairment test is moderate.

The underlying cash flow forecasts are based on the financial plans approved by company management (detailed budget for the following financial year and the derived forecasts for the subsequent two years).

- It is anticipated that, after considering the full business year in 2017 (in 2016, Talarius was only considered with one-half of the year), there will be revenue growth in the subsequent planning years 2018 and 2019, which is to be considered conservative in view of the location optimization measures mentioned, as well as correspond to comparable development curves of other NOVOMATIC markets.
- Gaming machines: An increase in the number of machines or the mix of machines (e.g. higher value B3 machines instead of category C machines) was not assumed for the detailed planning period.

Sensitivity analyses were carried out to validate the calculated values-in-use. The change in growth rate from 1.9 percent to 1.68 percent, or an increase in capital costs (WACC before tax) of 8.65 percent to 8.81 percent, with all other things remaining equal, would use up the EUR 2.3 million of enterprise value currently exceeding the assets.

7.3.3 (Other) Intangible Assets and Property, Plant and Equipment

An event-driven impairment test for non-current assets concerned is carried out if indications (triggering events) exist. This resulted in impairments of EUR 31.6 million (previous year: EUR 25.7 million) or impairment reversals of EUR 8.6 million (previous year: EUR 11.0 million). The impairments made (with an individual value of over EUR 4.0 million) relate to the (group of) cash-generating units Gaming Technology – Austria with EUR 6.5 million (previous year: EUR 8.8 million), Gaming Technology – Lottery with EUR 0.0 million (previous year: EUR 10.0 million), Gaming Operations – Austria with EUR 6.5 million (previous year: EUR 4.3 million), Gaming Operations – Germany with EUR 5.3 million (previous year: EUR 3.6 million), Gaming Operations – Spain with EUR 6.4 million (previous year: EUR 0.0 million) and Gaming Operations – Italy with EUR 1.6 million (previous year: EUR 5.7 million). Impairment reversals (with an individual value of EUR 4.0 million) relate to the (group of) cash-generating units Gaming Operations – Italy with EUR 6.6 million (previous year: EUR 4.8 million).

The following takes a closer look at the important three core markets in which the existence of impairment or impairment reversals was examined in more detail.

Gaming Operations/Technology – Germany

The First State Treaty amending the State Treaty regarding Gaming in Germany (Glücksspieländerungsstaatsvertrag, GlüÄndStV) came into effect on July 1, 2012. A further amendment concerning the area of sports betting is currently being reviewed by the European Commission. The First State Treaty amending the State Treaty regarding Gaming in Germany essentially involves creating distance regulations between gaming arcades and youth facilities. It also includes a ban on multiple concessions, thereby limiting a site to a maximum of 12 gaming machines. A (fundamental) transitional period of 5 years was granted to implement the restrictive new regulations, which means the provisions are applicable from July 1, 2017.

For supplementary provisions, the GlüÄndStV refers to the executive regulations of the individual states stipulated by state laws on gaming arcades. These individual state laws on gaming arcades vary considerably. In certain cases, there are important differences regarding limitations on opening hours, distance regulations, advertising bans and player identification requirements.

In November 2014, a stricter amendment to the Gaming Ordinance was passed. This amendment includes further regulation aimed at improving the protection of players and minors, as well as preventing tax evasion and money laundering. A transitional period of four years was granted for the implementation of the Gaming Ordinance. This means that gaming machines currently installed in gaming arcades will lose their existing protection after four years and, from November 11, 2018, only devices as per the new Gaming Ordinance may be operated.

The focus of the German Group companies in the Gaming Technology segment, Löwen Entertainment GmbH and Crown Technologies GmbH, is in the area of gaming machine rental. In light of the stricter regulatory framework, however, the number of rented gaming machines decreased during the reporting period, which also led to a slight decline in revenues. The two German subsidiaries have already been working for a while to develop attractive products that can be made available to the customers promptly upon expiration of the transitional period of the Gaming Ordinance.

In the Gaming Operations segment, the German companies Extra Games Entertainment GmbH, BPA Freizeit und Unterhaltungsbetriebe GmbH, Admiral Play GmbH and other smaller, recently acquired companies are represented as operating companies in the area of commercial machine gaming.

NOVOMATIC expects a declining market in the Gaming Arcades segment from July 1, 2017, although higher device utilization should have a certain compensatory effect. If gaming arcades need to reduce in size or close, this will, however, have a negative impact on revenues (from the rental or operation of gaming machines).

As in previous years, impairment tests were carried out in 2016 for the assets of the German operating companies. The scope of the impairment tests included all slot arcades run by the operating companies active in the area of commercial machine gaming. The main focus was on scenarios regarding site shutdowns and the withdrawal of concessions. The investigation of the impact on the gaming facilities was carried out under the assumption of more restrictive legal interpretations.

In total, the required impairment loss amounted to EUR 5.3 million (previous year: EUR 3.6 million). The largest share of this relates to the impairment of the rights of use of the gaming arcades (disclosed under "Licenses" within the intangible assets), as well as an impairment of property, plant and equipment (in particular land and buildings, as well as fixtures, furnishings and office equipment). The reevaluation led to the conclusion that a reversal of impairment was required for certain gaming facilities, as the assessment regarding the impact on the individual locations in question had changed. In total, the identified reversal of the impairment amounted to EUR 1.1 million (previous year: EUR 2.8 million).

An impairment test was also carried out on the assets (in particular the goodwill) of the Gaming Operations – Germany cash-generating unit, resulting in a clear surplus.

- The capital costs considered in the model (WACC after tax) are 6.08 percent.
- The growth rate considered in the model is 1.9 percent.
- The detailed planning period is three years

The underlying cash flow forecasts are based on the financial plans approved by company management (detailed budget for the following financial year and the derived forecasts for the subsequent two years). The recognized recoverable amounts of the (groups of) cash-generating units, therefore, correspond to Level 3 of the valuation hierarchy.

An impairment test was also carried out on the assets (in particular the goodwill) of the Gaming Technology – Germany cash-generating unit, resulting in a clear surplus.

Impairments (less impairment reversals) of a cumulative EUR 56.1 million (previous year: EUR 51.9 million) were made over the past few years on non-current assets. The book value of the intangible assets and property, plant and equipment amounts to EUR 99.9 million (previous year: EUR 86.7 million) as of the balance sheet date.

Gaming Operations/Technology – Italy

With more than 400,000 operated gaming machines, Italy is Europe's largest gaming market. The companies active in the Gaming Operations segment operate AWP and VLT devices in the gaming arcades. Moreover, this segment includes one of the Italian concessionaires with Admiral Gaming Network S.r.l..

In the previous year, impairment tests were carried out for the Italian Group companies allocated to the Gaming Operations segment. These led to required impairment losses. In the financial year 2016, a renewed evaluation of the Italian gaming facilities was carried out based on current performance and future forecasts. This resulted in required impairment losses of EUR 1.6 million (previous year: EUR 5.8 million, thereof EUR 0.9 million goodwill), which was almost entirely recorded under property, plant and equipment. The reevaluation concluded that for certain gaming facilities a reversal of impairment was required as the assessment regarding the impact on the individual location had changed. The according reversal of impairment amounted to EUR 6.6 million (EUR 4.8 million).

In the Gaming Technology – Italy segment, the focus is on the rental and sale of gaming devices as well as in the production (installation) of gaming devices and central processing units (CPUs).

An impairment test was carried out on the assets (in particular the goodwill) of the Gaming Technology – Italy cash-generating unit, resulting in a clear surplus.

- The capital costs considered in the model (WACC after tax) are 9.19 percent.
- The growth rate considered in the model is 1.9 percent.
- The detailed planning period is three to five years.

The underlying cash flow forecasts are based on the financial plans approved by company management (detailed budget for the following financial year and the derived forecasts for the subsequent two to four years). The recognized recoverable amounts of the (groups of) cash-generating units therefore correspond to Level 3 of the valuation hierarchy.

Gaming Operations – Austria

ADMIRAL Casinos & Entertainment AG (ACE), a NOVOMATIC Group company, was able to obtain permits pursuant to Sec. 5 of the Austrian Gaming Act (GSpG) for state-licensed gaming with gaming machines in Lower Austria and Burgenland (in addition to other provinces) in 2012 and 2013. The permit for the province of Lower Austria covers 1,339 gaming machines and has been granted for a period of 15 years. The permit for the province of Burgenland covers 110 gaming machines and has been granted for a period of 10 years.

Competitors submitted timely appeals against these decisions to the Constitutional Court. The Constitutional Court passed these complaints on to the Administrative Court (VwGH), which reversed the decisions of the Lower Austrian and Burgenland provincial governments with its rulings in May and June 2016. The decisions were justified with formal deficiencies of both provincial governments.

In December 2016, ACE was again granted licenses for the operation of 1,339 gaming machines in Lower Austria following a subsequent proceeding. This decision was then contested through complaints by competitors. A decision by the now-competent Lower Austrian Provincial Administrative Court is expected in the second quarter of 2017, with the following developments essentially possible:

1. The decision is revoked by the Provincial Administrative Court and sent back to the Lower Austrian provincial government to be revised. A consequence of this decision would presumably be an appeal to the Administrative Court by NOVOMATIC.

2. The decision is confirmed by the Provincial Administrative Court and therefore the decision would have legal power. A consequence of this decision may be an appeal to the Administrative Court by one or more of the plaintiffs – but now only through extraordinary legal channels.

3. The Provincial Administrative Court decides itself in the case. This means that the decision would also have legal power. A consequence of this decision may be that, depending on the decision, either NOVOMATIC or one or more of the plaintiffs – but then only through extraordinary legal channels – would appeal to the Administrative Court.

Continued operations in Lower Austria are guaranteed until November 2017, due to the statutory duty to continue operations and a declaratory notice. One of the three abovementioned scenarios should have occurred by then.

In any case, it may be assumed that – in connection with the new ruling on the decision in Lower Austria – this will lead to several years of proceedings at the Administrative Court.

NOVOMATIC assumes that the competent Lower Austrian Provincial Administrative Court will reject the complaints, because the deficiencies previously listed by the Administrative Court have been resolved – from NOVOMATIC's perspective – in the newly issued approval decision (December 2016). This is, however, an assumption based on a current assessment of the situation.

The continued operation of the 110 approved gaming machines in Burgenland is guaranteed until June 2017, and a decision concerning the ongoing selection procedure is still pending. A change in Burgenland's law on events is currently being considered. At the moment, it is assumed that the approval decision will be granted again to NOVOMATIC by the competent authority. In this case, subsequent developments in Burgenland would be assessed in a way similar to those in Lower Austria. If the Burgenland provincial government does not grant an approval decision to NOVOMATIC, an impairment of the fixed assets at the locations currently operating in the province would be recorded in the low single-digit million euro range, in the worst case.

(7.4) Investment Property

EUR m	12/31/2016	12/31/2015
Balance as of 01/01	18.7	18.8
Currency translation adjustments	0.1	0.1
Additions	3.2	0.0
Impairment	0.0	-1.9
Disposals	-0.3	0.0
Reclassifications	0.0	0.5
Reclassification as held for sale	0.0	1.7
Depreciation	-0.6	-0.6
Balance as of 12/31	**21.1**	**18.7**

Investment property denotes land and buildings held but not used in business operations. The gross book values total EUR 35.8 million (previous year: EUR 32.7 million) and the accumulated depreciation amounts to EUR 14.8 million (previous year: EUR 14.0 million). For the determination of the fair value, external valuation reports from independent regional experts were obtained in the financial year 2015. Given that the underlying assumptions have not materially changed, the reports were not updated. The fair value (fair value hierarchy – level 3) amounts to a total of EUR 24.1 million (previous year: EUR 21.7 million).

Both income and expenditures from investment property were insignificant.

(7.5) Investments in Associated Companies

EUR m	12/31/2016	12/31/2015
Balance as of 01/01	0.2	0.2
Balance as of 12/31	**0.2**	**0.2**

The companies recognized at equity on the consolidated balance sheet are shown in the investment schedule. The following table shows the basic data from the balance sheet and profit and loss account of the companies recognized at equity, whereas the data corresponds to 100 percent and not to the percentage of shares owned by NOVOMATIC Group in associated companies:

EUR m	12/31/2016	12/31/2015
Assets	11.4	11.5
Liabilities	10.1	10.2
Revenues	0.8	0.7
Results	0.0	-0.1

(7.6) Financial Assets

EUR m	12/31/2016	12/31/2015
Investments in affiliated companies, non-consolidated	18.2	6.9
Securities	10.0	7.8
Other investments	209.6	189.4
Total	**237.8**	**204.1**

Through the acquisition of LTB Beteiligungs GmbH, RSV Beteiligungs GmbH and BAIH Beteiligungsverwaltungs GmbH in 2015, the NOVOMATIC Group acquired an indirect interest of 23.11 percent of Österreichische Lotterien Gesellschaft mbH (ÖLG), a company that is majority owned by Casinos Austria Aktiengesellschaft (CASAG).

In 2015, NOVOMATIC concluded further purchase agreements for the acquisition of direct and indirect interests in CASAG, which needed to be approved by the Austrian Federal Competition Authority (BWB). In February 2016, the BWB submitted an audit request to the Austrian antitrust court, which, in its ruling, refused to allow NOVOMATIC AG to acquire an interest that amounts to a shareholding of over 25 percent. This decision was, after NOVOMATIC AG appealed, ultimately upheld by the Supreme Court (OGH) in January 2017. As a consequence of this decision, it was not possible to complete individual purchase agreements to further acquire direct and indirect shares in CASAG. In addition, NOVOMATIC had to reduce its indirect interest in ÖLG to less than 25 percent and, in December 2016, sold shares amounting to 11.56 percent to a Czech group of companies to enable the closing for the purchase of 17.19 percent directly in CASAG.

These two financial investments of 11.56 percent in ÖLG indirectly and 17.19 percent in CASAG directly, are recognized under other investments with a fair value of a total of EUR 196.6 million, as no significant influence may be exerted over the two companies. Details concerning the calculating of the fair values can be found in the notes to the financial instruments.

The fair value of investments in affiliated companies and other investments (except for ÖLG and CASAG) cannot be reliably evaluated; therefore, they are valued at their acquisition costs less any possible impairment.

The securities classified as available-for-sale primarily comprise stocks and promissory notes. They are not subject to any restraint of disposal.

(7.7) Taxes

Current taxes:

EUR m	12/31/2016	12/31/2015
Current tax receivables	34.0	30.5
Non-current tax liabilities	11.0	18.3
Current tax liabilities	33.9	27.8

Deferred taxes:

EUR m	12/31/2016	12/31/2015
Deferred tax assets	93.2	94.3
Deferred tax liabilities	-90.4	-66.0[1]
Total	**2.8**	**28.3**

1) Adjustment of previous year's figures pursuant to IAS 8 or IFRS 3 "Business combinations"

Deferred tax assets and liabilities result from the following temporary valuation and accounting differences between the carrying amounts of the financial statement prepared according to IFRS and their respective tax bases.

EUR m	12/31/2016	12/31/2015
Intangible assets	-69.7	-46.4[1]
Property, plant and equipment	34.5	30.6[1]
Financial assets	2.5	6.9
Other non-current assets	-2.6	-1.3
Inventories	8.6	6.5
Current financial assets	0.9	1.4
Trade and other receivables	-2.8	-0.1
Non-current financial liabilities	1.5	1.3
Other non-current liabilities	0.1	0.2
Non-current provisions	8.3	7.0
Current financial liabilities	0.6	0.4
Current provisions	0.5	0.2
Trade payables and other liabilities	7.4	5.5
Tax loss carryforward	13.1	16.2
Total	**2.8**	**28.3**

[1] Adjustment of previous year's figures pursuant to IAS 8 or IFRS 3 "Business combinations"

Income tax charged directly to equity:

EUR m	2016	2015
Revaluation of available-for-sale financial instruments	-2.0	2.6
Revaluation of the net defined benefit liability	3.6	2.7

EUR -12.2 million (previous year: EUR 14.4 million) of deferred taxes are classified as non-current and EUR 15.1 million (previous year: EUR 13.9 million) as current.

In accordance with IAS 12, deferred tax assets on the existing loss carried forward adding up to EUR 13.1 million (previous year: EUR 16.2 million) were capitalized because they can be offset against taxable income in the future. Tax assets are netted with tax liabilities if they concern the same tax authority, and if the right and intention to offset exist.

In 2016, subsidiaries that incurred losses in the previous year or the years before carried forward tax losses in of EUR 237.2 million (previous year: EUR 201.3 million) that can no longer be utilized. Of the carried forward tax losses that are still utilizable – the value of which is EUR 57.7 million (previous year: EUR 47.9 million) – EUR 0.4 million will expire in 2017 (previous year: EUR 2.1 million in 2016) and EUR 57.4 million will expire in 2017 onwards (previous year: EUR 45.9 million in 2016 onwards).

No deferred tax liability was recognized on the temporary differences resulting from the proportionate IFRS equity values and the tax base of the subsidiaries amounting to EUR 1,001.4 million (previous year: EUR 990.7 million) as the Group is in the position of being able to control the timing of the reversal of the temporary differences and will probably not reverse the temporary differences in the foreseeable future.

(7.8) Other Non-Current Assets

EUR m	12/31/2016	12/31/2015
Loans	44.5	50.5
Receivables from finance lease	17.8	9.1
Purchase price receivables	8.0	7.9
Deposits with gaming authorities	21.1	21.9
Miscellaneous other non-current assets	25.5	21.9
Total	**116.9**	**111.3**

(7.9) Inventories

EUR m	12/31/2016	12/31/2015
Raw materials and supplies	93.1	76.5
Work in progress	24.0	22.9
Finished goods and trade goods	104.3	89.3
Prepayments	4.1	3.2
Total	**225.5**	**191.9**

The inventory total includes inventory write-downs amounting to EUR 67.5 million (previous year: EUR 65.3 million).

(7.10) Trade Receivables, Other Receivables and Assets

EUR m	12/31/2016	12/31/2015
Trade receivables	221.4	201.6
Receivables from non-consolidated affiliated companies	8.2	5.3
Prepaid expenses	39.7	36.9
Purchase price receivables	10.8	32.5
Precious metals	35.3	31.4
Other tax receivables, excluding income taxes	7.1	11.4
Other current receivables and assets	50.0	40.1
Total	**372.5**	**359.2**

The reported trade receivables include write-downs amounting to EUR 30.4 million (previous year: EUR 31.7 million). The impairment expenses for the reporting period are recognized as other operating expenses in the profit and loss account.

The age structure of the trade receivables is as follows:

EUR m	12/31/2016	12/31/2015
Receivables without valuation allowance		
not overdue	107.8	99.1
overdue up to 3 months	47.8	31.4
overdue between 3 and 6 months	9.4	6.5
overdue for more than 6 months	12.0	9.8
Receivables with valuation allowance	44.4	54.8
Total	**221.4**	**201.6**

The trade receivables shown above disclose the amounts that are overdue as of the balance sheet date. The Group has not created any provisions for write-downs for these amounts as no material changes to the creditworthiness have been detected, and recoverability of outstanding amounts is also expected.

The receivables from non-consolidated affiliated companies include trade receivables of EUR 7.5 million (previous year: EUR 2.8 million).

Precious metals with a book value of EUR 35.3 million (previous year: EUR 31.4 million) are valued at their market price (fair value hierarchy – level 2) in profit and loss. Changes in value due to the subsequent measurement of precious metals of EUR 3.9 million (previous year: EUR -0.4 million) are accounted for as other operating income or expenses.

Other current receivables and assets are comprised primarily of the offset with payment service providers, prepayments and deferred income.

(7.11) Current Financial Assets

EUR m	12/31/2016	12/31/2015
Securities	9.2	10.7
Loans	3.6	3.7
Receivables from finance lease	10.8	13.0
Derivatives	6.1	4.1
Other current financial assets	1.7	0.7
Total	**31.3**	**32.3**

(7.12) Cash and Cash Equivalents

EUR m	12/31/2016	12/31/2015
Cash	141.7	111.6
Bank balances	736.1	473.8
Total	**877.8**	**585.4**

The stated cash of EUR 141.7 million (previous year: EUR 111.6 million) is largely tied up as cash reserves and base filling of the gaming machines at the various gaming establishments.

Due to a legal dispute between Italian competitors and the Italian gaming authority, the competent court decided that all Italian concessionaires (i.e. including ADMIRAL Gaming Network S.r.l., a NOVOMATIC Group company), should not pay a part of their gaming taxes to the competent authority until the matter has been settled, but must rather deposit these amounts in a specifically designated bank account. For NOVOMATIC, this resulted in a temporary increase in tax liabilities as well as cash and cash equivalents (bank balances) by EUR 82.9 million. As a decision in the case was made during the reporting period, the charging with the Italian gaming authority was completed.

The bank balances included a partial amount of EUR 65.3 million which was deposited for the potential acquisition of direct and indirect shares in Casinos Austria Aktiengesellschaft. These funds were freely available again in February 2017.

