Schumann S.p.A. (with a sole shareholder)

Registered office - Via del Vecchio Politecnico 9 - Milan
Share capital: subscribed and paid-in for Euros 9,919,809
Milan Registry of Companies - Ordinary section no. 09427590964
R.E.A. of Milan No. 2089389
Tax Code and VAT no.: 09427590964

CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2016

Directors' Report on Operations, Separate Financial Statements

Contents

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SCHUMANN GROUP

Directors' Report on Operations

Consolidated Financial Statements at December 31, 2016

Dear Shareholders,

We hereby submit for your attention the consolidated financial statements for the year ended December 31, 2016 of Schumann S.p.A. which present a loss attributable to owners of the Parent of Euros 38,858 thousand. In the same year depreciation, amortization and impairment losses of fixed assets were recorded for Euros 7,269 thousand and revenues and income totaled Euros 72,867 thousand. The Consolidated Statement of Comprehensive Income is also impacted by finance expenses and similar for Euros 30,699 thousand.

The Parent was incorporated on March 2, 2016 under the name Debussy S.r.l., later transformed into a joint stock company and in December 2016 finalized the acquisition of 100% of the share capital of Sisal Group S.p.A. for a total of around Euros 459 million, net of transaction charges (for about Euros 7 million).

These consolidated financial statements therefore refer to the period March 2, 2016 to December 31, 2016 as regards activities directly attributable to the Parent, whilst economic values for the group acquired were recorded from December 1, 2016.

The Parent has opted to apply IAS/IFRS international accounting standards from 2016 in relation to these consolidated financial statements, regardless of the fact that the Company has instead adopted

national accounting standards for the preparation of its separate financial statements, according to the abbreviated form provided by art. 2435-bis of the Italian Civil Code, making the assumptions .
Since Sisal Group S.p.A. and its main controlled entities, on the contrary, prepare their yearly financial statements according to IAS/IFRS (respectively International Accounting Standards and International Reporting Standard), as allowed by art. 4, paragraph 6-bis, D.Lgs 28 February 2005, no. 38, The Directors, also supported by an expert's opinion, have considered it appropriate to adopt the International Accounting Standards to prepare the Schumann Group consolidated financial statements.
This approach, in fact, has allowed, in addition to the requirements of transparency and truthful and fair representation, the continuity, uniformity and comparability of the accounting data of the group recently acquired to be guaranteed.

Key data

The key data for 2016 are presented in the following table (figures in thousands of Euros). The table also includes "Adjusted" profitability indicators, which exclude the effects of non-recurring expenses of Euros 7.8 million, mostly associated with the transaction charges for the above-mentioned acquisition. Furthermore, with regard to EBITDA, which is not specifically presented in the Group's financial statements, this is defined as profit (or loss) for the year/period adjusted for: (i) amortization, depreciation, impairment losses and reversals; (ii) Finance income and similar; (iii) Finance expenses and similar; (iv) Share of profit/(loss) of companies accounted for using the equity method; and (v) income taxes.

	2016
Total Revenues and income	72,867
EBITDA	2,158
Adjusted EBITDA	9,959
Operating profit (loss) - EBIT	(5,908)
Adjusted operating profit (loss) EBIT	1,893
Profit (loss) before income taxes	(36,717)
Profit (Loss) for the year	(35,858)

Before analyzing the main factors in arriving at the loss for the year, the principal business developments in the Group's market are described in the following comments.

The Group's Business

The Group is one of the most important gaming operators in the Italian market and has been operating for over 70 years.

During 2016, social management continued and developed what had been implemented in prior years. Particular attention has been paid to the important subject of the social sustainability of all its business activities. Infact, the Group has continued to stand forward as a leader in the promotion of initiatives aimed at ensuring a safe, aware approach to gaming, using a structured model of responsible gaming based on international best practices. The companies in the Group confirm this that in 2014 were awarded the prestigious Certification of Responsible Gaming from the European Lotteries. 2016 saw the continued consolidation of the multi-year sustainability plan which has Consumers, Employees and the Community as its stakeholders, balancing the interests and expectations of all the parties concerned and integrating them into the business strategies. In concert with the group, the company has in particular continued to implement the Consumer Protection plan, based on a safe and aware responsible gaming model focused on entertainment and the ban on gaming by minors, with particular attention to protecting the most vulnerable bands of consumers. Also in 2016, the process for Responsible Gaming certification by the European Lotteries was consolidated, and Sisal's commitment was furthermore translated into a focus on all Employees, the Community and geographic areas through projects in support of sport, talent, culture and scientific research.

The activities conducted by the Group over the years are described in depth in the 2015 Sisal Social Report, issued in September 2016, and in similar documents referring to the previous years. The activities specifically referring to 2016 will be published in a similar report.

The Group operates in Italy in the Gaming and Betting market with a full spectrum of products in the Retail channel and the Online channel. Furthermore, since 2002, taking advantage of its extensive territorial presence, direct access to consumers and distribution and technological synergies with the gaming and betting business, a diversification system was begun by the Group which has allowed it to strengthen its position as one of the leaders in the Payments and Services market.

In the gaming and betting markets, the Group offers a wide product range which includes: (i) gaming machines ("Slot Machines") and video lottery terminals ("VLTs"); (ii) betting; (iii) lotteries; and (iv) online games (such as poker and casino games) and (v) bingo. The products are routed through both the retail channel and the online channel, through the Group's web portal "sisal.it" and mobile applications. Specifically, in the retail distribution network, at December 31, 2016 the Group operates with 4,686 points of sale featuring a series of formats identifiable with the Group's own brands ("Branded Channel") and through a network of 40,184 points of sale linked by computer with the Group's information systems and distributed throughout Italy ("Affiliated Channel"). The Affiliated Channel includes both points of sale offering mainly products not associated with the Gaming and Betting or Payments and Services markets, such as bars and tobacconists, and points of sale whose activities are primarily associated with Gaming Machines.

As for the Payments and Services market, the Group manages the following: (i) payment of bills, utilities, fines, taxes, subscriptions etc.; (ii) top-up of prepaid debit cards; (iii) mobile phone top-ups and pay-for-view TV cards and also (iv) marketing of some products such as gadgets and mini-toys. The Group products and services are distributed through both the Branded and Affiliated Channels and the web portal "sisalpay.it".

The Group has adopted and implemented an organization model based on four business units, which are described below.

- "**Retail Gaming**": The Retail Gaming activities refer to slot machines, VLTs, fixed-odds sports betting, traditional sports pools and bingo. The Retail Gaming business unit also manages the Branded Channel and a part of the points of sale of the Affiliated Channel.

- "**Lottery**": Lottery is responsible for operating the exclusive concession for national tote number games ("NTNG"), of which the most popular products are SuperEnalotto, WinForLife!, SiVinceTutto and EuroJackpot. The lottery games are managed through the Branded and Affiliated Channels as well as the Group's web portal and 23 online gaming portals operated by third parties and connected to the Group's NTNG online platform. The Lottery segment also manages the points of sale of the Affiliated Channel that are not managed by the Retail Gaming segment.

- "**Online Gaming**": Online Gaming presents players with the opportunity to play online games and place online bets through the sisal.it web portal and through the mobile phone channel. The online product mix offered by the Group is one of most extensive and includes the entire portfolio of products available in accordance with the laws in force, such as online betting and online poker and casino games as well as lotteries and bingo.

- "**Payments and Services**": Payments and Services operates payment and financial services such as: (i) payment of bills, utilities, fines, taxes, subscriptions etc.; (ii) top-up of prepaid debit cards; (iii) mobile phone top-ups and pay-for-view TV cards and also (iv) marketing of some products such as gadgets and mini-toys. The products and services are distributed through both the Branded and Affiliated Channels - the latter also including the 7,103 Service Only points of sale at December 31, 2016 – and through the web portal “sisalpay.it”.

The tables below illustrate revenues and adjusted EBITDA for each segment for the years ending December 31, 2016 (considered on the basis of a full year of results of the acquired group) and December 31, 2015 (coinciding with the results for the previous year of the acquired group).