(7.13) Assets Held for Sale

The property concerned in Hungary has now been sold.

(7.14) Share Capital

The share capital of EUR 26.6 million (previous year: EUR 26.0 million) is fully paid and divided into 26,590,000 registered no-par value shares. Each share corresponds to EUR 1.0 of the share capital.

In April 2016, Gryphon Invest AG increased its interest in NOVOMATIC AG from 8 percent to around 10 percent. In the context of this transaction, NOVOMATIC AG increased its share capital by EUR 0.6 million, while the tied up capital reserve increased by EUR 84.4 million.

(7.15) Capital Reserves

The capital reserves of EUR 85.4 million (previous year: EUR 1.0 million) are tied-up reserves.

(7.16) Retained Earnings

The retained earnings consist of the Group's consolidated profit for the year and the accumulated profits from previous periods. Retained earnings also comprise the revaluation of net debt from defined benefit obligations of EUR -10.0 million (previous year: EUR -7.9 million), with the change of EUR -2.1 million (previous year: EUR -0.6 million) being stated in other comprehensive income.

(7.17) Revaluation Reserve

The revaluation reserve comprises the revaluation of financial instruments available for sale of EUR 5.2 million (previous year: EUR -8.6 million), with the change of EUR 13.8 million (previous year: EUR 0.9 million) being stated in other comprehensive income.

(7.18) Currency Translation Adjustment

Upon consolidation, differences from the translation of foreign subsidiaries at the exchange rates prevailing on the balance sheet date are transferred to this position. For the financial year 2016, changes in the currency translation adjustment of EUR -28.0 million (previous year: EUR 7.0 million) are stated in other comprehensive income. Due to deconsolidation, EUR -1.9 million (previous year: EUR 11.1 million) has been reclassified from other comprehensive income into the profit and loss account.

(7.19) Non-Controlling Interests

Non-controlling interests consist of the interests in equity of consolidated subsidiaries held by other shareholders. The portion allocated to the non-controlling interests from the change of foreign currency translation adjustments of EUR 0.0 million (previous year: EUR -0.1 million) is stated in other comprehensive income.

Subsidiaries with non-controlling interests:

EUR m	12/31/2016			12/31/2015		
	Non-controlling interests (%)	Profit/loss attributable to non-controlling interests	Accumulated non-controlling interest	Non-controlling interests (%)	Profit/loss attributable to non-controlling interests	Accumulated non-controlling interest
Gaming Technology						
Crown Gaming S.A.C., Peru		-	-	35 %	-1.4	3.8
Electro System S.p.A., Italy	25 %	1.3	5.6			
GiGames S.L., Spain	20 %	0.1	7.2	20 %	-0.5	7.1
Gaming Operations						
Admiralu Klubs SIA, Latvia	40 %	3.0	19.3	40 %	2.7	17.1
Alfor SIA, Latvia	40 %	5.9	16.4	40 %	5.2	10.5
Automáticos Surmatic S.L., Spain	40 %	0.0	6.2	40 %	0.0	6.1[1]
Marginal non-controlling interest		-3.6	7.8		-1.6	3.7[1]
		6.8	**62.4**		**4.5**	**48.4**

[1] Adjustment of previous year's figures according to IFRS 3 "Business combinations"

The amounts held as non-controlling interest correspond to the voting rights.

A summary of financial information regarding Group subsidiaries with significant non-controlling interests (before Group-internal elimination) is presented in the following table:

EUR m					12/31/2016
	Electro System S.p.A., Italy	GiGames S.L., Spain	Admiralu Klubs SIA, Latvia	Alfor SIA, Latvia	Automáticos Surmatic S.L., Spain
Balance sheet					
Non-current assets	18.9	17.5	42.1	30.9	17.6
Current assets	13.7	28.6	11.1	19.1	2.2
Non-current liabilities	5.9	6.5	3.3	1.6	3.7
Current liabilities	4.5	11.9	1.7	7.5	0.8
Profit and loss account					
Revenues	18.2	25.1	25.5	69.0	10.0
Annual profit	5.2	0.1	7.6	14.6	0.1
Dividends paid to non-controlling interest	0.0	0.0	0.8	0.0	0.0
Cash flow					
from operating activities	-5.0	2.2	10.1	20.7	2.2
from investing activities	-5.5	-1.0	-0.6	-8.4	-0.7
from financing activities	-0.1	1.4	-0.8	0.0	-0.1
Net change in cash and cash equivalents	-10.7	2.6	8.7	12.3	1.5

EUR m					12/31/2015
	Crown Gaming S.A.C., Peru	GiGames S.L., Spain	Admiralu Klubs SIA, Latvia	Alfor SIA, Latvia	Automáticos Surmatic S.L., Spain
Balance Sheet					
Non-current assets	33.9	20.1	41.4	29.6	19.5[1]
Current assets	27.6	23.1	6.1	14.4	1.0
Non-current liabilities	14.8	7.4	3.4	1.9	4.2[1]
Current liabilities	35.9	8.3	1.4	15.8	1.0
Profit and loss account					
Revenues	13.0	20.4	23.0	64.0	0.7
Annual profit	-4.0	-2.0	6.8	13.0	0.0
Dividends paid to non-controlling interest	0.0	0.0	0.4	8.8	0.0
Cash flow					
from operating activities	2.7	0.5	10.4	27.9	-0.3
from investing activities	0.5	1.1	-2.2	-6.7	-9.7
from financing activities	2.9	-1.6	-0.4	-8.8	0.0
Net change in cash and cash equivalents	6.0	0.0	7.8	12.4	-10.0

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

During the financial year 2016, the Group increased its share of ownership in some subsidiaries.

(7.20) Non-Current Financial Liabilities

EUR m	12/31/2016	12/31/2015
Bonds	937.8	592.0
Bank loans	443.1	443.4
Obligations under finance leases	6.0	5.0
Other non-current financial liabilities	8.2	3.3
Total	**1,395.1**	**1,043.7**

NOVOMATIC AG issued bonds with the following terms and conditions:

Nominal value	150 EUR m	250 EUR m	200 EUR m	500 EUR m
Term	2010–2017	2013–2019	2014–2021	2016–2023
Denomination	EUR 500.–	EUR 500.–	EUR 500.–	EUR 500.–
Nominal interest rate	5.00 % p.a.	4.00 % p.a.	3.00 % p.a.	1.625 % p.a.
Coupon	10/27 every year	01/28 every year	06/23 every year	09/20 every year
Redemption	10/27/2017 bullet	01/28/2019 bullet	06/23/2021 bullet	09/20/2023 bullet
Closing price 12/31/2016	EUR 103.876	EUR 106.8705	EUR 108.856	EUR 102.1805
ISIN	AT0000A0KSM6	AT0000A0XSN7	AT0000A182L5	AT0000A1LHT0

The bonds are listed on the second regulated market of the Vienna Stock Exchange. During the reporting period, NOVOMATIC AG issued a bond with an emission volume of EUR 500 million that is due on September 20, 2023.

Bonds of the Group with a nominal value of EUR 6.2 million (previous year: EUR 6.2 million) were bought back. The partial book value of this repurchase has been deducted from bond liabilities, whereas the exceeding part of the repurchase price has been accounted for in financial expenses.

The fair value of the bonds issued amounts to EUR 1,145.0 million (previous year: EUR 625.8 million), of which EUR 991.5 million were long-term and EUR 153.5 million were short-term.

The fair value of bank loans amounts to EUR 449.7 million (previous year: EUR 444.1 million). Bank loans with a term of 1 to 5 years amount to EUR 350.6 million (previous year: EUR 401.3 million) and those over five years to EUR 92.5 million (previous year: EUR 42.1 million).

The weighted average interest rate comes to 2.29 percent (previous year: 3.41 percent).

(7.21) Non-Current Provisions

EUR m	12/31/2016	12/31/2015
Provision for severance payments	26.2	20.7
Provision for pensions	19.9	18.4
Provision for jubilee payments	6.2	4.8
Other non-current provisions	13.8	8.2
Total	**66.1**	**52.1**

Provision for Severance Payments

Due to legal or collectively agreed obligations, employees in Austria and Italy are entitled to receive severance payments upon termination of employment or upon reaching normal retirement age. Such entitlements depend on their years of service and final compensation levels. For the future liabilities, provisions are generated according to actuarial principles. The provision for pensions was calculated in accordance with IAS 19 (projected unit credit method) using an interest rate of 1.31 percent to 1.58 percent (previous year: 2.0 percent) and assuming a pay increase from 1.0 percent to 2.5 percent (previous year: 1.0 percent to 2.5 percent) into account. The estimated retirement age refers to the earliest possible retirement age according to local legislation. Discounts due to fluctuations or other factors are not taken into account.

Expenses for severance payments recognized as personnel costs:

EUR m	12/31/2016	12/31/2015
Current service cost	4.2	3.1
Interest expense	0.4	0.3
Expense for the year	**4.6**	**3.4**

Provision for severance payments shown on the balance sheet:

EUR m	12/31/2016	12/31/2015
Balance as of 01/01	20.7	19.8
Amounts recognized in the profit and loss account		
Current service cost (+)	4.2	3.1
Interest cost (+)	0.4	0.3
Remeasurement of the period (other comprehensive income)		
Actuarial gains/losses from the change in demographic assumptions	0.7	0.2
Actuarial gains/losses from the change in financial assumptions	1.7	0.6
Payments (-)	-2.4	-3.4
Change in the scope of consolidation	0.8	0.0
Present value of obligations as of 12/31	**26.2**	**20.7**

Sensitivity analysis for severance payments:

	Change in the parameter	Change in the present value of the obligation
EUR m		12/31/2016
Discount rate	0.5 %	-1.6
Discount rate	-0.5 %	1.3
Salary increase	0.5 %	1.3
Salary increase	-0.5 %	-1.6

As of December 31, 2016, the average maturity of severance obligations is 10 to 15 years (previous year: 10 to 16 years), depending on the country. Payments of EUR 3.1 million (previous year: EUR 2.4 million) are expected for the next financial year.

Provision for Pensions

Due to individual agreements, some Group companies are obligated to accord a pension allowance to Executive Board members and employees beginning with the date of their retirement. The amounts of such entitlements depend on years of service and final compensation levels. The provision for pensions was calculated in accordance with IAS 19 (projected unit credit method) using an interest rate of 1.58 percent to 1.60 percent (previous year: 2.0 percent to 2.4 percent) and taking adjustments of values from 2.0 percent to 3.0 percent (previous year: 2.0 percent to 3.0 percent) into account.

Expenses for pensions recognized as personnel cost:

EUR m	12/31/2016	12/31/2015
Current service cost	0.1	0.1
Interest cost	0.4	0.4
Expense for the year	**0.5**	**0.5**

Provision for pensions shown on the balance sheet:

EUR m	12/31/2016	12/31/2015
Balance as of 01/01	18.4	18.5
Amounts recognized in the profit and loss account		
Current service cost (+)	0.1	0.1
Interest cost (+)	0.4	0.4
Remeasurement of the period (other comprehensive income)		
Actuarial gains/losses from the change in financial assumptions	1.4	0.1
Payments (-)	-0.5	-0.5
Change in the scope of consolidation	0.0	-0.1
Present value of obligations as of 12/31	**19.9**	**18.4**

Sensitivity analysis for pensions:

	Change of the parameter	Change in the present value of obligation
EUR m		12/31/2016
Discount rate	0.5 %	-2.4
Discount rate	-0.5 %	2.9
Pension increase	0.5 %	1.7
Pension increase	-0.5 %	-1.5

As of December 31, 2016, the average maturity of pension obligations is between 3 and 15 years (previous year: between 4 and 15 years), depending on the country. Payments of EUR 0.5 million (previous year: EUR 0.5 million) are expected for the next financial year.

Provision for Jubilee Payments

After a long period of service with the company, employees are entitled to jubilee payments arising from collective agreements. The amount of these obligations was calculated under the assumptions of a discount rate of 1.58 percent to 1.7 percent (previous year: 2.0 percent to 2.9 percent) and a pay increase of 1.75 percent to 2.5 percent (previous year: 2.0 percent to 4.0 percent). A fluctuation discount based on an internal statistic concerning withdrawals of the previous 3 years and considering probable individual continuance in the company until the jubilee payment is due was taken into account.

Expenses for jubilee payments recognized as personnel cost:

EUR m	12/31/2016	12/31/2015
Current service cost	1.0	1.0
Interest cost	0.1	0.3
Past service cost	1.2	-0.4
Net actuarial gains/losses	-0.1	-0.2
Expense for the year	**2.3**	**0.7**

Provision for jubilee payments shown on the balance sheet:

EUR m	12/31/2016	12/31/2015
Balance as of 01/01	4.8	4.8
Amounts recognized in the profit and loss account		
Current service cost (+)	1.0	1.0
Interest cost (+)	0.1	0.3
Past service cost	1.2	-0.4
Net actuarial gains/losses	-0.1	-0.2
Payments (-)	-0.8	-0.7
Change in the consolidation scope	0.0	-0.1
Present value of obligations as of 12/31	**6.2**	**4.8**

Other Non-Current Provisions

The other non-current provisions essentially concern provisions for anticipated losses and dismantling obligations. The development of other non-current provisions is shown below:

EUR m	12/31/2016	12/31/2015
Balance as of 01/01	8.2	10.2
Currency translation adjustments	-0.5	0.2
Changes in the scope of consolidation	4.2	0.3
Utilization	-1.5	-1.5
Release	-0.5	-1.9
Allocation	4.1	0.9
Compounding	-0.1	-0.1
Balance of provisions as of 12/31	**13.8**	**8.2**

(7.22) Other Non-Current Liabilities

EUR m	12/31/2016	12/31/2015
Deferred income	0.5	0.6
Other non-current liabilities	3.8	4.7
Purchase price obligations	15.3	19.5
Total	**19.6**	**24.8**

Purchase price obligations comprise contingent considerations from business combinations as well as obligations from written put options for non-controlling interests.

(7.23) Current Financial Liabilities

EUR m	12/31/2016	12/31/2015
Bond	147.7	0.0
Current bank liabilities	58.9	33.6
Obligations under finance leases (current portion)	2.4	1.8
Current financial liabilities	0.9	0.8
Derivatives	0.9	0.7
Total	**210.8**	**36.9**

(7.24) Current Provisions

EUR m	Other provisions for personnel	Warranties	Obligations for legal issues	Other current provisions	Total
As of 12/31/2015	15.0	3.2	4.0	25.9	48.1
Currency translation adjustments	-0.6	-0.1	0.0	-1.1	-1.8
Changes in the scope of consolidation	0.8	0.0	0.5	0.6	1.8
Utilization	-9.2	0.0	-1.1	-21.0	-31.3
Release	-0.3	0.0	-0.9	-2.4	-3.7
Allocation	20.6	0.5	3.7	30.8	55.6
Reclassifications	0.0	0.0	0.0	0.0	0.0
As of 12/31/2016	**26.1**	**3.6**	**6.2**	**32.7**	**68.7**

Other current provisions consist mainly of provisions for sites and connection costs.

(7.25) Trade Payables and Other Liabilities

EUR m	12/31/2016	12/31/2015
Trade payables	113.5	100.3
Payables to non-consolidated affiliated companies	3.4	1.7
Advance payments received	3.6	3.5
Deferred income	35.3	37.2
Liabilities to employees	44.3	42.0
Other liabilities from social security obligations	11.6	9.6
Other tax liabilities, excluding income taxes	104.9	176.9
Purchase price obligations	20.9	22.0
Other current liabilities	63.5	57.1
Total	**401.0**	**450.4**

Deferred income consists mainly of special rent payments for slot machines and loyalty rewards for clients in Germany.

Purchase price obligations cover contingent considerations from business combinations as well as purchase price components from business combinations or financial investments not yet due.

The increase in tax liabilities in the previous year was related to the increase in bank balances. Further details are provided in note (7.12).

Other current liabilities consist mainly of deposits received, outstanding invoices, accrued interest and short-term clearing accounts.

(8) Notes to the Profit and Loss Account

The profit and loss account was prepared applying the total cost method.

(8.1) Revenues

EUR m	2016	2015
Sales revenues	249.9	217.6
Income from slot machines	1,028.9	902.2
Income from rent and management services	607.0	594.7
Betting income	117.8	81.9
eBusiness income	159.8	167.9
Income from food and beverage	32.4	28.7
Other sales	113.6	104.3
Sales reductions	-15.3	-11.1
Total	**2,294.1**	**2,086.3**

(8.2) Gaming Taxes and Betting Fees

EUR m	2016	2015
Gaming taxes	-224.7	-181.0
Betting fees	-13.6	-10.3
Total	**-238.3**	**-191.4**

(8.3) Changes in Inventories of Finished Goods and Work in Progress as well as Own Work Capitalized

EUR m	2016	2015
Changes in inventories of finished goods and work in progress	21.0	8.2
Own work capitalized	194.6	147.6
Total	**215.6**	**155.8**

Own work capitalized consists mainly of internally produced electronic gaming machines.

(8.4) Other Operating Income

EUR m	2016	2015
Income from the disposal of intangible assets and property, plant and equipment	16.5	19.2
Foreign exchange gains	7.4	13.5
Deconsolidation	30.4	49.0
Other operating income	54.7	43.0
Total	**109.0**	**124.6**

The income from deconsolidation is due to the sale of fully consolidated subsidiaries during the reporting period under review, as well as earn-out settlements from prior disposals.

(8.5) Cost of Material and Other Purchased Services

EUR m	2016	2015
Cost of material	-351.2	-277.8
Purchased services	-7.4	-5.1
Total	**-358.6**	**-282.8**

(8.6) Personnel Costs

EUR m	2016	2015
Wages and salaries	-547.0	-457.3
Expenses for severance payments	-9.9	-8.5
Expenses for pensions	-4.4	-3.7
Cost of statutory social security, payroll-related taxes and mandatory contributions	-104.9	-89.7
Other social expenses	-10.5	-8.6
Total	**-676.8**	**-567.8**

Expenses for severance payments include expenses for defined contribution plans of EUR 1.9 million (previous year: EUR 1.7 million) and expenses for pension plans of EUR 1.8 million (previous year: EUR 1.8 million).

The increase in personnel costs is mainly due to an increase in the number of employees in the Group. The average number of employees developed as follows:

	2016	2015
Salaried employees	8,619	7,754
Workers	14,772	12,202
Total	**23,391**	**19,956**

(8.7) Amortization, Depreciation, Impairment and Reversal of Impairment for Intangible Assets, Property, Plant and Equipment, and Investment Property

EUR m	2016	2015
Scheduled depreciation/amortization	-299.7	-266.5
Impairment	-33.3	-45.8[1]
Impairment reversals	8.6	11.0
Total	**-324.4**	**-301.3**

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

The breakdown of the depreciation/amortization for the year according to the individual asset classes is shown in notes (7.1), (7.2) and (7.3).

The impairments relate to the "Gaming Technology" segment of EUR 9.1 million (previous year: EUR 16.3 million), the "Gaming Operations" segment of EUR 24.2 million (previous year: EUR 27.5 million), and to "Other" of EUR 0.0 million (previous year: EUR 2.0 million). The impairment reversals relate to the "Gaming Technology" segment of EUR 0.8 million (previous year: EUR 3.3 million) and the "Gaming Operations" segment of EUR 7.8 million (previous year: EUR 7.7 million).

(8.8) Other Operating Expenses

EUR m	2016	2015
Other taxes, fees and charges	-75.8	-68.1
Maintenance	-44.2	-37.2
Energy costs	-31.9	-29.2
Telephone, communications	-14.7	-12.3
Rental expense for real estate	-121.2	-101.8
Rental expense for slot machines	-9.3	-8.9
Rental expense for other assets	-9.2	-8.0
Insurance costs	-6.4	-5.1
Vehicle fleet operation costs	-15.7	-14.5
Legal, audit and consulting costs	-44.3	-37.7
Other services received	-46.8	-42.2
Advertising costs	-108.9	-107.0
Traveling costs	-16.5	-14.1
Development costs	-23.3	-29.7
License costs	-13.8	-11.7
Commissions	-16.0	-10.6
Partners' shares	-23.0	-25.2
Bad debt and valuation adjustment	-10.2	-10.8
Loss from the disposal of property, plant and equipment	-6.8	-6.1
Security costs	-15.6	-14.1
Foreign exchange losses	-3.7	-10.7
Deconsolidation	0.0	-5.5
Other expenses	-103.8	-102.7
Release of provisions	4.5	5.1
Total	**-756.7**	**-707.9**

The rental expenses for real estate, slot machines and other assets were incurred through operating lease agreements. Further details are provided in note (12).

(8.9) Interest Income

EUR m	2016	2015
Interest Income	6.6	7.1
Interest income from finance lease receivables	1.2	1.3
Total	**7.8**	**8.4**

(8.10) Other Financial Income

EUR m	2016	2015
Income from the disposal of financial assets	0.6	13.1
Investment income from other investments	3.8	9.3
Fair value valuation of interest rate swaps	0.0	0.0
Other financial income	8.2	2.1
Total	**12.6**	**24.4**

The shares in NovoSun S.A., Chile, valued at equity, were sold in 2014. The disposal resulted in variable sales proceeds of EUR 13.1 million in 2015, which were recognized as a cash transaction in 2016.

The financial investment in Österreichische Lotterien Gesellschaft mbH (ÖLG) resulted in investment income of EUR 3.5 million (previous year: EUR 9.3 million).

(8.11) Interest Expenses

EUR m	2016	2015
Interest expenses	-10.6	-7.6
Interest expenses on bonds	-26.3	-24.5
Interest expenses on obligation under finance lease	-0.3	0.0
Total	**-37.2**	**-32.1**

(8.12) Other Financial Expenses

EUR m	2016	2015
Losses from the disposal of financial assets	-0.8	-3.6
Impairment of financial assets, loans and securities	-4.9	-1.6
Fair value valuation of interest rate swaps	-0.8	-0.1
Other financial expenses	-5.6	-8.0
Total	**-12.1**	**-13.4**

(8.13) Currency Exchange Gains/Losses from Intra-Group Financing

Foreign currency effects resulting from intra-group financing are stated separately in this item because of their close connection to financing activities. Exchange rate profit and loss amounts to EUR -5.8 million (previous year: EUR 5.8 million).

(8.14) Tax Expenses

EUR m	2016	2015
Current income tax expense	-84.8	-95.8
Current income tax relating to other periods	0.1	-11.7
Deferred tax income/expense	9.7	11.7[1]
Total	**-75.0**	**-95.8**

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

A reconciliation of income tax applying the Austrian corporate income tax rate of 25 percent (previous year: 25 percent) to the effective tax rate for the financial year 2016 is stated below:

EUR m	2016	2015
Earnings before taxes	**229.4**	**308.5[1]**
Computed income tax expense of 25 percent (previous year: 25 percent)	**-57.4**	**-77.6[1]**
Adjustment of the computed income tax expense		
Adjustment for foreign tax rates	-5.0	-5.8
Effects of non-taxable income	17.9	13.9
Effects of non-deductible expenses	-18.9	-10.0
Effects of tax advantages	3.7	2.9
Actual income tax relating to other periods	0.1	-11.7
Effects of change in income tax rate on deferred taxes	1.3	0.7
Effects of initially not recognized and unused tax losses and possible offsets on the actual tax expense	4.5	2.2
Effects of initially not recognized and unused tax losses and possible offsets on the deferred tax expense	1.7	19.0
Effects of adjustments or of the reversal of a previous adjustment of a deferred tax asset	-3.4	-3.9
Effects of unused tax losses and possible offsets not recognized as deferred taxes	-16.9	-23.2
Withholding tax	0.1	0.9
Other	-2.7	-3.1
Effective tax expense	**-75.0**	**-95.8**
Effective tax rate in %	32.7 %	31.1 %

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

Income taxes included in the other comprehensive income:

EUR m	2016	2015
Revaluation of available-for-sale financial instruments	-4.6	-0.2
Revaluation of the net defined benefit liability	0.8	0.2

(9) Notes on the Cash Flow Statement

Cash flow from operating, investing and financing activities is shown separately in the consolidated cash flow statement. The consolidated cash flow statement was prepared in accordance with the indirect method. Liquid funds correspond to cash and cash equivalents as well as bank balances stated on the balance sheet. The amount of EUR 82.9 million deposited for tax liabilities has already been disclosed as a cash transaction in the cash flow from operating activities in the cash flow statement of the previous year.

The Group undertook the following non-cash investing and financing activities that are not reflected in the cash flow statement: receivables related to the sale of included subsidiaries of EUR 10.8 million (previous year: EUR 20.9 million) and liabilities and/or settlements from the acquisition of companies of EUR 27.8 million (previous year: EUR 11.3 million).

(10) Notes on Segment Reporting

For management purposes, the NOVOMATIC Group is divided into two business segments. These strategic segments form the basis for the segment reporting.

The "Gaming Technology" segment includes the production, sale and rental of gaming and entertainment machines, and the online B2B operations.

The "Gaming Operations" segment consists of the operation of casinos and electronic gaming machine casinos, the betting business (in particular sports and horse-racing betting), and the online B2C business.

The valuations for the segment reporting correspond to the accounting policies used for the IFRS consolidated financial statement. Those assets and liabilities that are not directly related to the gaming operation are summarized under the heading "Other". Reconciliation comprises adjustments due to the consolidation.

The inter-segment exchange of goods and services shows the supply and service relationships between the operating segments. The charging is carried out at arm's length. Intercompany expenses, income and profits are eliminated in the reconciliation of segment revenues and/or segment results to the amounts disclosed in the consolidated financial statement.

Segment assets consist mainly of intangible assets, property, plant and equipment, inventories, trade receivables and cash balances. Segment liabilities consist mainly of trade payables, provisions and deferred income. During the reconciliation of the segment assets and liabilities, intercompany receivables and liabilities are eliminated as part of the consolidation of debts.

Unallocated assets and/or debts comprise those items on the balance sheet that are not defined as segment assets or segment debts and are used for the reconciliation with the consolidated value.

Segment Revenues

01–12/2016

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
External revenues	903.1	1,370.6	20.4	0.0	2,294.1
Intra-segment revenues	139.0	9.0	7.2	-155.2	0.0
Total revenues	**1,042.1**	**1,379.6**	**27.6**	**-155.2**	**2,294.1**

01–12/2015

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
External revenues	860.3	1,204.0	22.0	0.0	2,086.3
Intra-segment revenues	125.0	9.4	7.1	-141.5	0.0
Total revenues	**985.3**	**1,213.4**	**29.1**	**-141.5**	**2,086.3**

Segment Result

01–12/2016

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
Segment result (EBIT)	**145.8**	**138.3**	**-10.5**	**-9.5**	**264.1**
Financial result					-34.7
Earnings before taxes					229.4
Income Taxes					-75.0
Annual profit					**154.4**

01–12/2015

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
Segment result (EBIT)	**159.5**[1]	**176.3**	**0.1**	**-20.5**	**315.4**
Financial result					-7.0
Earnings before taxes					308.5
Income Taxes					-95.8[1]
Annual profit					**212.7**

[1)] Adjustment of previous year's figures pursuant to IAS 8 or IFRS 3 "Business combinations"

Segment Assets and Liabilities

2016

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Non-allocated assets/liabilities	Total
Segment assets	1,290.6	1,165.6	138.3	-197.0	1,270.7	3,668.2
Segment liabilities	323.3	349.9	18.1	-163.8	1,769.2	2,296.7

2015

Mio. EUR	Gaming Technology	Gaming Operations	Other	Reconciliation	Non-allocated assets/liabilities	Total
Segment assets	1,172.1[1]	926.4[1]	137.2	-230.8[1]	978.2	2,983.2
Segment liabilities	294.1	364.1	13.7	-141.7	1,237.7[1]	1,767.9

1) Adjustment of previous year's figures pursuant to IAS 8 or IFRS 3 "Business combinations"

Other Segment Information

2016

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
Scheduled depreciation/ amortization	-183.9	-109.3	-6.4	0.0	-299.7
Impairment	-9.1	-24.2	0.0	0.0	-33.3
Impairment reversals	0.7	7.9	0.0	0.0	8.6
Investments	245.6	176.5	12.2	0.0	434.3
Investments through business combinations	45.5	262.4	0.0	0.0	307.9
Book value of associated companies	0.0	0.0	0.2	0.0	0.2

2015

EUR m	Gaming Technology	Gaming Operations	Other	Reconciliation	Total
Scheduled depreciation/ amortization	-169.4	-90.8	-6.2	0.0	-266.5
Impairment	-26.3[1]	-17.5	-2.0	0.0	-45.8
Impairment reversals	3.2	7.7	0.0	0.0	11.0
Investments	190.0	111.9	6.4	0.0	308.3
Investments through business combinations	68.3[1]	101.5[1]	0.0	0.0	169.8
Book value of associated companies	0.0	0.0	0.2	0.0	0.2

1) Adjustment of previous year's figures pursuant to IAS 8 or IFRS 3 "Business combinations"

Geographical Information

The Group recorded the following revenues and assets in the individual regions:

01–12/2016

EUR m	Austria	Germany	Italy	United Kingdom	Eastern Europe	Other countries, Europe	Other countries, inter-national	Non-allocated assets	Total
Revenues	384.8	656.9	335.1	260.4	353.8	212.1	91.0	-	2,294.1
Assets	555.6	325.6	472.2	387.2	325.1	213.3	118.6	1,270.7	3,668.2

01–12/2015

EUR m	Austria	Germany	Italy	United Kingdom	Eastern Europe	Other countries, Europe	Other countries, inter-national	Non-allocated assets	Total
Revenues	408.6	647.7	276.6	182.1	304.0	177.0	90.2	-	2,086.3
Assets	564.1	278.7[1]	367.3	248.9[1]	263.9[1]	174.3[1]	107.7	978.2	2,983.2

1) Adjustment of previous year's figures pursuant to IAS 8 or IFRS 3 "Business combinations"

Revenues are allocated to the individual regions based on the domicile of the company recording such revenues.

(11) Notes on Financial Instruments

12/31/2016 EUR m	Category acc. to IAS 39				Fair value			
	Loans and receivables	Financial assets available for sale	Financial liabilities at amortized costs	Derivatives	Securities	Financial investments	Derivatives	Contingent consider-ations
Financial assets								
Financial assets		232.3			10.0	196.6		
Other non-current assets	82.7							
Trade receivables, other receivables and assets	252.5							
Current financial assets	3.6	9.2		6.1	9.2		6.1	
Cash and cash equivalents	877.8							
TOTAL	**1,216.7**	**241.5**	**0.0**	**6.1**	**19.1**	**196.6**	**6.1**	**0.0**
Financial liabilities								
Non-current financial liabilities			1,383.4					
Other non-current liabilities			18.4					0.0
Current financial liabilities			207.5	0.9			0.9	
Trade payables and other liabilities			170.6					7.4
TOTAL	**0.0**	**0.0**	**1,779.8**	**0.9**	**0.0**	**0.0**	**0.9**	**7.4**

12/31/2015 EUR m	Category acc. to IAS 39				Fair value			
	Loans and receivables	Financial assets available for sale	Financial liabilities at amortized costs	Derivatives	Securities	Financial investments	Derivatives	Contingent consider-ations
Financial assets								
Financial assets		204.1			7.8	188.4		
Other non-current assets	84.6							
Trade receivables, other receivables and assets	247.5							
Current financial assets	3.7	10.7		4.1	10.7		4.1	
Cash and cash equivalents	585.4							
TOTAL	**921.2**	**214.8**	**0.0**	**4.1**	**18.5**	**188.4**	**4.1**	**0.0**
Financial liabilities								
Non-current financial liabilities			1,037.8					
Other non-current liabilities			14.0					9.4
Current financial liabilities			34.4	0.7			0.7	
Trade payables and other liabilities			154.3					6.4
TOTAL	**0.0**	**0.0**	**1,240.4**	**0.7**	**0.0**	**0.0**	**0.7**	**15.7**

Classification acc. to IFRS 7							
Amortized costs							
Cash and cash equivalents	Trade and lease receivables	Loans	Bonds	Bank and lease liabilities	Trade payables	Other receivables and liabilities	Investments in non-consolidated companies and shares
							31.2
	17.8	52.5				30.2	
	229.6					22.9	
	10.8	3.6					
877.8							
877.8	**258.3**	**56.1**	**0.0**	**0.0**	**0.0**	**53.2**	**31.2**
		2.5	937.8	449.1			
						18.4	
		0.9	147.7	61.3			
					116.9	53.7	
0.0	**0.0**	**3.4**	**1,085.5**	**510.4**	**116.9**	**72.0**	**0.0**

Classification acc. to IFRS 7							
Amortized costs							
Cash and cash equivalents	Trade and lease receivables	Loans	Bonds	Bank and lease liabilities	Trade payables	Other receivables and liabilities	Investments in non-consolidated companies and shares
							7.9
	9.1	58.9				25.7	
	206.9					40.6	
	13.0	3.7					
585.4							
585.4	**229.1**	**62.6**	**0.0**	**0.0**	**0.0**	**66.3**	**7.9**
		2.4	592.0	448.4			
						14.0	
		0.8	0.0	35.4			
					100.9	53.4	
0.0	**0.0**	**3.1**	**592.0**	**483.8**	**100.9**	**67.3**	**0.0**

Valuation of Financial Instruments

a. Fair Value of Financial Assets and Liabilities regularly carried at Fair Value

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

EUR m	12/31/2016	12/31/2015	Hierarchy
Assets			
Securities	19.1	18.5	Level 1
Financial investments	196.6	188.4	Level 3
Derivatives (positive market values)	2.1	0.9	Level 2
Derivatives (options)	4.0	3.2	Level 3
Liabilities			
Contingent considerations company acquisitions	7.4	15.7	Level 3
Derivatives (negative market values)	0.9	0.7	Level 2

Securities classified as financial assets available for sale include listed equity instruments such as shares and/or debt instruments such as bonds. For the valuation, the bid prices quoted on an active market are used.

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

Österreichische Lotterien Gesellschaft mbH is the authorized concessionaire of the federal government as part of the gaming monopoly until September 30, 2027, performing the games Lotto "6/45", Euromillionen, Toto, Score Bets, number games 1-90, the additional game "Joker", raffle and instant scratch games, electronic lotteries (online gaming) at www.win2day.at and in video lottery terminal outlets, Keno, class lottery, Bingo and the numbers lottery "Toi Toi Toi".

For the market value measurement, an industry multiple derived from a peer group of eight international lottery companies was applied. The main input factor for this is the average ratio of enterprise value to EBITDA or EBIT for the selected peer group which is based on current market data and represents 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 while maintaining the selected peer group led to an EV/EBITDA multiplier of 8.67 and an EV/EBIT multiplier of 9.67 for the financial year 2016. Firstly, the pro-rated EBITDAs and EBITs of ÖLG and its sub-subsidiaries from the most recent publicly available financial information for 2015 were calculated using these two multipliers. The calculated entity value 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 a 100 percent interest was adjusted in consideration of an unchanged premium of 12.36 percent based on EBITDA, and 13.17 percent based on EBIT, for the acquisition of the interest and comes to around EUR 887.9 million. This resulted in a current market value of EUR 102.6 million for the 11.56 percent investment as of the balance sheet date. This subsequent measurement was recorded in equity, resulting in a revaluation of EUR 8.4 million that had no impact on income.

An increase in the multiplier of 0.5x would lead to an increase in the fair value of EUR 5.0 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 9.2 million.

Casinos Austria AG is the authorized concessionaire of the federal government within the framework of the gaming monopoly until December 31, 2027 and December 31, 2030, operating twelve casinos in Austria with day and evening games. It has locations in Baden, Bregenz, Graz, Innsbruck, Kitzbühel, Kleinwalsertal, Linz, Salzburg, Seefeld, Velden, Vienna and Zell am See. The casinos offer games such as roulette, different kinds of classic poker, Baccara chemin de fer, blackjack, Double Hit, Forty-one, Seven Eleven, Wheel of Fortune, Punto Banco, Red Dog, Sic Bo, Nevada, Tropical Stud Poker, Easy Poker, Easy Black Jack and gaming machines.

A two-step weighted industry multiplier was used to measure the market value. When measuring the CASAG shares, the contribution of ÖLG (68 percent majority stake of CASAG) and the contribution of other CASAG companies were considered separately. A comparison group of 11 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 13.55. The updated determination of the stated multipliers while maintaining the selected peer group led to an EV/EBITDA multiplier of 9.07 and an EV/EBIT multiplier of 13.35 for the financial year 2016. The multipliers from the ÖLG valuation and the other CASAG companies were weighted in accordance with the EBITDA/EBIT contribution, which resulted in an average EV/EBITDA multiplier of 8.81 and EV/EBITDA multiplier of 10.81 for the financial year 2016. Firstly, the EBITDA and EBIT were extrapolated from the most recent publicly available financial information of the CASAG Group for 2015 using these two multipliers. The calculated entity value 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 a 100 percent interest 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 546.7 million. This resulted in a current market value of EUR 94.0 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 EUR 8.2 million that had no impact on income.

An increase in the multiplier of 0.5x would lead to an increase in the fair value of EUR 8.9 million or an increase in the underlying EBITDA/EBIT of the valuation item of 10 percent to an increase in the fair value of EUR 13.7 million.

In the second half of 2016, NOVOMATIC AG participated in the capital increase of Oberbank AG. The investment volume for the 9,000 new shares was EUR 0.5 million.

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

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

	12/31/2016		12/31/2015	
EUR m	Nominal amount	Market value	Nominal amount	Market value
USD forward contract (positive)	88.8	2.1	37.4	0.9
USD forward contract (negative)	0.0	0.0	25.0	-0.6
Interest rate swap	77.5	-0.9	77.5	-0.1

Through an option, the NOVOMATIC Group has secured the right to acquire shares in an unlisted company. To determine the current price of this purchased option, its successful assignment to an independent contractual partner was considered. This resulted in a current positive market value of EUR 4.0 million for the option as of the balance sheet date. This subsequent measurement was recorded in the income statement under other financial expenses with an amount of EUR 0.8 million.

The contingent considerations from business combinations result from the contractual obligations of the acquiring Group company to pay an additional purchase price to the seller if certain contractually agreed revenue or EBITDA goals are reached within a certain period after closing.

The valuation of the obligations from contingent purchase prices is based on updated revenue and/or EBITDA estimates. Changes after the initial recognition of EUR -0.6 million (previous year: EUR 0.7 million) from the subsequent valuation or settlement have been accounted for in other financial income or expense. The contingent considerations are shown in the balance sheet with EUR 0.0 million (previous year: EUR 9.4 million) under the other non-current liabilities (purchase price obligations) and with EUR 7.4 million (previous year: EUR 6.4 million) under trade payables and other liabilities (purchase price obligations). The change in the contingent consideration from business combinations by EUR -8.3 million is the result of an addition amounting to EUR 6.3 million from acquisitions and a disposal amounting to EUR -15.0 million from settlement or discharge. Purchase price obligations have a residual term of 1 year.

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:

	12/31/2016		12/31/2015		
EUR m	Book value	Fair value	Book value	Fair value	Hierarchy
Financial liabilities					
Bonds	1,085.5	1,145.0	592.0	625.8	Level 1
Bank and leasing liabilities	510.4	517.0	483.8	484.5	Level 2

The fair value of bonds is the price listed on the stock market as of the valuation date. 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 financial assets and financial liabilities not listed above, it is assumed that their book value constitutes a reasonable approximation of the fair value.

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

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

Net Result by Category According to IAS 39

12/31/2016				Subsequent measurement	
EUR m	Allowances	At fair value through profit or loss	At fair value through other comprehensive income	Disposal result	Net result
Loans and receivables	-10.2				-10.2
Derivatives		1.8			1.8
Available-for-sale financial assets			15.2	0.2	15.4

12/31/2015				Subsequent measurement	
EUR m	Allowances	At fair value through profit or loss	At fair value through other comprehensive income	Disposal result	Net result
Loans and receivables	-10.8				-10.8
Derivatives		-3.4			-3.4
Available-for-sale financial assets			-4.7	-3.0	-7.7

Capital Risk Management

The purpose of capital risk management is the control of the capital structure of the Group as well as the individual companies. It ensures the maintenance of a high equity ratio in order to reduce debt costs and the safeguarding of sustained high profitability so that all Group companies are able to operate under the going concern principle.

The development of the capital structure is supervised by means of the equity ratio and the ratio of net indebtedness to EBITDA. These ratios are regularly quantified and reported on a biannual basis to the executive board, which uses those ratios to guide further corporate development.

The equity ratio is calculated as the ratio of equity to balance sheet total. Equity consists of the issued capital, capital reserves, retained earnings, as well as the revaluation reserve plus currency translation adjustments and non-controlling interests.

Net debt is calculated as the sum of current and non-current financial liabilities less cash and cash equivalents. The debt ratio is calculated accordingly as the ratio of net debt to earnings before interest, taxes, depreciation and amortization (EBITDA).

Due to its contractually agreed financial covenants, the NOVOMATIC Group is required to maintain an equity ratio of at least 20.0 percent and net debt in relation to the EBITDA of not more than 3.75x.

The equity ratio and the ratio of net indebtedness to EBITDA as per December 31, 2016, and as per December 31, 2015, are calculated as follows:

	2016	2015
Equity ratio (equity/balance sheet total)	37.4 %	40.7 %
Net debt to EBITDA (net debt/EBITDA)	1.2	0.8

In October 2015, NOVOMATIC AG received a rating for the first time from the ratings agency Standard & Poor’s and, since this time, has held a BBB rating with a stable outlook.

Financial Risk Management

The NOVOMATIC Group controls, monitors and limits the financial risks associated with the business segments in which it is active. Control of financial risks is supported by a treasury management system that is established in the industrial and bank sector. The financial risks relevant to the Group are monitored on a regular basis and, if necessary, collateralized via suitable measures and instruments (e.g. derivative financial instruments such as interest rate swaps and forward currency contracts) to reduce the risk resulting from the underlying transaction.

Alongside the identification, analysis and evaluation of financial risks, decisions on the implementation of protective measures and instruments are made primarily by the headquarters. Analysis and quantification of the risk potential and the use of hedging instruments are monitored by the Group Treasury department. Any use of derivative instruments at a decentralized level is coordinated in advance with the Group Treasury in accordance with Group policy.

Liquidity Risk

Liquidity or financing risk is the risk associated with remaining solvent at any given moment and/or having the ability to obtain the necessary funds from investors at arm's length so as to fulfill any due obligations on time and to provide intercompany financing and guarantees for internal Group purposes. Furthermore, the need for cash in the gaming industry is high, especially in terms of cash in the company's own gaming arcades. Therefore, part of the indicated cash comprises base filling of the slot machines and cash reserves in the gaming arcades.

Thanks to the Group's conservative financing and debt policy, as well as the conservative investment policy, the NOVOMATIC Group's liquidity risk is limited. Even so, the NOVOMATIC Group accords high priority to the topic of liquidity risk and its control. In order to guarantee the Group's solvency and financial flexibility at all times, the Group maintains a liquidity reserve in the form of revolving usable credit lines (as of December 31, 2016: EUR 450.0 million, thereof EUR 450.0 million unused) and short-term money market investments. 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 Group level. Medium-term and long-term liquidity and financing needs of the NOVOMATIC Group are determined based on projected cash flows.

In addition to traditional credit financing, the NOVOMATIC Group in 2016 continues to enhance its focus on capital markets-based debt financing such as bonds (total volume as of December 31, 2016: EUR 1,100.0 million).

To additionally reduce the liquidity risk, the NOVOMATIC Group always seeks to have an internationally diversified investor base. For this purpose, the emission of a eurobond in the amount of EUR 500.0 million (ISIN AT0000A1LHT0, due September 20, 2023) further strengthened the relationships to international investors such as banks, investment funds and financial service providers in the reporting year 2016. Over 300 investors registered interest in the transaction, meaning that the order book was oversubscribed six times. The investors come mainly from Germany, Austria, United Kingdom, France, Benelux and Italy.

The acquisition of Talarius Ltd. in the United Kingdom was financed with OeKB equity financing in the amount of EUR 120.0 million.

The promissory note tranche of EUR 5.0 million issued in December 2011, was repaid as agreed.

The following table shows all payments for redemptions and interest from financial liabilities including derivative financial instruments that had been contractually fixed as of the consolidated balance sheet date. Derivative instruments are shown at their market value, whereas the other liabilities are shown in the amount of the non-discounted cash flows for the following financial years:

EUR m	2017	2018-2021	2016	2017-2020
Bonds	177.9	510.0	23.2	444.4
Bank loans	66.1	371.6	41.9	432.1
Lease liabilities	2.5	6.3	1.8	5.4
Trade payables	116.9	0.0	100.9	0.0
Derivatives	0.9	0.0	0.7	0.0
Contingent considerations	7.4	0.0	6.4	9.4
Other liabilities	53.7	18.4	53.4	14.0

Due to the high level of cash and cash equivalents, readily available investments and the revolving utilizable credit lines, on-time payment of the liabilities is guaranteed.

Counterparty Risk

Counterparty risk constitutes the risk of delay or default in payment by a contractual partner. In the NOVOMATIC Group's financing activities, credit relationships with banks that can boast appropriately high ratings (investment grade rating) predominate.

To screen the default risk for investments (current account balances, money market investments, capital market investments, securities) and for derivatives (positive market value of derivatives), the NOVOMATIC Group monitors the limits. The limit for counterparty credit risk depends on the type of trade and the counterparty's creditworthiness, with due attention paid to achieving a balanced distribution of the funds to avoid non-diversification risk. If a transaction exceeds its limit, measures to meet the defined target figures are initiated immediately. Furthermore, the development of the counterparties' creditworthiness in terms of finance (ratings, CDS spreads, common equity tier 1 ratio) is monitored continually, with counterparty risk limits being regularly adapted to correspond with any changes.

Apart from financing, the NOVOMATIC Group is also exposed to counterparty credit risk in the area of sales, since customers might not fulfill their payment obligations in full or when they are due. This risk is kept in check by regularly analyzing the creditworthiness of the customer portfolio and by continuously monitoring outstanding receivables. The default risk is in some cases reduced even further via additionally demanded collateral such as e.g. received deposits or documentary letters of credit for exports. This applies in particular to new customers. Additionally, contractually secured reservations of title, advance payment in part or in full, direct debiting and requiring shorter payment terms, further minimize the risk to which the NOVOMATIC Group is exposed. Thanks to the high number of external customers, there is no 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 book value. 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 book value of these financial instruments. For derivative financial instruments, the maximum credit risk in cases of default is equivalent to the positive fair value of the derivative as of the valuation date.

Market Risk

a. Interest Rate Risk

In the context of its external financing activities and investment strategy, the NOVOMATIC Group is exposed to risk related to changes in interest rates. Interest rate fluctuations can have a positive or negative effect on the value of financial instruments (present value risk) as well as on the resulting cash flows (cash flow risk). Due to risk management-related considerations, it is seen to that existing debt carries fixed as well as variable interest rates, and that a mix of short-term and long-term financing arrangements are concluded to minimize cluster risk.

In order to limit interest rate risk, current interest rate developments are constantly monitored and interest rate risks are hedged, if necessary, e.g. using interest rate swaps. Due to the high share of fixed-interest liabilities (approximately 98 percent) in the NOVOMATIC Group's financing portfolio, the cash flow risk due to increasing interest rates is limited. Variable-interest deposits exceed variable-interest financing vehicles, which structurally limits the cash flow risk due to increasing interest rates. Due to the current historical development of interest rates, the excess of variable-interest financial investments over the variable-interest financial liabilities increases the cash flow risk. If banks pass on the ECB's negative deposit rates to their business customers in the future, this would lead to a further increase in the cash flow risk for the NOVOMATIC Group, as the variable-interest financial liabilities largely have a contractual floor for the reference rates concerned.

The Executive Board has defined a guideline applicable across the Group for the use of hedging transactions. Derivative financial instruments are concluded exclusively for the purpose of collateralizing existing underlying transactions and not for speculative purposes. The interest rate swap with an amount of EUR 77.5 million and a term of five years (floored interest rate swap) that was concluded during the year under review in relation to the notes transaction is recognized at fair value as per the respective cut-off date in the consolidated financial statement.

The following schedule shows the impact of potential interest rate changes (+/- 50 basis points) on earnings before taxes and on equity based on reasonable judgment. The interest rate sensitivity analysis includes the effects of variable-interest bank liabilities and bank deposits, as well as the payments due under concluded derivatives contracts. For the calculation, an interest rate increase by 50 basis points and an interest rate reduction by 50 basis points, were simulated, taking into account the impact on interest expenses for bank liabilities, interest income from bank deposits and compensatory payments of derivatives.

EUR m	2016		2015	
Change (in basis points)	+50 basis points	-50 basis points	+50 basis points	-50 basis points
Change in earnings before taxes	1.8	-1.8	1.7	-1.7
Change in equity	1.3	-1.3	1.3	-1.3

In 2016, the average weighted interest rate for variable-interest financing was 2.3 percent, while the average 3M-EURIBOR was -0.265 percent (change of -0.245 percent). Due to the ECB's monetary policy decisions, some banks have charged their customers a negative interest on short-term bank deposits or threatened to do so. Due to this, a future interest rate reduction by 0.5 percent against the current level (i.e. further negative interest) is possible.

b. Foreign Exchange Risk

The risk resulting from fluctuations in the value of financial instruments, other balance sheet positions (e.g. receivables and liabilities), and/or cash flows denominated in foreign currencies due to exchange rate fluctuations, is called currency risk or exchange risk. This risk resides predominantly in business transactions conducted in currencies other than the local currency of an entity (i.e. in foreign currency) or in regular business activities (direct currency risk), as well as in transactions where the prices for products and services depend on a currency other than the invoicing currency (indirect currency risk).

To limit currency risk in business transactions carried out in foreign currency or in those that are dependent on foreign currencies, the development of exchange rates is monitored constantly. Currency risk is quantified regularly on a rolling basis and significant exposures to such risks are hedged in such a way as to reduce the risk of exchange losses. An initial hedge for currency risk is provided through 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 exposure, currency risk is usually hedged through forward currency contracts. With respect to exchange rate risks from operative business, payments for materials invoiced in USD mean that the NOVOMATIC Group is a USD net payer at present and for the medium term.

The purchase price payment for the acquisition of Talarius Ltd. in the United Kingdom, which was paid in 2016 in GBP, was hedged using forward currency contracts.

In an analysis to measure the sensitivity towards exchange rate movements, the payments and receipts in USD are netted. The impact of an exchange rate movement by +/- 10 USD cents on the net position is then calculated.

The following schedule, which is based on reasonable judgment, shows the effects of possible exchange rate movements by +/- 10 USD cents on earnings before taxes and on equity:

EUR m		2016		2015
Exchange rate fluctuation, USD to EUR	+10 USD cents	-10 USD cents	+10 USD cents	-10 USD cents
Change in earnings before taxes	4.2	-5.0	2.9	-3.5
Change in equity	3.2	-3.8	2.2	-2.6

As of the balance sheet date, interest-bearing financial liabilities in the NOVOMATIC Group were mainly denominated in EUR, and otherwise in USD or other currencies. Group companies with an accounting currency other than their financing currency were hence exposed to foreign exchange risk in terms of the financing currency (mainly EUR and USD).

c. Capital Investments

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

In the second half of 2016, NOVOMATIC AG participated in the capital increase of Oberbank AG. The investment volume for the 9,000 new shares was EUR 0.5 million.

There were no further significant capital investment-related events in 2016.

(12) Notes on Leases and Contingent Liabilities

Finance Lease

NOVOMATIC Group as lessee:

The book values of intangible assets held under finance leases come to EUR 5.5 million (previous year: EUR 4.0 million). These lease contracts concern platforms that are disclosed under other intangible assets. The term of the leases is 4 years.

The book values of the Group's property, plant and equipment held under finance leases totals EUR 0.9 million (previous year: EUR 0.2 million). The property, plant and equipment held under finance lease comprise plant and machinery, office equipment, and vehicles. The terms of the leases lie between 3 and 5 years.

The book values of the Group's investment property held under finance lease add up to EUR 10.0 million (previous year: EUR 10.5 million). After the expiration of the agreement, ownership of the property will be transferred to the Group.

	Minimum lease payments		Present value of minimum lease payments	
EUR m	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Within one year	2.5	1.8	2.4	1.8
Between one and five years	6.3	5.4	6.0	5.0
Over five years	0.0	0.0	0.0	0.0
Total	**8.9**	**7.3**	**8.4**	**6.8**
Minus prospective financing costs	-0.4	-0.5		
Present value of lease obligations	**8.4**	**6.8**		

NOVOMATIC Group as lessor:

The Group concludes finance lease agreements for slot machines. The term of the concluded finance lease agreements is between 1 and 5 years.

	Minimum lease payments		Present value of minimum lease payments	
EUR m	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Within one year	12.5	14.2	10.8	13.0
Between one and five years	21.5	10.5	17.8	9.1
Over five years	0.0	0.0	0.0	0.0
Total	**34.0**	**24.8**	**28.6**	**22.2**
Minus prospective financing income	-5.4	-2.6		
Present value of lease receivables	**28.6**	**22.2**		

Operating Lease

NOVOMATIC Group as lessee:

The Group has mainly entered lease agreements regarding the use of property (gaming arcades). The following obligations arise from irredeemable agreements:

EUR m	12/31/2016	12/31/2015
For the next year	63.8	53.0
For the following two to five years	143.2	125.1
Over five years	68.1	46.1

NOVOMATIC Group as lessor:

The Group concluded contracts for the rental of gaming machines with mainly irredeemable terms between 12 and 24 months. The gaming machines are shown under property, plant and equipment as plant and machinery. The rent payments during the reporting period are shown as sales revenue under income from rent and management services. Within the rent payments, conditional lease payments amount to EUR 242.9 million (previous year: EUR 189.8 million).

The claims for future minimum lease payments from operating leasing rates are as follows:

EUR m	12/31/2016	12/31/2015
For the next year	79.3	79.1
For the following two to five years	23.9	12.6
Over five years	5.5	0.4

Contingent Liabilities

EUR m	12/31/2016	12/31/2015
Bill commitments	0.9	0.2
Guarantees	7.7	5.9
Total	**8.6**	**6.1**

The Group has issued payment guarantees to UniCredit Bank Austria AG of EUR 0.2 million (previous year: EUR 0.2 million) in favor of third-parties. In Italy, payment guarantees of EUR 7.5 million (previous year: EUR 5.7 million) were granted to the regulatory authority ADM (formerly AAMS).

(13) Other Disclosures

Group Audit Fees

The expenses for services provided by the Group auditor (including the network in accordance with Sec. 271b of the Austrian Company Code) are as follows:

EUR m	2016	2015
Group audit and audit of financial statements	2.1	1.8
Audit-related services	0.2	0.0
Tax advisory services	0.3	0.3
Other consulting services	1.0	0.4

Related Party Transactions

The parent company of NOVOMATIC AG is Novo Invest GmbH in Gumpoldskirchen. The consolidated financial statement of NOVOMATIC AG is therefore included in the consolidated financial statement of Novo Invest GmbH being the ultimate parent company and is filed at the Regional Court of Wiener Neustadt under FN 381832v.

The related parties furthermore include the members of the bodies (Executive Board and Supervisory Board), non-consolidated affiliated subsidiaries, associated companies, as well as companies under the control of bodies or the shareholders of NOVOMATIC AG.

The following table summarizes the scope of business relationships with related parties for the individual financial years:

	Other		Management	
EUR m	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Receivables	16.0	10.7	0.0	0.0
Liabilities	5.4	13.7	0.2	0.2
Revenues	17.7	15.2	0.0	0.0
Cost of material	35.5	38.0	0.0	0.0
Consulting services	0.2	0.3	0.0	0.0
Research and development	11.9	15.8	0.0	0.0
Other expenses	4.5	2.7	0.0	0.0
Interest income	0.2	0.1	0.0	0.0

The item "Management" comprises the Supervisory Board and the Executive Board of NOVOMATIC AG. The business relationships with the management result, in particular, from consulting services. The management's remuneration is disclosed in the note on "company bodies".

The information provided for "Other" relates to companies that are controlled by the management or by the shareholders of NOVOMATIC AG. The transactions result from the delivery of goods and services, rental fees, and research and development services. Accounts receivable are unsecured and settled in cash. Guarantees were neither given nor received.

There were no transactions with associated companies during the two financial years.

Fully Consolidated Subsidiaries

IC code	Company, domicile	Superordinate company	Group share	Direct share
ABZOAT	AbZorba Games Betriebsges.m.b.H., Austria	GTA	100.00 %	100.00 %
ADMICS	Admira d.o.o., Serbia	NOVOCS	100.00 %	100.00 %
ACEAT	Admiral Casinos & Entertainment AG, Austria	NAG	100.00 %	100.00 %
ADCAES	Admiral Casinos S.A., Spain	NOGES	100.00 %	100.00 %
AGMIT	Admiral Entertainment S.r.l., Italy	ADRIT	100.00 %	100.00 %
ADGAES	Admiral Gaming Andalucia S.A., Spain	NOGES	100.00 %	100.00 %
ADCLES	Admiral Gaming Castilla y León S.L., Spain	ADGMES	100.00 %	100.00 %
ADOSES	Admiral Gaming Madrid S.L., Spain	SAMAES/ ADGMES	45.00 %/ 40.00 %	60.00 %/ 40.00 %
GMAIT	Admiral Gaming Network S.r.l., Italy	ADRIT	100.00 %	100.00 %
AIIT	Admiral Interactive S.r.l., Italy	ADRIT	100.00 %	100.00 %
ADGMES	Admiral Operations Spain S.L., Spain	NOGES	100.00 %	100.00 %
ALPDE	Admiral Play GmbH, Germany	NSMLDE	100.00 %	100.00 %
ADSLES	Admiral Slots S.A., Spain	NOGES	100.00 %	100.00 %
ASWDE	Admiral Sportwetten GmbH, Germany	NSMLDE	100.00 %	100.00 %
ASW	Admiral Sportwetten GmbH, Austria	AGI	100.00 %	100.00 %
ADMILV	Admiralu Klubs SIA, Latvia	AGI	60.00 %	60.00 %
AGVIT	Adria Gaming Vicenza S.r.l., Italy	ALLIT	100.00 %	100.00 %
ADRIAL	Adriatik Game Sh.A., Albania	EAGAL	100.00 %	100.00 %
NLSTTN	AGI Novomatic Tunisia S.A.R.L., Tunisia	AGI/NLSAT	1.00 %/99.00 %	1.00 %/99.00 %
AINSUK	Ainsworth (UK) Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
AIRO	Airoline GmbH, Austria	AGI	100.00 %	100.00 %
COMEBA	AK "COMET" d.o.o. Zivinice, Bosnia and Herzegovina	HTLBA	100.00 %	100.00 %
ALLOAT	Albanisch Österreichische Lotterien Holding Gesellschaft m.b.H., Austria	AGI	100.00 %	100.00 %
ALFLV	Alfor SIA, Latvia	AGI	60.00 %	60.00 %
ALLIT	Allstar S.r.l., Italy	ADRIT	100.00 %	100.00 %
AMONBA	Amoniq d.o.o. Zenica, Bosnia and Herzegovina	HTLBA	100.00 %	100.00 %
ASTRAL	Astra Albania Sh.A., Albania	EAGAL	100.00 %	100.00 %
ASCOUK	Astra Casino Gaming (One) Ltd., United Kingdom	ASCGUK	100.00 %	100.00 %
ASTRUK	Astra Games Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
AUSPDE	Automaten Service Playtime GmbH, Germany	EXTDE	100.00 %	100.00 %
AUSUES	Automáticos Surmatic S.L., Spain	ADGMES	60.00 %	60.00 %
BEAMT	BeatYa Online Entertainment p.l.c., Malta	GTA	100.00 %	100.00 %
BEKUDE	BeKu Automaten & Gastronomie Service GmbH, Germany	EXTDE	100.00 %	100.00 %
BELLUK	Bell-Fruit Group Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
BETWCS	Betware d.o.o., Serbia	BETWDK	100.00 %	100.00 %
BETWDK	Betware DK ApS., Denmark	BETHIS	100.00 %	100.00 %
BETWES	Betware S.L.U., Spain	BETHIS	100.00 %	100.00 %
BTVIIT	Bingo Time Vicenza S.r.l., Italy	AGMIT	100.00 %	100.00 %
BLUECA	Bluebat Games Inc., Canada	GTCACA	70.00 %	70.00 %
BPAFDE	BPA Freizeit- und Unterhaltungsbetriebe GmbH, Germany	NSMLDE	100.00 %	100.00 %
BRASES	Brasan Bros S.A., Spain	JANOES	60.00 %	100.00 %

CONSOLIDATED FINANCIAL STATEMENTS

NEWTUK	Brian Newton Leisure Ltd., United Kingdom	LUXLUK	100.00 %	100.00 %
CAHONL	Casino Admiral Holland B.V., Netherlands	JVHPNL	100.00 %	100.00 %
CAZENL	Casino Admiral Zeeland B.V., Netherlands	JVHPNL	100.00 %	100.00 %
CAALIT	Casino delle Alpi Srl, Italy	ADRIT	51.00 %	51.00 %
CAS1DE	Casino Deluxe Beteiligungsgesellschaft m.b.H. I, Germany	BPAFDE	100.00 %	100.00 %
CAS3DE	Casino Deluxe Beteiligungsgesellschaft m.b.H. III, Germany	BPAFDE	100.00 %	100.00 %
VIDDE	Casino Deluxe Beteiligungsgesellschaft m.b.H. IV, Germany	BPAFDE	100.00 %	100.00 %
CASKDE	Casino Entertainment GmbH & Co. KG, Germany	EXTDE	100.00 %	100.00 %
CARIDE	Casino Rixos GmbH, Germany	EXTDE	100.00 %	100.00 %
CER	Cervo Media GmbH, Austria	GTA	100.00 %	100.00 %
CITYDE	City Freizeitanlagen GmbH, Germany	EXTDE	100.00 %	100.00 %
COMEES	Comercial Txartel S.L., Spain	ADGMES	80.00 %	80.00 %
COSPDE	Conrad Spielautomaten GmbH, Germany	EXTDE	100.00 %	100.00 %
CROMX	Crown Gaming Mexico S.A. de C.V., Mexico	AGI/HTM	99.99 %/0.01 %	99.99 %/ 0.01 %
CROPY	Crown Gaming Paraguay S.A., Paraguay	NLAHES	65.00 %	65.00 %
CROPE	Crown Gaming S.A.C., Peru	NOVOPE	100.00 %	100.00 %
AGIMX	Crown Gaming Services Mexico S. de R.L. de C.V., Mexico	AGI/HTM	80.00 %/20.00 %	80.00 %/20.00 %
CRODE	Crown Technologies GmbH, Germany	NSMLDE	100.00 %	100.00 %
CRYAN	CRYdata N.V., Curacao	FMASK	100.00 %	100.00 %
DOMIDE	Domino-Automaten-Betriebs-GmbH, Germany	EXTDE	100.00 %	100.00 %
EAGAL	Eagle Investment Sh.A, Albania	AGI	100.00 %	100.00 %
DOLAES	El Dolar de plata Linense S.L., Spain	VERAES	51.04 %	100.00 %
DORAES	El Dorado Derby S.L., Spain	ADGMES	80.00 %	80.00 %
ELAMNL	Elam Group Electronic Amusement B.V., Netherlands	EUCGNL	100.00 %	100.00 %
ELSYIT	Electro System S.p.A., Italy	ADRIT	75.00 %	75.00 %
ELLPIT	Ellepi Ges. S.r.l., Italy	AGMIT	100.00 %	100.00 %
EMPUK	Empire Games Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
EN61UK	Ensco 961 Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
EN62UK	Ensco 962 Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
EUCGNL	Eurocoin Gaming B.V., Netherlands	JVHPNL	100.00 %	100.00 %
AWPDNL	Eurocoin Interactive B.V., Netherlands	JVHPNL	100.00 %	100.00 %
EUROIT	Euromat S.r.l., Italy	ADRIT	60.00 %	60.00 %
EXTDE	Extra Games Entertainment GmbH, Germany	NSMLDE	100.00 %	100.00 %
EXLGUK	Extreme Live Gaming Ltd., United Kingdom	ASTUK	92.50 %	92.50 %
EZEADE	EZEA GmbH, Germany	EXTDE	100.00 %	100.00 %
FUNHUK	Funhouse Leisure Ltd., United Kingdom	PLAYUK	100.00 %	100.00 %
FUSAUK	Funhouse Leisure Sales Ltd., United Kingdom	PLAYUK	100.00 %	100.00 %
FST	Funstage Spielewebseiten Betriebsges.m.b.H., Austria	GTA	100.00 %	100.00 %
GAM	G.A.M.E. SYS Geldspiel-Automaten-Miet-Elektronik-System GmbH, Austria	AGI	100.00 %	100.00 %
GAMEUK	Gamestec Leisure Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
GESGES	GesGiGames S.L.U., Spain	GIGAES	80.00 %	100.00 %
GNORES	GiGames Norte S.L., Spain	GIGAES	80.00 %	100.00 %
GIGAES	GiGames S.L., Spain	NOGES	80.00 %	80.00 %

GSM	Giochi San Marino S.p.A., San Marino	AGI	93.00 %	93.00 %
GRCAES	Gran Casino Aljarafe S.A., Spain	ADCAES	100.00 %	100.00 %
GALUK	Greentube Alderney Ltd., United Kingdom	GTMT	100.00 %	100.00 %
GTCACA	Greentube Canada Interactive Entertainment Corp., Canada	GTA	100.00 %	100.00 %
GTGIGI	Greentube Gibraltar Ltd., Gibraltar	GTA	100.00 %	100.00 %
GTA	Greentube Internet Entertainment Solutions GmbH, Austria	ASTUK	100.00 %	100.00 %
GTMT	Greentube Malta Ltd., Malta	GTA	100.00 %	100.00 %
FMASK	Greentube Slovakia s.r.o., Slovakia	FST/GTA	0.38 %/99.62 %	0.38 %/99.62 %
HIRDE	Hirscher Moneysystems GmbH, Germany	CRODE	80.00 %	80.00 %
HOCAPE	Hotel Carrera S.A.C., Peru	IMRAPE/SIMAPE	99.90 %/0.10 %	99.90 %/0.10 %
HPABDE	HP Automatenbetriebs GmbH, Germany	EXTDE	100.00 %	100.00 %
HTLBA	HTL d.o.o. Sarajevo, Bosnia and Herzegovina	AGI	100.00 %	100.00 %
HTLMK	HTL Makedonija DOOEL, Macedonia	AGI	100.00 %	100.00 %
HTLME	HTL Montenegro d.o.o., Montenegro	AGI	100.00 %	100.00 %
HTLUA	HTL Ukraine TOV, Ukraine	AGI	100.00 %	100.00 %
HTM	HTM Hotel- u. Tourismus Management GmbH, Austria	NAG	100.00 %	100.00 %
IDEADE	Ideal Entertainment GmbH, Germany	NWCDE	100.00 %	100.00 %
IGROUA	Igrotech-Import TOV, Ukraine	AZARLT	80.00 %	100.00 %
INEWCL	I-New Chile S.p.A., Chile	INEWAT	76.81 %	100.00 %
INEWCO	I-New Colombia S.A.S., Colombia	INEWAT	76.81 %	100.00 %
INEWHU	I-New Hungary Kft., Hungary	INEWAT	76.81 %	100.00 %
INEWPE	I-New Peru S.A.C., Peru	INEWAT	76.05 %	99.00 %
INEWAT	I-New Unified Mobile Solutions AG, Austria	NAG	76.81 %	76.81 %
INEWMX	I-New Unified Mobile Solutions S.A. de C.V., Mexico	INEWAT	76.80 %	99.99 %
IMRAPE	Inmobiliaria Rapid S.A.C., Peru	CROPE	100.00 %	100.00 %
INTEHR	Interigre d.o.o., Croatia	NOGHR	100.00 %	100.00 %
INTRO	Intertop S.r.l., Romania	NOVORO/ HTM/ AGI	99.9787 %/ 0.0099 %/ 0.0017 %	99.9787 %/ 0.0099 %/ 0.0017 %
SCHAAF	J.u.C. Schaaf Spielautomatenbetriebsges.m.b.H., Austria	GAM	100.00 %	100.00 %
JANOES	Juegos Automáticos Nacidos Para el ocio S.L., Spain	SAMAES	60.00 %	80.00 %
JVHPDE	JVH gaming products GmbH, Germany	JVHPNL	100.00 %	100.00 %
KOENDE	Königstraße Spielstätten und Automaten UG, Germany	EXTDE	100.00 %	100.00 %
KSBKDE	Kurhessische Spielbank Kassel/BadWildungen GmbH & CO. KG, Germany	SIMKDE	100.00 %	100.00 %
LOTAAL	Lotaria Kombetare Sh.p.k., Albania	ALLOAT	100.00 %	100.00 %
NSMLDE	Löwen Entertainment GmbH, Germany	AGI	100.00 %	100.00 %
ASCGUK	Luxury Leisure Holdings Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
LUXLUK	Luxury Leisure Ultd., United Kingdom	ASCGUK	100.00 %	100.00 %
MAGMK	MA Gaming DOOEL, Macedonia	HTLMK	100.00 %	100.00 %
MAKOMK	Makoten DOOEL, Macedonia	AGI	100.00 %	100.00 %
MASTMK	Masterbet DOOEL, Macedonia	HTLMK	100.00 %	100.00 %
MEDHR	Mediteran Gaming d.o.o., Croatia	NOGHR	100.00 %	100.00 %
MGGAIT	MG Gaming S.r.l., Italy	SOGIT	100.00 %	100.00 %

CONSOLIDATED FINANCIAL STATEMENTS

MILLIT	Millenium Srl., Italy	ADRIT	100.00 %	100.00 %
MNAME	MNA Gaming d.o.o., Montenegro	HTLME	100.00 %	100.00 %
MOISDE	Moislinger Spielstätten und Automaten UG, Germany	EXTDE	100.00 %	100.00 %
MICACS	MS&NS d.o.o., Serbia	NOVOCS	80.00 %	80.00 %
MUEHDE	Mühlenstraße Spielstätten und Automaten UG, Germany	EXTDE	100.00 %	100.00 %
NMN	NMN Immo GmbH, Austria	AGI/NAG	1.00 %/99.00 %	1.00 %/99.00 %
NORDDE	Norddeutsche Spielbanken GmbH, Germany	NAG	100.00 %	100.00 %
NOVOCR	Novo Gaming CR Ltda., Costa Rica	NLAHES	100.00 %	100.00 %
NOGHR	Novo Gaming d.o.o., Croatia	AGI	100.00 %	100.00 %
NOVOGT	Novo Gaming GT Limitada, Guatemala	NLAHES/ HTM	99.999 %/ 0.001 %	99.999 %/ 0.001 %
IKGDE	Novo Immobilien GmbH, Germany	NAG	100.00 %	100.00 %
NOVOBG	Novo Investment Bulgaria EOOD, Bulgaria	AGI	100.00 %	100.00 %
NOVOCS	Novo Investment d.o.o., Serbia	AGI	100.00 %	100.00 %
NOVORO	Novo Investment RO SRL, Romania	AGI/HTM	99.85 %/0.15 %	99.85 %/0.15 %
NLSIS	Novo Lottery Solutions Iceland hf., Iceland	NAG/NLSAT	0.24 %/99.76 %	0.24 %/99.76 %
NOVOPA	Novo Panama S.de R.L., Panama	NLAHES/HTM	99.90 %/0.10 %	99.90 %/0.10 %
NOVOBA	NOVO RS d.o.o., Bosnia and Herzegovina	AGI	100.00 %	100.00 %
NVLTAT	Novo VLTech GmbH, Austria	AGI	100.00 %	100.00 %
NVLTRO	Novo VLTech Solutions SRL, Romania	AGI/NVLTAT	0.01 %/99.99 %	0.01 %/99.99 %
NOVOCL	Novochile Ltda., Chile	AGI/HTM	99.00 %/1.00 %	99.00 %/1.00 %
NEE	Novoloto OÜ, Estonia	ADMILV	60.00 %	100.00 %
AGISA	Novomatic Africa (Pty) Ltd., South Africa	AGI	100.00 %	100.00 %
NAHUS	Novomatic Americas Holdings Inc., USA	NAG	100.00 %	100.00 %
NAINUS	Novomatic Americas Investments Inc., USA	NAHUS	100.00 %	100.00 %
NARUS	Novomatic Americas Real Estate LLC, USA	NAHUS	100.00 %	100.00 %
NASUS	Novomatic Americas Sales LLC, USA	NAHUS/NAINUS	99.00 %/1.00 %	99.00 %/1.00 %
AGIAR	Novomatic Argentina Limitada S.r.l., Argentina	AGI/HTM	90.00 %/10.00 %	90.00 %/10.00 %
JVHMNL	Novomatic Development NL B.V., Netherlands	JVHPNL	100.00 %	100.00 %
NGEXNL	Novomatic Exploitatie NL I B.V., Netherlands	JVHPNL	100.00 %	100.00 %
LOONNL	Novomatic Exploitatie NL II B.V., Netherlands	JVHPNL	100.00 %	100.00 %
JVHENL	Novomatic Exploitatie NL III B.V., Netherlands	JVHPNL	100.00 %	100.00 %
OLACO	Novomatic Gaming Colombia S.A.S., Colombia	AGI	100.00 %	100.00 %
AGI	Novomatic Gaming Industries GmbH, Austria	NAG	100.00 %	100.00 %
NOGES	Novomatic Gaming Spain S.A., Spain	AGI	100.00 %	100.00 %
NHCCL	Novomatic Holdings Chile Ltda., Chile	NICCL	100.00 %	100.00 %
AGIHU	Novomatic Hungaria Kft., Hungary	AGI	100.00 %	100.00 %
NICCL	Novomatic Investment Chile S.A., Chile	NAG	100.00 %	100.00 %
ADRIT	Novomatic Italia S.p.A., Italy	NAG	100.00 %	100.00 %
AGSIT	Novomatic Italia Services S.r.l., Italy	ADRIT	100.00 %	100.00 %
NLAHES	Novomatic LatAm Holding S.L.U., Spain	AGI	100.00 %	100.00 %
BETHIS	Novomatic Lottery Solutions (Iceland) hf., Iceland	NLSAT/NLSIS	15.84 %/84.16 %	15.84 %/84.16 %
NLSAT	Novomatic Lottery Solutions GmbH, Austria	NAG	100.00 %	100.00 %
NOVONL	Novomatic Netherlands B.V., Netherlands	AGI	100.00 %	100.00 %
NOVOPE	Novomatic Peru S.A.C., Peru	AGI/HTM	99.99 %/0.01 %	99.99 %/0.01 %
NOSSES	Novomatic Services Spain S.L., Spain	NOGES	100.00 %	100.00 %

JVHPNL	Novomatic Services NL B.V., Netherlands	NOVONL	100.00 %	100.00 %
ASTUK	Novomatic UK Ltd., United Kingdom	AGI	100.00 %	100.00 %
NWCDE	NWC Nord West Casino Beteiligungs GmbH, Germany	NWCKDE	100.00 %	100.00 %
NWCKDE	NWC Nord West Casino GmbH & Co. KG, Germany	EXTDE	100.00 %	100.00 %
ARGAR	Octavian de Argentina S.A., Argentina	AGI/HTM	90.00 %/10.00 %	90.00 %/10.00 %
ALSGRU	Octavian Game Art OOO, Russia	AGI/SBPRU	99.90 %/0.10 %	99.90 %/0.10 %
SBPRU	Octavian SPb Limited Partnership, Russia	AGI	100.00 %	100.00 %
UGIRU	OOO United Gaming Industries, Russia	AGI	99.99 %	99.99 %
ORIOIT	Orione Srl, Italy	AGMIT	100.00 %	100.00 %
OTIUES	Otiumgi S.L., Spain	AGI	60.00 %	60.00 %
PLANBY	Planeta IGR, Belarus	AZARLT	80.00 %	100.00 %
PLAAT	Platogo Interactive Entertainment GmbH, Austria	GTA	100.00 %	100.00 %
PLAYUK	Playnation Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
PLAYDE	Play-Point Spielhallen- und Automatenbetriebsges.m.b.H., Germany	EXTDE	100.00 %	100.00 %
PROMIT	Promotrice Giochi S.r.l., Italy	AGMIT	100.00 %	100.00 %
RALLUK	RAL Ltd., United Kingdom	TALAUK	100.00 %	100.00 %
LORZNL	Recreatieprojecten Zeeland B.V., Netherlands	CAZENL	100.00 %	100.00 %
HISPES	Recreativos Hispajuegos S.L., Spain	ADGMES/ SAMAES	24.00 %/ 27.04 %	24.00 %/ 36.05 %
REDDDE	Red Devil Spielothek GmbH, Germany	EXTDE	100.00 %	100.00 %
HTBLBA	RSA Gaming d.o.o., Bosnia and Herzegovina	NOVOBA	100.00 %	100.00 %
RUTAES	Ruta 777 S.L., Spain	NOGES	80.00 %	80.00 %
ASGOUK	S.A.L. Leisure Holdings Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
SALLUK	S.A.L. Leisure Ltd., United Kingdom	ASGOUK	100.00 %	100.00 %
S4GAES	S4Gaming S.L., Spain	OTIUES	60.00 %	100.00 %
SAMAES	Salones Macao S.L., Spain	ADGMES	75.00 %	75.00 %
SIMAPE	Sierra Machines S.A.C., Peru	CROPE	100.00 %	100.00 %
SIMKDE	SIM Spielbanken Investitions-, Beteiligungs- und Management GmbH & CO. KG, Germany	NAG	100.00 %	100.00 %
SLOTHU	Slotclub Kft. Hungary	AGIHU	100.00 %	100.00 %
MIBECS	SM&SM d.o.o., Serbia	NOVOCS	80.00 %	80.00 %
SOGIT	So.Ge.Slot S.p.A., Italy	ADRIT	100.00 %	100.00 %
SBEKDE	Spielbank Berlin Entertainment GmbH & Co.KG, Germany	NAG	60.00 %	60.00 %
SBBKDE	Spielbank Berlin Gustav Jaenecke GmbH & Co.KG, Germany	NAG	59.50 %	59.50 %
SBNKDE	Spielbank Berlin nationale Beteiligungs-gesellschaftmbH & Co.KG, Germany	NAG	100.00 %	100.00 %
STAKNL	Stakelogic B.V., Netherlands	GTA	100.00 %	100.00 %
TALAUK	Talarius Ltd., United Kingdom	ASTUK	100.00 %	100.00 %
TREU9	Treuhand 9 GmbH, Poland	TREU1	60.00 %	100.00 %
TREU1	Treuhand GmbH, Austria	AGI	60.00 %	60.00 %
TURHDE	Turhan Spielsalon GmbH, Germany	EXTDE	100.00 %	100.00 %
AZARLT	UAB Azarto Technika, Lithuania	AGI	80.00 %	80.00 %
NOVOLT	UAB Novogaming Vilnius, Lithuania	AGI	80.00 %	80.00 %
TAXILT	UAB Taxillus, Lithuania	AZARLT	80.00 %	100.00 %
VSGALT	UAB VSGA, Lithuania	AZARLT	80.00 %	100.00 %

VERAES	Verajuegos S.L., Spain	ADGMES/ SAMAES	24.00 %/ 27.04 %	24.00 %/ 36.05 %
VILLBG	Villox Group EOOD, Bulgaria	NOVOBG	100.00 %	100.00 %
WETTRO	Wettpunkt International S.r.l., Romania	NOVORO	100.00 %	100.00 %
ZSCADE	ZS Casino Emsland GmbH, Germany	EXTDE	100.00 %	100.00 %

Non-Consolidated Affiliated Companies

IC code	Company, domicile	Superordinate company	Group share	Direct share
CRVBA	"Crveno-Crno" d.o.o. Mostar, Bosnia and Herzegovina	HTLBA	100.00 %	100.00 %
ABZOUK	AbZorba Games UK Ltd., United Kingdom	ABZOAT	100.00 %	100.00 %
CLUBUK	Admiral Club Ltd., United Kingdom	AGI	100.00 %	100.00 %
BAGYHU	Admiral Hungaria Kft., Hungary	AGIHU	100.00 %	100.00 %
AINSFR	Ainsworth France SAS, France	AGI	100.00 %	100.00 %
ALEARO	Alea Investrom SRL, Romania	NOVORO/HTM	99.00 %/1.00 %	99.00 %/1.00 %
ALPSIT	Alp S.r.l., Italy	ADRIT	70.00 %	70.00 %
ABETUK	Astra Betting (One) Ltd., United Kingdom	GAMEUK	100.00 %	100.00 %
ASGGUK	Astra Gaming Group Ltd., United Kingdom	ASTRUK	100.00 %	100.00 %
BAMUUK	Bell Amusements Ltd., United Kingdom	GAMEUK	100.00 %	100.00 %
BFGUK	Bell-Fruit Games Ltd., United Kingdom	BELLUK	100.00 %	100.00 %
BFSUK	Bell-Fruit Services Ltd., United Kingdom	GAMEUK	100.00 %	100.00 %
BEMARO	Bet Master SRL, Romania	NOVORO/HTM	99.00 %/1.00 %	99.00 %/1.00 %
BETBMT	BetCave Betting Solutions Limited, Malta	BETHMT	100.00 %	100.00 %
BETHMT	BetMen Holding Limited, Malta	ASW	100.00 %	100.00 %
BETOMT	BetMen Operations Limited, Malta	BETHMT	100.00 %	100.00 %
LOTTIT	Big Admiral S.r.l., Italy	AGMIT	100.00 %	100.00 %
BINGIT	Bingoland S.r.l., Italy	AGMIT	51.00 %	51.00 %
BUENNI	Buena Vista S.A., Nicaragua	CROPE	94.02 %	94.02 %
CASVDE	Casino Entertainment Verwaltungs-GmbH, Germany	EXTDE	100.00 %	100.00 %
CPASPH	CP Asian Solutions Corporation, Philippines	ASTUK	51.00 %	51.00 %
DHTCMK	DHTCM DOOEL, Macedonia	HTLMK	100.00 %	100.00 %
GNETUK	Games Network Ltd., United Kingdom	GAMEUK	100.00 %	100.00 %
GTECUK	Gamestec Ltd., United Kingdom	GAMEUK	100.00 %	100.00 %
GTSEMT	Greentube Malta SEE Ltd., Malta	GTMT	100.00 %	100.00 %
HTLXK	HTL Kosovo Sh.p.k., Kosovo	HTLMK	100.00 %	100.00 %
INEWBD	I-New Bangladesch Ltd., Bangladesh	INEWAT	76.81 %	100.00 %
INEWZA	I-New Unified Mobile Solutions Africa (PTY) Ltd., South Africa	INEWAT	76.81 %	100.00 %
INEWUS	I-New USA Inc., USA	INEWAT	76.81 %	100.00 %
INTLB	Interinvest Holding SAL, Lebanon	AGI	95.00 %	95.00 %
INLOLB	Interlog SAL, Lebanon	INTLB	95.00 %	100.00 %
KSBDE	Kurhessische Spielbank Kassel/BadWildungen Verwaltungs GmbH, Germany	SIMKDE	100.00 %	100.00 %
KWIKUK	Kwik Tan Ltd., United Kingdom	ASCGUK	100.00 %	100.00 %
LEISUK	Leisure Projects Ltd., United Kingdom	PLAYUK	100.00 %	100.00 %
MAZOUK	Mazooma Games Ltd., United Kingdom	BELLUK	100.00 %	100.00 %

MIGUK	Mazooma Interactive Games Ltd., United Kingdom	BELLUK	100.00 %	100.00 %
NOVAIT	Novomatic Group S.r.l., Italy	GMAIT	100.00 %	100.00 %
NOVOHN	Novo Gaming Honduras S.de R.L. de C.V., Honduras	NLAHES/HTM	99.95 %/0.05 %	99.95 %/0.05 %
IVGDE	Novo Immobilien Verwaltungsges.m.b.H., Germany	IKGDE	100.00 %	100.00 %
NOVOFR	NOVOMATIC France S.A.S., France	AGI	100.00 %	100.00 %
OSBKDE	Ostsee-Spielbanken GmbH & Co. KG, Germany	SBNKDE	51.00 %	51.00 %
RLMSUK	RLMS Sales Ltd., United Kingdom	BELLUK	100.00 %	100.00 %
SAYCO	Say:Hola! SAS, Colombia	INEWAT	76.81 %	100.00 %
SIMDE	SIM Spielbanken Investitions- und Management GmbH, Germany	NAG	100.00 %	100.00 %
SMARAT	Smartspace GmbH, Austria	INEWAT	65.29 %	85.00 %
SBEVDE	Spielbank Berlin Entertainment Verwaltungs GmbH, Germany	SBEKDE	60.00 %	100.00 %
GIPDE	Spielbank Berlin nationale Beteiligungen Verwaltungs GmbH, Germany	SBNKDE	100.00 %	100.00 %
SBBVDE	Spielbank Berlin Verwaltungs GmbH, Germany	SBBKDE	59.50 %	100.00 %
SBMKDE	Spielbanken MV Bewerbergesellschaft GmbH & Co. KG, Germany	SBNKDE	75.00 %	75.00 %
SBMVDE	Spielbanken MV Bewerbergesellschaft Verwaltungs-GmbH, Germany	SBNKDE	75.00 %	75.00 %
STAKMT	Stakelogic Malta Limited, Malta	STAKNL	100.00 %	100.00 %
NOVOKH	Step © Enterprise Co. Ltd., Cambodia	NOVOSG	100.00 %	100.00 %
NOVOSG	Step Holdings PTE Ltd., Singapore	AGI	100.00 %	100.00 %
TREU16	Treuhand 16, Austria	AGI	100.00 %	100.00 %
TREU17	Treuhand 17, Austria	AGI	80.00 %	80.00 %
NOLOLT	UAB Novoloto Vilnius, Lithuania	AZARLT	80.00 %	100.00 %

Companies Consolidated Using the Equity Method

IC code	Company, domicile	Superordinate company	Group share	Direct share
PRAGA	Pratergarage Errichtungs- und Betriebs-gesellschaft m.b.H., Austria	NAG	47.50 %	47.50 %

"Joint Operations" Consolidated Companies

IC code	Company, domicile	Superordinate company	Group share	Direct share
INT7ES	Interseven Gaming Team S.L.U., Spain	GIGAES	40.00 %	50.00 %

Exemption from Disclosure for Group Companies

The following German companies are included in NOVOMATIC AG's consolidated financial statement as per IFRS as fully-consolidated companies and avail themselves of the possibility of exemption from a disclosure of their financial statements as of December 31, 2016, as granted under Sec. 264 para 3 and Sec. 264 b of the German Commercial Code:

- LÖWEN Entertainment GmbH, Bingen
- ADMIRAL Play GmbH, Düsseldorf
- Admiral Sportwetten GmbH, Rellingen
- Automaten Service Playtime GmbH, Pfullendorf
- Beku Automaten & Gastronomie Service GmbH, Pfullendorf
- BPA Freizeit- & Unterhaltungsbetriebe GmbH, Munich
- Casino Deluxe Beteiligungsgesellschaft mbH I, Munich
- Casino Deluxe Beteiligungsgesellschaft mbH III, Munich
- Casino Deluxe Beteiligungsgesellschaft mbH IV, Munich
- Casino Entertainment GmbH & Co. KG, Pfullendorf
- Casino Rixos GmbH, Pfullendorf
- City Freizeitanlagen GmbH, Pfullendorf
- Conrad Spielautomaten GmbH, Pfullendorf
- Crown Technologies GmbH, Rellingen
- Domino-Automaten-Betriebs-GmbH, Pfullendorf
- Extra Games Entertainment GmbH, Pfullendorf
- EZEA GmbH, Pfullendorf
- HP Automatenbetriebs GmbH, Pfullendorf
- Ideal Entertainment GmbH, Pfullendorf
- Königstrasse Spielstätten und Automaten UG, Pfullendorf
- Moislinger Spielstätten und Automaten UG, Pfullendorf
- Mühlenstrasse Spielstätten und Automaten UG, Pfullendorf
- NWC Nord West Casino Beteiligungs GmbH, Pfullendorf
- NWC Nord West Casino GmbH & Co. KG, Pfullendorf
- Play-Point Spielhallen- u. Automatenbetriebsges.m.b.H., Pfullendorf
- Red Devil Spielothek GmbH, Pfullendorf
- Turhan Spielsalon GmbH, Pfullendorf
- ZS Casino Emsland GmbH, Pfullendorf

(14) Subsequent Events after the Balance Sheet Date

Completed acquisitions

In January 2017, NOVOMATIC Gaming Industries GmbH (NGI), a subsidiary of NOVOMATIC AG, acquired a majority stake in four Polish companies (including two additional Polish subsidiaries). The business purpose of the companies acquired in the course of this transaction, ATSI S.A. and Fortress Gaming Technology S.A., was in relation to the development and programming activities for NGI, even before the share acquisition. The company ATT S.A. generates income primarily from the sale, general overhaul and resale of used gaming machines, and the fourth company acquired, Novo Poland Sp.z.o.o., is a holding company with a subsidiary that operates four smaller casinos in Poland. Gryphon Invest AG, a company related to NOVOMATIC AG, was the seller of the investments. The consideration for the entire transaction was EUR 67.2 million.

This acquisition constitutes a combination of companies with joint control over the subsidiary. As there are no specific rules provided for this in IFRS, and the fair values of the identified assets and assumed liabilities do not vary significantly from their book values, the fair values are not adjusted. The difference between the purchase price and acquired net assets, and the book values less shares of non-controlling shareholders, are offset against the retained earnings in the Group.

The provisionally adopted book values of the identifiable assets and liabilities are as follows:

EUR m	Book values
Intangible assets	0.1
Property, plant and equipment	4.9
Other non-current assets	0.1
Deferred tax assets	0.2
Inventories	1.2
Cash and cash equivalents	27.8
Other current assets	3.7
Non-current liabilities and provisions	-0.5
Deferred tax liabilities	0.0
Current liabilities and provisions	-1.3
Net assets	**36.3**

In January 2017, the newly founded 70-percent Group company ALP S.r.l acquired 100 percent of the shares in CIV S.r.l and PDP S.r.l in Italy, respectively. The acquired companies operated two gaming arcades together in the March and Abruzzo regions with 170 VLTs and 5 roulette tables.

The Group company Admiral Operations Spain concluded a purchase agreement in December 2016, for the acquisition of 51 percent of the shares in Basque Gaming S.L. The company operates a total of 13 gaming arcades in the Basque Country. With this acquisition, the Group will intensify its operating activity in the Basque Country and pool its own existing operations. The acquisition of Basque Gaming was subject to the condition precedent of various approvals by the Basque government and local authorities, which was ultimately met in March 2017.

In March 2017, 100 percent of the shares in Super Game B.V. and Biermann's Bingo B.V., the Netherlands, were acquired. The two acquired companies operate a total of seven gaming arcades.

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

The preliminary fair values of the acquisitions listed above are as follows:

EUR m	Fair values
Intangible assets	2.1
Property, plant and equipment	17.0
Other non-current assets	12.6
Deferred tax assets	0.0
Inventories	0.0
Cash and cash equivalents	12.9
Other current assets	2.0
Non-current liabilities and provisions	-41.1
Deferred tax liabilities	0.0
Current liabilities and provisions	-13.6
Net assets	**-8.1**
Non-controlling interests	**-8.4**
Goodwill	153.6
Consideration	**137.1**

The considerations provisionally amount to a total of EUR 137.1 million for the listed acquisitions and must be paid in cash and cash equivalents. Purchase price allocations are not yet available. The information provided above is therefore based on the acquired companies' latest available financial data.

Goodwill resulting from the acquisitions reflects the expected strategic advantages for the Group due to the expansion of operational business activities in these markets. Based on a preliminary assessment, goodwill will not be tax-deductible.

Acquisitions subject to suspensive conditions

In February 2016, NOVOMATIC entered into a purchase agreement with Len Ainsworth regarding the acquisition of approximately 53 percent of the shares of Ainsworth Game Technology Ltd. (Ainsworth). Ainsworth is a publicly traded company listed in Australia and headquartered in Newington, Sydney. The company is one of the most renowned players in the international gaming industry. The company is a leading producer and provider of high-quality, innovative gaming solutions in Australasia as well as North and South America. Due to suspensive conditions, in particular, the required formal approvals by various international licensing and regulatory authorities, the closing of this transaction is not expected until the third quarter of 2017 at the earliest. The agreed purchase price is AUD 473.3 million.

Financing

In March 2017, NOVOMATIC AG concluded a revolving credit line of EUR 1 billion with a term of 5 years (with the option of prolonging for up to two years). The aim of this credit line is, on the one hand, to harmonize and refinance the existing credit lines, and, on the other hand, to provide general company financing, such as for company acquisitions.

(15) Company Bodies

The following members of the Executive Board were appointed for the financial year 2016 and beyond:

- Harald Neumann (CEO)
- Ryszard Presch (deputy chairman since March 22, 2016, COO since January 5, 2016)
- Thomas Graf (CTO)
- Peter Stein (CFO)
- Dr. Christian Widhalm (CIO since March 8, 2016)

In the financial year 2016 and during the time of preparation of this report, the Supervisory Board consisted of the following members:

- Senator Herbert Lugmayr (Chairman of the Supervisory Board until March 28, 2017)
- Dr. Bernd Oswald (Chairman from March 28, 2017)
- Dr. Christian Widhalm (Deputy Chairman of the Supervisory Board until March 8, 2016)
- Martina Flitsch (Deputy Chairwoman of the Supervisory Board since March 8, 2016, previously member)
- Martina Kurz (Member since March 8, 2016)
- Barbara Feldmann (Member since March 8, 2016)
- Dr. Robert Hofians (Member from March 28, 2017)

The current total remuneration of the members of the Executive Board of NOVOMATIC AG amounted to EUR 5.2 million (previous year: EUR 4.1 million). Of the expenses for severance payments and pensions, EUR 1.1 million (previous year: EUR -0.1 million) and EUR 0.8 million (previous year: EUR 0.1 million), respectively, were attributed to the Executive Board. The members of the Supervisory Board received EUR 0.2 million (previous year: EUR 0.3 million) for their functions. No loans or contingencies were granted to members of the Supervisory Board or Executive Board in the financial year 2016.

Dr. Bernd Oswald, Barbara Feldmann, Martina Flitsch, Martina Kurz, Dr. Robert Hofians

(16) Publication

The present consolidated financial statement was released on March 31, 2017, by the Executive Board for examination by the Supervisory Board, for presentation at the general shareholders' meeting, and for subsequent publication.

Statement by the Executive Board

We confirm that to the best of our knowledge the consolidated financial statement as of December 31, 2016, gives a true and fair view of the financial position, financial performance and cash flows of the Group as required by the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and that the consolidated management report as of December 31, 2016, gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

We confirm that to the best of our knowledge the annual financial statement of NOVOMATIC AG as of December 31, 2016, gives a true and fair view of the financial position, financial performance and cash flows of the company as required by the Austrian Commercial Code (UGB), and that the management report as of December 31, 2016, gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

Gumpoldskirchen, March 31, 2017

The Executive Board of NOVOMATIC AG

Harald Neumann CEO	**Ryszard Presch** Deputy CEO COO	**Thomas Graf** CTO	**Peter Stein** CFO	**Dr. Christian Widhalm** CIO

NOVOMATIC AG
Auditor's Report

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of NOVOMATIC AG, Gumpoldskirchen which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements under section 245a UGB.

Basis for Opinion

We conducted our audit in accordance with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of goodwill arising from Gaming Operations – United Kingdom

Description and Issue

The Group's goodwill arising from the Cash Generating Unit Gaming Operations – United Kingdom has increased to EUR 43.1 Mio at December 31, 2016, due to the acquisition of Talarius. A goodwill impairment test based on the income approach has been carried out by the Group in its annual review of the valuation of goodwill. Uncertainties in relation to future cash flows, due in particular to the estimated growth rate in use after the detailed planning phase, as well as the determination of the discount rate, are inherent in the income projection. Unforeseen changes in market conditions, particularly in the financial and capital markets, could have significant effects on the future valuation of goodwill. For further explanations we refer to Section 7.3 "Impairments and Reversals of Impairments" in the notes to the consolidated financial statements.

Our Response

We have assessed the appropriateness of the valuation model used in the impairment review of the goodwill arising from the cash generating unit Gaming Operations – United Kingdom. We have verified the projected cash flows with the 2017 budget as approved by the Supervisory Board. We have also verified the growth rates in use in the subsequent forecasting periods with internal sources, and the growth rate in use thereafter with industry-specific external sources. In determining the plausibility of the discount rates, we have consulted with our internal valuation experts. In addition, we have performed sensitivity analyses over changes in discount rates and growth rates.

Asset Valuation Gaming Operations – Germany

Description and Issue

Beginning July 1, 2017, there will be a reduction in the number of gaming venues and a decrease in the number of gaming machines in existing gaming venues due to the amended German Inter-State Treaty on Games of Chance (Glücksspieländerungsstaatsvertrag – GlüÄndStV) which came into force on July 1, 2012, and the related supplementary provisions for implementation as determined by the states. Financial items of concern include intangible assets and fixed assets, which have a total book value of EUR 99.9 Mio and accumulated depreciation of EUR 56.1 Mio as of December 31, 2016. Uncertainties arising from the interpretations of the treaty amendments and the implementations thereof could have significant effects on the determination as to whether impairment indicators exist. Due to the aforementioned uncertainties, estimations by management are inherent in the impairment tests performed by the Group, which inevitably impacted the results of the impairment reviews. The actual implementation of the amendments in the future could lead to considerable revisions of these estimations in subsequent years. For further explanations we refer to Section 7.3 "Impairments and Reversals of Impairments" in the notes to the consolidated financial statements.

Our Response

We have reviewed the Group's documentation on the impacts of the treaty amendments on individual gaming venues and verified them with information within and external to the Group. In addition, we have critically assessed the appropriateness of the Group's assumptions and assessments of the amendments.

Valuation of the investment in Österreichischen Lotterien Gesellschaft mbH (ÖLG) and Casinos Austria Aktiengesellschaft (CASAG)

Description and Issue

As at December 31, 2016, the indirect shareholding of 11.56 % in ÖLG and a direct shareholding of 17.19 % of CASAG were carried at a total book value of EUR 196.6 Mio. As NOVOMATIC AG does not have significant influence over these entities, the investments were classified as available-for-sale financial assets. As such, these investments are measured at fair value and the fair value changes are recognized directly in the consolidated statement of comprehensive income.

A multiples-based model was used in the measurement of fair value. For this purpose, industry-specific multiples were derived from international entities in the lottery and casino industries. The selection of these entities, as well as the necessary adjustments included the model, such as valuation adjustments and normalization of earnings, are subjected to uncertainties related to estimations and judgments, which have considerable influence on the results of the measurement. For further explanations we refer to Section 11 "Valuation of Financial Instruments" in the notes to the consolidated financial statements.

Our Response

We evaluated the appropriateness of the valuation model with the involvement of our internal valuation specialists, examined the appropriateness of the entities from which the industry-specific multiples were derived, reperformed the calculations of the multiples, and agreed the other financial information used in the valuation with the published financial statements of ÖLG and CASAG. In regards to the adjustments in valuation, we have examined as to whether these adjustments have been consistently applied over the periods in which the investments were held. In addition, we have audited the completeness of the related disclosures in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information contain all information in the annual report but does not include the consolidated financial statements, the management report and our auditor's report thereon. The annual report is expected to be made available to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements under section 245a UGB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of the audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the management has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that give a true and fair view.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Consolidated Management Report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and whether it has been prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the consolidated management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the consolidated management report.

Opinion

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

Statement

In the light of the knowledge and understanding of the Group and its environment obtained in the course of our audit of the consolidated financial statements, we have not identified material misstatements in the consolidated management report.

Engagement Partner

The engagement partner responsible for the audit is Dr. Christoph Waldeck.

Vienna, March 31, 2017

Deloitte Audit Wirtschaftsprüfungs GmbH

Dr. Christoph Waldeck	**ppa. Mag. Barbara Müllner**
Certified Public Accountant	Certified Public Accountant

This English translation of the audit report was prepared for the client’s convenience only. It is not a legally binding translation of the German audit report.

The consolidated financial statements and our auditor’s report may be published or transmitted together only if the consolidated financial statements and the management report are identical with the confirmed version. Section 281 para 2 Austrian Commercial Code applies to versions that differ

INDIVIDUAL FINANCIAL STATEMENTS

NOVOMATIC AG
Balance Sheet

as of December 31, 2016

Assets

A. FIXED ASSETS		12/31/2016	12/31/2015
	EUR	EUR	KEUR
I. Intangible assets			
1. Industrial and similar rights and assets and licenses in such rights and assets	10,475,460.29		23,282
II. Property, plant and equipment			
1. Land, buildings and improvements to third-party buildings	131,914,952.10		144,978
2. Plant and machinery	83,734.80		96
3. Other equipment, plant and office equipment	1,746,443.76		1,856
4. Advance payments and assets under construction	44,902.92		522
	133,790,033.58		147,452
III. Financial assets			
1. Shares in affiliated companies	824,185,363.84		762,369
2. Loans to affiliated companies	332,515,279.79		264,933
3. Investments	24,175,444.55		238
4. Loans to associated companies	461,302.60		422
5. Securities held as fixed assets	99,909,323.92		12,261
6. Other loans	5,089,081.27		8,167
	1,286,335,795.97		1,048,390
		1,430,601,289.84	**1,219,124**
B. CURRENT ASSETS			
I. Receivables and other assets			
1. Trade receivables	133,095.73		165
2. Receivables from affiliated companies	95,845,319.29		37,729
3. Other receivables and assets becoming due and payable after more than one year EUR 65,914.88 (Prior year: KEUR 66)	58,615,542.77		51,327
	154,593,957.79		89,221
II. Securities and interests			
Other securities and interests	9,140,942.38		10,589
III. Cash, bank deposits	363,676,706.06		121,643
		527,411,606.23	**221,453**
C. PREPAID EXPENSES			
		9,625,005.53	**5,841**
D. DEFERRED TAX ASSETS			
		7,317,044.22	**6,646**
		1,974,954,945.82	**1,453,064**

Shareholders' equity and liabilities

A. SHAREHOLDERS' EQUITY		12/31/2016	12/31/2015
	EUR	EUR	KEUR
I. Called up and paid share capital		26,590,000.00	26,000
II. Capital reserves Tied up capital reserves		85,386,371.00	976
III. Retained earnings			
1. Legal reserve	1,623,629.00		1,624
2. Other reserves (free reserves)	15,395.39		15
		1,639,024.39	1,639
IV. Retained profits thereof retained profits brought forward EUR 101,914,382.91 (Prior year: KEUR 111,298)		111,171,890.80	151,914
		224,787,286.19	**180,529**
B. Provisions			
1. Provisions for severance payments	1,826,737.00		779
2. Provisions for pensions	7,612,376.00		6,814
3. Provisions for taxes thereof deferred tax liabilities EUR 0.00 (Prior year: KEUR 1,748)	0.00		1,748
4. Other provisions	6,902,894.58		5,099
		16,342,007.58	**14,440**
C. Liabilities becoming due and payable within one year EUR 360,758,586.88 (Prior year: KEUR 233,556) becoming due and payable after more than one year EUR 1,373,067,065.17 (Prior year: KEUR 1,024,539)			
1. Bonds becoming due and payable within one year EUR 150,000,000.00 (Prior year: KEUR 0) becoming due and payable after more than one year EUR 950,000,000.00 (Prior year: KEUR 600,000)	1,100,000,000.00		600,000
2. Due to banks becoming due and payable within one year EUR 23,476,483.77 (Prior year: KEUR 11,476) becoming due and payable after more than one year EUR 422,729,643.73 (Prior year: KEUR 424,206)	446,206,127.50		435,682
3. Trade payables becoming due and payable within one year EUR 1,535,966.94 (Prior year: KEUR 2,504)	1,535,966.94		2,504
4. Payables to affiliated companies becoming due and payable within one year EUR 166,150,320.13 (Prior year: KEUR 197,935) becoming due and payable after more than one year EUR 337,421.44 (Prior year: KEUR 333)	166,487,741.57		198,268
5. Other liabilities becoming due and payable within one year EUR 19,595,816.04 (Prior year: KEUR 21,641) of which taxes EUR 42,107.69 (Prior year: KEUR 19) of which social security EUR 48,848.93 (Prior year: KEUR 24)	19,595,816.04		21,641
		1,733,825,652.05	**1,258,095**
		1,974,954,945.82	**1,453,064**

INDIVIDUAL FINANCIAL STATEMENTS

NOVOMATIC AG
Profit and Loss Account

for the period from January 1, 2016 to December 31, 2016

		2016	2015
	EUR	EUR	KEUR
1. Sales		76,624,483.11	78,475
2. Other operating income			
a. Income from the disposal of and additions to fixed assets, excluding financial assets	74,543.24		49
b. Income from the release of provisions	9,661.18		13
c. Other	4,010,300.86		47
		4,094,505.28	109
3. Expenses for material and other purchased manufacturing services			
Cost of purchased services	-730,545.98		-1,780
		-730,545.98	-1,780
4. Personnel expenses			
a. Salaries	-6,211,556.46		-10,828
b. Social expenses			
aa. Pension expenses	-759,877.96		-101
bb. Expenses for severance payments and contributions to external severance payments funds	-135,076.90		-461
cc. Cost of statutory social security, payroll-related taxes and mandatory contributions	-253,475.87		-1,220
dd. Other	-24,230.43		-164
	-1,172,661.16		-1,946
		-7,384,217.62	-12,774
5. Amortization and depreciation			
of intangible assets and of tangible assets thereof extraordinary depreciation EUR 6,500,000.00 (Prior year: KEUR 8,793)		-24,975,512.03	-31,342
6. Other operating expenses			
a. Taxes not included in line 16	-246,794.97		-131
b. Other	-73,927,697.53		-79,205
		-74,174,492.50	-79,336
7. Subtotal of lines 1 to 6 (Operating profit)		**-26,545,779.74**	**-46,648**

8. Investment income thereof from affiliated companies EUR 58,619,822.96 (Prior year: KEUR 106,081)	58,619,822.96	106,081
9. Income from other investments and long-term loans thereof from affiliated companies EUR 8,740,816.64 (Prior year: KEUR 8,694)	9,719,880.78	9,880
10. Other interest and similar income thereof from affiliated companies EUR 25,443.12 (Prior year: KEUR 100)	244,613.46	214
11. Income from the disposal of and the appreciation to financial assets	2,839,016.55	6,057
12. Expenses from financial assets and securities held as current assets a. Depreciation EUR -2,597,477.39 (Prior year: KEUR -9,174) b. Expenses from affiliated companies EUR -2,810,188.69 (Prior year: KEUR -8,469)	-4,398,446.75	-9,180
13. Interest and similar expenses thereof related to affiliated companies EUR -274,209.30 (Prior year: KEUR -673)	-38,161,081.21	-33,313
14. Subtotal of lines 8 to 13 (Financial success)	**28,863,805.79**	**79,739**
15. Earnings before tax (Subtotal of lines 7 to 14)	**2,318,026.05**	**33,091**
16. Taxes on income thereof tax apportionment EUR 4,615,558.78 (Prior year: KEUR 6,148) thereof deferred taxes EUR 2,419,603.96 (Prior year: KEUR 1,448)	6,939,481.84	7,526
17. Earnings after taxes = Net income for the year	**9,257,507.89**	**40,617**
18. Disposal of retained earnings	0.00	8
19. Allocation to retained earnings	0.00	-9
20. Profits carried forward from the previous year	101,914,382.91	111,298
21. Retained profits	**111,171,890.80**	**151,914**

Notes

for the financial year 2016

I. ACCOUNTING AND VALUATION PRINCIPLES

The accounting provisions of the Austrian Commercial Code (UGB) in its current version – taking into account the amendments as a result of the 2014 law revising accounting principles (Rechnungslegungs-Änderungsgesetz, RÄG 2014) – have been applied to this annual financial statement as of December 31, 2016.

In accordance with the provisions of RÄG 2014, the structure of the balance sheet and profit and loss account for the current financial year and the previous financial year has been adjusted. This means that the stated prior year figures may only be compared to the 2015 annual financial statement to a limited extent.

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 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 on 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 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 property, plant and equipment were stated at the 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 the cost of acquisition less than EUR 400.00 are fully depreciated in the year of acquisition or production.

Receivables and other assets were stated at nominal value less necessary allowances. Overdue receivables were discounted and, for bad debts, a lump sum value adjustment was allowed.

In application of the principle of prudence, all identifiable risks and liabilities of an uncertain amount and/or origin were considered by setting up provisions according to reasonable commercial judgment.

Liabilities were valued at their redemption amount. Liabilities in foreign currency were valued at the foreign exchange rate offered at the balance sheet date or at a higher purchase rate at the date of transaction.

II. EXPLANATIONS CONCERNING THE BALANCE SHEET

ASSETS

A. Fixed Assets

1. Intangible Assets and Property, Plant and Equipment

Fixed assets are stated at the cost of acquisition or production less planned linear depreciation corresponding to the estimated useful life.

The development of each item in the fixed assets and the breakdown of the annual depreciation are shown in the fixed assets Schedule enclosed.

1.1. Intangible Assets
Intangible assets are stated at acquisition cost less planned linear depreciation according to a useful life of 4 to 10 years. Write-downs and write-ups are made if the corresponding conditions exist.

Additions of KEUR 6 are related to a trademark.

The book values of intangible assets acquired from affiliated companies add up to KEUR 9,876 (previous year: KEUR 21,458).

1.2. Property, Plant and Equipment
The real estate value of undeveloped and developed land amounts to KEUR 36,968 (previous year: KEUR 37,726).

Other property, plant and equipment items are stated at the cost of acquisition or production less planned linear depreciation (spread over 25 to 50 years for buildings, 4 to 10 years for movable assets and structural investments). Low-value assets with a cost of acquisition of less than EUR 400.00 are fully depreciated in the year of acquisition or production.

Significant additions of the financial year concern the renovation of the external grounds of the Novomatic Forum.

2. Financial Assets

Financial assets are valued at their cost of acquisition.

Securities are valued at their cost of acquisition or their lower market values as of the balance sheet date.

Impairment of book values of domestic and foreign investments will be made in the case of:

- a persistent deterioration of earnings, and/or
- the necessity of support from the shareholder, and/or
- deficient means and measures as a result of the acquisition, and/or
- reorganization measures that will not result in substantial profits in the foreseeable future and represent deficiencies that cannot be eliminated anytime soon, and/or
- losses that can no longer be absorbed by the affiliated company alone.

Impairment is not made in cases of mere start-up losses.

Additions to the shares in affiliated companies amounting to KEUR 191,323 are mainly due to capital increases at Austrian and one Italian subsidiary.

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

Loans granted to affiliated companies amount to KEUR 332,515 (previous year: KEUR 264,933). This change concerned both disbursements to and repayments from subsidiaries in markets with promising growth prospects.

Other loans increased in the amount of KEUR 561 on the one hand and, on the other, decreased by KEUR 3,639 due to repatriations. Thus, the total acquisition costs as of December 31, 2016, amounted to KEUR 20,476 (previous year: KEUR 23,554).

Accumulated impairment remained at the previous year's level of KEUR 15,387.

Of loans granted to affiliated companies, an amount of KEUR 30,462 (previous year: KEUR 24,989) is due within one year.

Of the other loans, an amount of KEUR 1,408 (previous year: KEUR 1,827) is due within one year.

Non-current securities primarily relate to the addition of CASAG shares (17.19 percent stake).

B. Current Assets

1. Receivables and Other Assets

1.1. Trade Receivables

Trade receivables are stated at nominal value. In cases of apparent individual risk, the probable recoverable amount was recognized. Receivables are – as in the previous year – due within less than one year.

1.2. Receivables from Affiliated Companies

Receivables from affiliated companies mainly concern allocations with the subsidiaries NOVOMATIC Gaming Industries GmbH of KEUR 86,557, Novo VLTech GmbH of KEUR 730 and RSV Beteiligungs GmbH of KEUR 3,475. The balances particularly relate to the allocation accounts for tax allocations, dividends and cash pooling.

The receivables from affiliated companies include trade receivables of KEUR 19,557 (previous year: KEUR 23,587). The remaining time to maturity of the receivables – as in the previous year – is less than one year.

1.3. Other Receivables and Assets

Other receivables and assets amounting to KEUR 58,616 (previous year: KEUR 51,327) mainly concern a deposit related to precious metals amounting to KEUR 35,300 (previous year: KEUR 31,400) as well as credit balances with the tax authorities. The remaining other receivables of KEUR 66 (previous year: KEUR 66) are due in more than one year.

2. Cash and Bank Deposits

Bank deposits come to an amount of KEUR 363,676 (previous year: KEUR 121,643), of which KEUR 65,351 is not freely available.

C. Prepaid Expenses

The prepaid expenses amounting to KEUR 16,942 (previous year: KEUR 12,491) consist of capitalized discounts and expenditures pertaining to 2017 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.

Deferred tax assets are created for differences between the reported amounts in the individual financial statement and their respective tax bases that lead to a reduction in the tax burden in the future.

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

The net 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 Current financial year EUR	Deferred taxes Current financial year EUR	Deferred taxes Previous year EUR	Change Deferred taxes EUR
Property, plant and equipment	11,432,947.09	2,858,236.77	2,467,937.63	390,299.14
Investments in affiliated companies	2,114,147.30	528,536.83	311,367.39	217,169.44
Investments	5,955,356.73	1,488,839.18	1,979,464.15	-490,624.97
Receivables and Other Assets	2,271.92	567.98	647.14	-79.16
Prepaid expenses and accruals	4,740,724.40	1,185,181.11	871,172.48	314,008.63
Provisions	5,034,257.83	1,258,564.45	1,019,885.45	238,679.00
Untaxed reserves	-11,528.38	-2,882.10	-5,131.79	2,249.69
Total for 2016 balance = deferred tax assets	**29,268,176.89**	**7,317,044.22**	**6,645,342.45**	**671,701.77**

Shareholders' Equity and Liabilities

A. Shareholders' Equity

As a result of the capital increase by Gryphon Invest AG in April 2016, the called up and paid share capital of the company increased by KEUR 590 from KEUR 26,000 to KEUR 26,590, as well as the tied-up capital reserves by KEUR 84,410 from KEUR 976 to KEUR 85,386.

Pursuant to RÄG 2014, as of 01/01/2016, 75 percent of the untaxed reserves previously created under Sec. 205 of the Austrian Commercial Code (UGB) were moved directly into the retained earnings, less the deferred tax liabilities contained therein. Consequently, retained earnings increased by KEUR 15 from KEUR 1,623 to KEUR 1,639.

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 1.58 percent (previous year: 2.0 percent) and assuming a pay increase of 2.5 percent (previous year: 2.5 percent). The minimum legal retirement age according to Austrian social security law (ASVG) regulations was assumed. Discounts due to fluctuations or other circumstances were not included.

The expenses for severance payments, at KEUR 81 (previous year: KEUR 346), concern changes in provisions.

Due to irrevocable pension commitments, a pension provision was formed. The calculation was conducted applying actuarial principles in accordance with IAS 19 using the projected unit credit method with an interest rate of 1.58 percent (previous year: 2.0 percent) and value adjustments of 3 percent. Pension expenses, at KEUR 799 (previous year: KEUR 148), concern changes in provisions.

Other provisions consist of those for auditing and consulting fees, expenses for annual reports, bonus payments to the Executive Board, unconsumed vacation and jubilee payments. Provisions for jubilee payments were also calculated in line with actuarial principles according to IAS 19 using the projected unit credit method with a discount rate of 1.58 percent (previous year: 2.0 percent) and assuming a pay increase of 2.5 percent (previous year: 2.5 percent).

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

Please refer to the enclosed supplement showing the development of provisions.

The provision for deferred tax liabilities was reversed in the financial year 2016, with the allocation of losses of foreign Group members within the meaning of Sec. 9 of the Austrian Corporate Income Tax Act (KStG), retrospectively taxed due to profits in 2016.

C. Liabilities

Maturity

	Total value of liabilities		
KEUR	with a maturity of less than 1 year	with a maturity of 1 to 5 years	with a maturity of over 5 years
Bonds	**150,000**	**450,000**	**500,000**
(previous year)	0	400,000	200,000
Due to banks	**23,476**	**331,355**	**91,375**
(previous year)	11,476	383,581	40,625
Trade payables	**1,536**	**0**	**0**
(previous year)	2,504	0	0
Due to affiliated companies	**166,150**	**337**	**0**
(previous year)	198,268	333	0
Other liabilities	**19,596**	**0**	**0**
(previous year)	21,641	0	0

In 2010, 2013, 2014 and 2015, bonds with a total value of KEUR 600,000 were issued to support further growth in the areas of development, production and gaming operations. In 2016, another bond was issued with a volume of KEUR 500,000, a maturity of 7 years and interest of 1.625 percent.

Liabilities to affiliated companies amounting to KEUR 143,657 (previous year: KEUR 157,958) concern other liabilities. Of this sum, a significant amount of KEUR 131,776 (previous year: KEUR 157,958) is due to the implementation of cash pooling agreements with Austrian and foreign subsidiaries in 2013. Other liabilities include expenses of KEUR 17,885 (previous year: KEUR 15,535) that will become only cash-effective after the balance sheet date.

D. Contingent Liabilities

At the balance sheet date, there are contingent liabilities amounting to KEUR 154,990 (previous year: KEUR 108,992), of which KEUR 154,990 (previous year: KEUR 108,992) concern affiliated companies.

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

a) Contingent liabilities

KEUR

Bank	Beneficiary company	Security	Ceiling	As of 12/31/2016
UniCredit Bank Austria AG Wien	HTM Hotel- und Tourismus Management GmbH	Comfort letter	7,218	7,218
UniCredit Bank Austria AG Wien	I-New Unified Mobile Solutions AG	Guarantee	500	267
Raiffeisenlandesbank OOE	HTM Hotel- und Tourismus Management GmbH	Comfort letter	1,574	1,574
Raiffeisenlandesbank Burgenland	I-New Unified Mobile Solutions AG	Guarantee	600	600
Raiffeisenlandesbank OOE	ADMIRAL Casinos & Entertainment AG	Comfort letter	581	581
Erste Group Bank AG	ADMIRAL Casinos & Entertainment AG	Guarantee	3,153	3,153
Oberbank Leasing	I-New Unified Mobile Solutions AG	Comfort letter	9,471	9,471
Oberbank AG	I-New Unified Mobile Solutions AG	Comfort letter	2,000	824
Hypo Bank Burgenland	ADMIRAL Casinos & Entertainment AG	Guarantee	176	176
Hypo Bank Burgenland	I-New Unified Mobile Solutions AG	Guarantee	1,800	1,770
Hypo Bank Burgenland	Admiral Sportwetten GmbH	Guarantee	12,000	12,000
UniCredit Bank Austria AG Wien	Crown Gaming S.A.C.	Guarantee	19,024	15,124
Kensington Business Center	Novomatic Americas Sales LLC	Guarantee	1,075	1,075
Nord LB	ADMIRAL Sportwetten GmbH, Deutschland	Guarantee	1,500	1,500
UniCredit S.p.A., Roma	NOVOMATIC Italia S.p.A.	Guarantee	84,278	84,278
Sellergroup ELSY	NOVOMATIC Italia S.p.A.	Guarantee	3,250	3,250
Raiffeisenlandesbank NÖ-Wien	ADMIRAL Sportwetten GmbH	Comfort letter	3,300	0
Raiffeisenlandesbank NÖ-Wien	I-New Unified Mobile Solutions AG	Guarantee	428	428
Barclays Bank PLC	NOVOMATIC UK Ltd.	Comfort letter	11,701	11,701
TOTAL				**154,990**

b) Off-balance sheet transactions

In 2016, comfort letters were issued to two Austrian subsidiaries.

INDIVIDUAL FINANCIAL STATEMENTS

c) Information regarding the nature of provided physical securities

No physical securities were provided for liabilities in the financial year 2016.

The physical security reported until the financial year 2015 in the Mödling land register, EZ 3184, with a value of KEUR 3,000 was removed in April 2016.

E. Other Financial Obligations

Obligations from current lease contracts comprise:

KEUR	Due within 1 year	Due within 5 years
Obligations from current lease contracts	1,118	5,589
(previous year)	1,120	5,504

III. EXPLANATIONS CONCERNING THE PROFIT AND LOSS ACCOUNT

1. Breakdown of Sales

1.1. By segments:

KEUR	Reporting period	Previous year
Income from trademarks and licenses	59,024	56,748
Provision of personnel	1,137	3,112
Income from rental and operating costs	12,967	14,361
Other income	3,496	4,254
Total	**76,624**	**78,475**

1.2. By geographical markets:

KEUR	Reporting period	Previous year
Domestic income	66,533	68,712
International income (EU)	10,091	9,763
Total	**76,624**	**78,475**

Due to the amended definition of revenues per the 2014 law amending accounting principles (RÄG), other operating income totaling KEUR 4,254 from the previous year was classified as revenue.

2. Cost of Material and Other Purchased Services

Due to the change in reporting requirements as per the 2014 law amending accounting principles (RÄG), expenses in the previous year of KEUR 1,780 were reclassified from other operating expenses to expenses for purchased services.

3. Personnel costs

Expenses for severance payments and contributions to external severance payment funds include payments to external severance payment funds of KEUR 54 (previous year: KEUR 94).

4. Extraordinary Depreciation

Due to uncertain use following the revocation of the decisions regarding casino licenses, further extraordinary depreciation of KEUR 6,500 (previous year: KEUR 6,290) was recorded for a planned casino location in Vienna during the financial year 2016.

5. Other Operating Expenses

See point 2 on the cost of material and other purchased services regarding the effect of the first-time application of the 2014 law amending accounting principles (RÄG).

6. Taxes on Income

Pursuant to RÄG 2014, 25 percent of the deferred taxes contained in the release of or addition to untaxed reserves previously created pursuant to Sec. 205 of the Austrian Commercial Code (UGB) in the previous year are reported under taxes on income.

Taxes only affect results from ordinary business activities.

NOVOMATIC AG has taken the opportunity of forming a tax group pursuant to Sec. 9 of the Austrian Corporate Income Tax Act (KStG).

Group members are:

- HTM Hotel- und Tourismus Management GmbH, Austria
- Wett Cafe Betriebsgesellschaft m.b.H., Austria (merged with and into HTM as of December 31, 2015)
- ADMIRAL Casinos & Entertainment AG, Austria
- NMN Immo GmbH (formerly NMN Automatentechnik GmbH)
- NOVOMATIC Gaming Industries GmbH, Austria (from 2016)
- ADMIRAL Sportwetten GmbH, Austria (from 2016)
- Novo VLTech GmbH, Austria (from 2016)
- NOVOMATIC Italia S.p.A., Italy

In the tax apportionment contract with the domestic tax group members, negative as well as positive tax apportionments within the tax group were stipulated. The profits allocated by the tax group member to the parent company are, depending on the usability of the losses, to be compensated at 21.5 percent or 25 percent (tax rate pursuant to Sec. 22 para 1 of the Austrian Corporate Income Tax Act [KStG]) by the tax group member. A symmetrical agreement exists for the allocated losses, whereby losses that cannot be allocated are to be credited as "internal tax loss carried forward" at 21.5 percent of the assessment basis if they are usable.

No tax apportionment contracts were concluded with the foreign group members.

Taxes on income is broken down specifically as follows:

KEUR	
Corporate income tax expense in 2016	14
Corporate income tax expense in previous years	8
Corporate income tax expense for deferred taxes	-2,420
Foreign withholding tax expense	50
Expense from tax apportionment "tax group" previous years	24
Income from tax apportionment "tax group"	-4,615
Total	**-6,939**

7. Release and Allocation of Retained Earnings

Pursuant to RÄG 2014, 75 percent of the funds allocated to or released from the untaxed reserves previously created pursuant to Sec. 205 of the Austrian Commercial Code (UGB) in the previous year are reported under release of retained earnings.

IV. INFORMATION ON SIGNIFICANT INVESTMENTS

Company, domicile	Share	Book value as of 12/31/2016	Equity	Annual result
		EUR	EUR	EUR
NOVOMATIC Italia SpA, Rimini (I)	100 %	301,580,000	254,294,594	19,312,161
ADMIRAL Casinos & Entertainment AG (AT)	100 %	65,000,000	42,775,782	-2,790,361
NOVOMATIC Gaming Industries GmbH, Gumpoldskirchen (AT)	100 %	264,304,397	965,056,483	104,329,088
HTM Hotel- und Tourismus Management GmbH, Gumpoldskirchen (AT)	100 %	1,072,607	62,899,734	4,567,348
NMN Immo GmbH (AT)	99 %	1,610,000	1,628,033	573,864
Novomatic Investment Chile S.A., Santiago (CL)	100 %	1,344,421	3,410,619	9,953,911
Novo Immobilien GmbH, Bingen/Rhein (DE)	100 %	3,000,000	18,582,681	2,599,815
Norddeutsche Spielbanken GmbH (DE)	100 %	25,000	20,021	-440
Novomatic Americas Holdings Inc., Illinois (US)	100 %	21,384,591	32,029,423	-200,350
Spielbank Berlin G.Jaenecke GmbH & Co.KG (DE)	59.5 %	8,619,917	12,839,351	1,035,642
Spielbank Berlin Entertainment GmbH & Co.KG (DE)	60 %	48,840	-2,606,685	593,653
Spielbank Berlin nat.Beteiligungsges mbH & Co.KG (DE)	100 %	5,338,002	4,660,109	-90,476
I-New Unified Mobile Solutions AG (AT)	76.814 %	12,586,735	-1,409,882	2,367,128
Novomatic Lottery Solutions GmbH (AT)	100 %	59,000,000	44,127,182	-9,916,097
Novo Lottery Solutions Iceland hf (IS)	0.24 %	245.56	19,865,240	36,601
SIM Spielbanken Investitions- und Management GmbH, Frankfurt (DE)	100 %	25,619	44,161	24,095
SIM Spielbanken Investitions-, Beteiligungs- und Management GmbH & Co.KG, Frankfurt (DE)	100 %	6,914,017	7,420,650	491,658
RSV Beteiligungs GmbH (AT)	100 %	72,330,974	4,006,895	3,474,574
LTB Beteiligungs GmbH (AT)	33.33 %	23,937,945	551,873	3,475,420
Pratergarage Errichtungs- und Betriebsgesellschaft m.b.H. (AT)	47.5 %	237,500	381,843	-24,046

Statements concerning intragroup relationships are omitted in accordance with Sec. 242 para 3 of the Austrian Commercial Code (UGB).

The equity and annual results presented are preliminary values determined in accordance with applicable local law.

V. INFORMATION ON FINANCIAL INSTRUMENTS

On October 16, 2015, an interest rate swap with a nominal value of KEUR 77,500 and maturity date of October 8, 2020, was concluded. Its net present value, including interest, amounts to KEUR -926 as of December 31, 2016.

The market value corresponds to the value that would be received or paid if the contract was settled as of the balance sheet date. Past cash flows (interest payments) are not taken into consideration. Future cash flows from variable payments as well as discount rates are determined based on generally accepted financial mathematical models. The negative market values are recorded in the other provisions for impending losses.

VI. MANDATORY INFORMATION CONCERNING MANAGEMENT BODIES AND EMPLOYEES

1.1. Average Number of Employees during the Financial Year

Number of employees: 13 (previous year: 75)

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

Executive Board:

- Harald Neumann, Chairman, CEO
- Ryszard Presch, Deputy Chairman, COO
- Peter Stein, CFO
- Thomas Graf, CTO
- Dr. Christian Widhalm, CIO (since March 8, 2016)

Supervisory Board:

- Senator Herbert Lugmayr, Chairman (until March 28, 2017)
- Dr. Bernd Oswald, Chairman (from March 28, 2017)
- Dr. Christian Widhalm, Deputy Chairman (until March 8, 2016)
- Barbara Feldmann, member (since March 8, 2016)
- Martina Kurz, member (since March 8, 2016)
- Martina Flitsch, Deputy Chairman (since March 8, 2016)
- Dr. Robert Hofians, member (from March 28, 2017)

1.3. Other Information

During the financial year 2016, gross payments of EUR 4,977,374.27 were made to members of the Executive Board. No advances, loans or guarantees were granted to members of the Executive Board. Payments made to members of the Supervisory Board during the year under review amounted to EUR 21,333.00.

Expenses for severance payments and pensions for the members of the Executive Board amounted to EUR 1,076,216.52 and EUR 798,729.00, respectively.

1.4 Consolidated Financial Statement

NOVOMATIC AG is required by law to prepare and disclose a subgroup consolidated financial statement according to Sec. 246 para 3 of the Austrian Commercial Code (UGB). The financial statement for the subgroup NOVOMATIC AG is included in the consolidated financial statement of Novo Invest GmbH with its registered office in Gumpoldskirchen – as head of the Group – and is filed at the Regional Court of Wiener Neustadt under FN 381832v.

1.5 Audit Fees

Fees for the audit of the financial statement and expenses for other services of the auditor are presented in the subgroup consolidated financial statement of NOVOMATIC AG.

1.6 Appropriation of Earnings

An amount totaling KEUR 50,000 is to be appropriated from the balance sheet profit of KEUR 111,172 comprising profit of the financial year 2016 amounting to KEUR 9,258 and profit carried forward of KEUR 101,914. The remaining amount of KEUR 61,172 is to be carried forward.

1.7 Subsequent Events after the Balance Sheet Date

In January 2017, NOVOMATIC Gaming Industries GmbH (NGI), a subsidiary of NOVOMATIC AG, acquired majority stakes in four Polish companies (including two further Polish subsidiaries). Even before the share acquisition, the business purpose of the companies acquired in the course of this transaction, ATSI S.A. and Fortress Gaming Technologies S.A., was on development and programming activities for NGI. ATT S.A. generates income primarily from the acquisition, general overhaul and re-sale of used gaming devices. The fourth acquired company, Novo Poland Sp.z.o.o. is a holding company with a subsidiary that operates four smaller casinos in Poland. Gryphon Invest AG, a company related to NOVOMATIC AG, was the company selling the investments. The consideration for the entire transaction amounted to EUR 67.2 million.

In February 2016, NOVOMATIC entered into a purchase agreement with Len Ainsworth regarding the acquisition of approximately 53 percent of the shares of Ainsworth Game Technology Ltd. (Ainsworth). Ainsworth is a publicly traded company listed in Australia and headquartered in Newington, Sydney. The company is one of the most renowned players in the international gaming industry. The company is a leading producer and provider of high-quality, innovative gaming solutions in Australasia as well as North and South America. Due to suspensive conditions, in particular, the required formal approvals by various international licensing and regulatory authorities, the closing of this transaction is not expected until the third quarter of 2017 at the earliest. The agreed purchase price is AUD 473.3 million.

In March 2017, NOVOMATIC Gaming Industries GmbH, a subsidiary of NOVOMATIC AG, acquired 100 % of the shares in Casino Royal GmbH, Germany. The acquired company and its 10 subsidiaries operate a total of 126 gaming halls with a regional focus on North Rhine-Westphalia, Lower Saxony and Rhineland-Palatinate. The preliminary consideration for the entire transaction amounted to EUR 88.7 million.

In March 2017, NOVOMATIC AG concluded a revolving credit line of EUR 1 billion with a seven-year term. This credit line serves to harmonize and refinance the existing credit lines, which will fall due in 2018 and 2020, as well as for general company financing purposes, including company acquisitions.

VII. SPECIAL INFORMATION FOR STOCK CORPORATIONS

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

Gumpoldskirchen, March 31, 2017

NOVOMATIC AG

Harald Neumann
Chairman,
Chief Executive Officer, CEO

Ryszard Presch
Deputy Chairman,
Chief Operating Officer, COO

Thomas Graf
Chief Technology Officer, CTO

Peter Stein
Chief Financial Officer, CFO

Dr. Christian Widhalm
Chief Investment Officer, CIO

NOVOMATIC AG
Fixed Assets

as of December 31, 2016

EUR	Balance as of 1/1/2016	Additions	Transfers	Reallocation	Disposals	Balance as of 12/31/2016
	Development at cost of acquisition and production					
A. FIXED ASSETS						
I. Intangible assets						
1. Industrial and similar rights and assets and licenses in such rights and assets						
Rights	12,465,172.03	6,000.00	0.00	0.00	16,000.00	12,455,172.03
Technical software	123,400,219.21	0.00	0.00	0.00	0.00	123,400,219.21
Software	283,715.98	0.00	0.00	0.00	1,767.50	281,948.48
Advance payments	0.00	0.00	0.00	0.00	0.00	0.00
	136,149,107.22	6,000.00	0.00	0.00	17,767.50	136,137,339.72
II. Property, plant and equipment						
1. Land, buildings and improvements to third-party buildings						
Land	9,293,159.41	0.00	0.00	0.00	0.00	9,293,159.41
Buildings – real estate value	32,587,761.44	0.00	0.00	0.00	423,705.37	32,164,056.07
Buildings – value of building	138,770,416.68	600,751.88	931,571.88	0.00	5,955,075.30	134,347,665.14
Structural investments in leased property	2,796,160.66	0.00	0.00	0.00	0.00	2,796,160.66
Buildings on non-owned land	24,742,062.68	0.00	0.00	0.00	0.00	24,742,062.68
	208,189,560.87	600,751.88	931,571.88	0.00	6,378,780.67	203,343,103.96
2. Plant and machinery						
Plant and machinery	212,930.38	0.00	0.00	0.00	0.00	212,930.38
Tools and tool costs	0.00	0.00	0.00	0.00	0.00	0.00
	212,930.38	0.00	0.00	0.00	0.00	212,930.38
3. Office fixtures, fittings and equipment						
Office fixtures, fittings and equipment	5,162,890.76	43,611.59	3,271.80	0.00	380,524.75	4,829,249.40
Car pool	1,444,752.55	186,200.00	0.00	0.00	0.00	1,630,952.55
Low-value assets	78,095.88	680.90	0.00	0.00	35,755.36	43,021.42
	6,685,739.19	230,492.49	3,271.80	0.00	416,280.11	6,503,223.37
4. Prepayments and assets under construction						
Plants under construction	6,812,488.60	457,429.84	-934,843.68	0.00	0.00	6,335,074.76
	6,812,488.60	457,429.84	-934,843.68	0.00	0.00	6,335,074.76
	221,900,719.04	1,288,674.21	0.00	0.00	6,795,060.78	216,394,332.47
III. Financial Assets						
1. Shares in affiliated companies	774,081,700.34	191,323,217.45	-23,937,944.55	0.00	106,324,009.93	835,142,963.31
2. Loans to affiliated companies	266,883,311.56	169,571,003.31	0.00	0.00	103,939,035.08	332,515,279.79
3. Investments	475,000.00	0.00	23,937,944.55	0.00	0.00	24,412,944.55
4. Loans to associated companies	844,039.29	78,565.96	0.00	0.00	0.00	922,605.25
5. Securities held as fixed assets	13,749,549.33	87,748,701.44	0.00	0.00	0.00	101,498,250.77
6. Other loans	23,554,064.35	561,105.87	0.00	0.00	3,638,880.51	20,476,289.71
	1,079,587,664.87	449,282,594.03	0.00	0.00	213,901,925.52	1,314,968,333.38
TOTAL FIXED ASSETS	**1,437,637,491.13**	**450,577,268.24**	**0.00**	**0.00**	**220,714,753.80**	**1,667,500,005.57**

Development of Amortization/Depreciation								Book Values	
Balance as of 1/1/2016	Additions	thereof extraordinary depreciation	Transfers	Reallocation	Disposals	Write-ups	Balance as of 12/31/2016	Balance as of 12/31/2015	Balance as of 12/31/2016
10,653,752.58	1,223,903.53	563,510.89	0.00	0.00	16,000.00	0.00	11,861,656.11	1,811,419.45	593,515.92
101,942,232.80	11,582,311.17		0.00	0.00	0.00	0.00	113,524,543.97	21,457,986.41	9,875,675.24
270,942.87	6,503.98		0.00	0.00	1,767.50	0.00	275,679.35	12,773.11	6,269.13
0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
112,866,928.25	12,812,718.68	563,510.89	0.00	0.00	17,767.50	0.00	125,661,879.43	23,282,178.97	10,475,460.29
0.30	0.00		0.00	0.00	0.00	0.00	0.30	9,293,159.11	9,293,159.11
4,155,198.48	531,985.39		0.00	0.00	197,643.30	0.00	4,489,540.57	28,432,562.96	27,674,515.50
41,171,931.68	4,722,172.34		0.00	0.00	3,464,924.44	0.00	42,429,179.58	97,598,485.00	91,918,485.56
2,758,209.52	31,957.80		0.00	0.00	0.00	0.00	2,790,167.32	37,951.14	5,993.34
15,126,506.64	6,592,757.45	5,936,489.11	0.00	0.00	0.00	0.00	21,719,264.09	9,615,556.04	3,022,798.59
63,211,846.62	11,878,872.98	5,936,489.11	0.00	0.00	3,662,567.74	0.00	71,428,151.86	144,977,714.25	131,914,952.10
117,304.91	11,890.67		0.00	0.00	0.00	0.00	129,195.58	95,625.47	83,734.80
0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
117,304.91	11,890.67		0.00	0.00	0.00	0.00	129,195.58	95,625.47	83,734.80
4,295,685.11	254,350.00		0.00	0.00	309,541.66	0.00	4,240,493.45	867,205.65	588,755.95
476,793.12	8,000.00		0.00	0.00	0.00	0.00	484,793.12	967,959.43	1,146,159.43
57,568.70	9,679.70		0.00	0.00	35,755.36	0.00	31,493.04	20,527.18	11,528.38
4,830,046.93	272,029.70	0.00	0.00	0.00	345,297.02	0.00	4,756,779.61	1,855,692.26	1,746,443.76
6,290,171.84	0.00		0.00	0.00	0.00	0.00	6,290,171.84	522,316.76	44,902.92
6,290,171.84	0.00	0.00	0.00	0.00	0.00	0.00	6,290,171.84	522,316.76	44,902.92
74,449,370.30	12,162,793.35	5,936,489.11	0.00	0.00	4,007,864.76	0.00	82,604,298.89	147,451,348.74	133,790,033.58
11,712,231.65	1,009,219.33		0.00	0.00	1,700,860.51	62,991.00	10,957,599.47	762,369,468.69	824,185,363.84
1,950,000.00	0.00		0.00	0.00	1,950,000.00	0.00	0.00	264,933,311.56	332,515,279.79
237,500.00	0.00		0.00	0.00	0.00	0.00	237,500.00	237,500.00	24,175,444.55
422,019.67	39,282.98		0.00	0.00	0.00	0.00	461,302.65	422,019.62	461,302.60
1,488,168.80	100,905.00		0.00	0.00	0.00	146.95	1,588,926.85	12,261,380.53	99,909,323.92
15,387,208.44	0.00		0.00	0.00	0.00	0.00	15,387,208.44	8,166,855.91	5,089,081.27
31,197,128.56	1,149,407.31	0.00	0.00	0.00	3,650,860.51	63,137.95	28,632,537.41	1,048,390,536.31	1,286,335,795.97
218,513,427.11	**26,124,919.34**	**6,500,000.00**	**0.00**	**0.00**	**7,676,492.77**	**63,137.95**	**236,898,715.73**	**1,219,124,064.02**	**1,430,601,289.84**

NOVOMATIC AG
Provisions

as of December 31, 2016

EUR

PROVISIONS	Balance as of 1/1/2016	Consumption	Release	Allocation	Balance as of 31/12/2016
1. Provisions for severance payments					
Provision for severance payments	778,857.00	0.00	0.00	1,047,880.00	1,826,737.00
2. Provisions for pensions					
Provision for pensions	6,813,647.00	0.00	0.00	798,729.00	7,612,376.00
3. Provisions for taxes					
Provision for corporate income tax	1,747,902.19	1,747,902.19	0.00	0.00	0.00
4. Other provisions					
Provisions for auditing and consulting fees	379,600.00	350,938.82	9,661.18	513,453.00	532,453.00
Provisions for damage cases	0.00	0.00	0.00	100,000.00	100,000.00
Provision for unconsumed vacation	461,919.75	461,919.75	0.00	1,054,751.99	1,054,751.99
Other provisions for personnel	3,980,000.00	3,634,186.93	345,813.07	4,137,000.00	4,137,000.00
Provision for jubilee payments	49,553.00	0.00	0.00	28,193.00	77,746.00
Other provisions	228,055.61	116,696.00	0.00	889,583.98	1,000,943.59
	5,099,128.36	4,563,741.50	355,474.25	6,722,981.97	6,902,894.58
TOTAL PROVISIONS	**14,439,534.55**	**6,311,643.69**	**355,474.25**	**8,569,590.97**	**16,342,007.58**

NOVOMATIC AG
Auditor's Report

Report on 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, 2016, 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, 2016 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 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.

Impairment of the investments in RSV Beteiligungs GmbH and LTB Beteiligungs GmbH

Description and Issue

The book values of the investments in RSV Beteiligungs GmbH and LTB Beteiligungs GmbH, measured at EUR 72.3 Mio and EUR 23.9 Mio respectively, are contrasted with an equity of EUR 4.0 Mio and an equity share of EUR 0.2 Mio. For details on this comparison, we refer to the schedule of investments in the notes to the financial statements. These entities have an indirect shareholding in Österreichischen Lotterien Gesellschaft mbH (ÖLG) amounting to 11.56 %. As its subsidiaries and the lower-tier subsidiaries do not have any significant assets or liabilities, the determination as to whether these investments are impaired is in all material respects determined by the valuation of ÖLG.

As such, the Company performed an impairment review of the investment in ÖLG. A multiples-based model was used in this review. For this purpose, industry-specific multiples were derived from international entities in the lottery industry. The selection of these entities, as well as the necessary adjustments included the model, such as valuation adjustments, are subjected to uncertainties related to estimations and judgments, which have considerable influence on the results of the valuation. For further explanations we refer to Section 11 "Valuation of Financial Instruments" in the notes to the consolidated financial statements.

Our Response

We evaluated the appropriateness of the valuation model with the involvement of our internal valuation specialists, examined the appropriateness of the entities from which the industry-specific multiples were derived, reperformed the calculations of the multiples, and agreed the other financial information used in the valuation with the published financial statements of ÖLG. In regards to the adjustments in valuation, we have examined as to whether these adjustments have been consistently applied over the periods in which the investments were held.

Other Information

Management is responsible for the other information. The other information contain all information in the annual report but does not include the financial statements, the management report and our auditor's report thereon. The annual report is expected to be made available to us after the date of the auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with Austrian Generally Accepted Accounting Principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The scope of the audit does not include assurance on the future viability of the Company or on the efficiency or effectiveness with which the management has conducted or will conduct the affairs of the Company.

As part of an audit in accordance with 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 are prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to section 243a UGB and is consistent with the financial statements.

Statement

In the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit of the financial statements, we have not identified material misstatements in the management report.

Engagement Partner

The engagement partner responsible for the audit is Dr. Christoph Waldeck.

Vienna, March 31, 2017

Deloitte Audit Wirtschaftsprüfungs GmbH

Dr. Christoph Waldeck	**ppa. Mag. Barbara Müllner**
Certified Public Accountant	Certified Public Accountant

This English translation of the audit report was prepared for the client's convenience only. It is not a legally binding translation of the German audit report.

The consolidated financial statements and our auditor's report may be published or transmitted together only if the consolidated financial statements and the management report are identical with the confirmed version. Section 281 para 2 Austrian Commercial Code applies to versions that differ.

NOVOMATIC AG
Report of the Supervisory Board

for the fiscal year 2016

In its four meetings held during the course of financial year 2016, the Supervisory Board was regularly informed by the Executive Board on the business policy and dealt thoroughly with business developments and the position of the company. In addition, the Audit Committee heard reports from the Executive Board and the auditor during the two meetings.

The annual financial statements of December 31, 2016, and the Management Report of the Executive Board, to the extent that it explains the annual financial statements, have been examined with regard to accounting by Deloitte Audit Wirtschaftsprüfungs GmbH, which was appointed as auditor by the Annual General Meeting and has been charged with providing an unqualified audit opinion.

The examination of the annual financial statements by the Supervisory Board did not give rise to any objections. The Supervisory Board agrees with the proposal of the Executive Board regarding the use of the net profits from 2016.

The annual financial statements drawn up by the Executive Board were approved by the Supervisory Board and hence adopted in accordance with the Aktiengesetz (AktG – Austrian Stock Corporation Act).

The Supervisory Board acknowledges and thanks the Executive Board and all employees of NOVOMATIC AG's companies for their work during the financial year of 2016.

Gumpoldskirchen, March 2017
The Supervisory Board

Dr. Bernd Oswald
Chairman

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for Notes

Imprint

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.

In order to improve readability, some terminology is used only in its masculine form. Nevertheless, all passages refer equally to members of both genders.

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

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