Segments *(in Euros millions)*	**12.31.2016**	**12.31.2015**
Retail Gaming	445.2	487.9
Lottery	95.8	74.5
Online Gaming	58.1	47.8
Payments and Services	180.1	174.7
Other revenues	1.7	2.1
Total Revenues	**780.8**	**787.1**

Segments *(in Euros millions)*	**12.31.2016**	**12.31.2015**
Retail Gaming	61.9	75.4
Lottery	39.5	27.8
Online Gaming	23.4	21.8
Payments and Services	65.4	59.0
Total segment EBITDA	190.3	184.0
Items with different classification	(2.9)	(1.7)
Total EBITDA	**187.3**	**182.3**

Retail Gaming: the results of Retail Gaming in 2016 reflect the impact of the 2016 Stability Law on the gaming machines network (to be discussed in greater detail in a later section of the report) and by a lower sports betting margin compared to that of 2015. As a percentage of total revenues, Retail Gaming Adjusted EBITDA in 2016 is 13.9% compared to 15.5% in 2015.

Lottery: the results of the Lottery business unit in 2016 are mainly due to the successful relaunch of the new SuperEnalotto in February 2016, which significantly increased the game’s appeal to customers and the distribution network. The revenues performance more than offset the rise in promotion and operating costs relating to the new product, and therefore the Adjusted EBITDA of the Lottery business unit in 2016 is 41.3%, up on the 37.2% of 2015, as a result of the factors mentioned above.

Online Gaming: Online Gaming's positive results in 2016 were driven by the solid performance of the slot games and the positive sports betting performance, which more than offset the weakness of the online Poker market. As a percentage of total revenues, Online Gaming Adjusted EBITDA in 2016 is 40.3% compared to 45.6% in 2015, also due to the increase in promotional expenses which led to a further significant increase in active players, with a positive effect on turnover and revenues.

Payments and Services: the equally excellent results for the Payments and Services Business Unit in 2016 mainly stem from the further growth of revenues achieved in particular in the financial services segment and in payments managed by the Sisal Group S.p.A.. As a percentage of total revenues, the Adjusted EBITDA of Payments and Services in 2016 is 36.3%, up by around 2.5 percentage points with the final figure achieved in 2015.

The Group operates through a distribution network of 44,870 points of sale at December 31, 2016 across two different retail channels: the Branded Channel and the Affiliated Channel, as well as through the Online Channel.
A breakdown of the distribution network of the Group at December 31, 2016 by type of product normally offered under the various distribution formats is presented in the following chart.

Channel	Format	Number	Betting market	VLT	Slot machines	Lottery	Payments and Services
Branded Channel	WinCity	24	√	√	√	√	√
	Matchpoint Betting Agencies	364	√	√	√	√	√
	Matchpoint Corners	3,535	√		√	√	√
	SmartPoint	763			√	√	√
	Total Branded Channel	**4,686**					
Affiliated Channel	POS with gaming machines, Lotteries, Payments and Services	3,168			√	√	√
	POS with gaming machines only	3,519		√	√		
	POS with Lotteries, Payments and Services	26,394				√	√
	POS "Service Only (stand-alone terminals)"	7,103					√
	Total Affiliated Channel	**40,184**					
Total Group Network		**44,870**					

Branded Channel

The Branded Channel at December 31, 2016 includes 4,686 points of sale directly identifiable with the Group's own brands. This channel encompasses two types of points of sale:

- points of sale dedicated to gaming activities managed directly by the Group. This category includes the 24 WinCity gaming halls directly managed by the Group and the 364 Matchpoint betting agencies, some of which operate on the basis of partnership contracts. These gaming points of sale cover an area of about 250 to over 1,000 square meters, in locations and places such as to attract a large number of users;
- points of sale where the business is not predominantly gaming, promoted by the Group according to a shop-in-shop model. This category comprises (i) the 3,535 Matchpoint betting corners and (ii) the 763 SmartPoints, new type of points of sale. Both the corners and the SmartPoints are third-party points of sale operated according to the shop-in-shop model, in which the Group manages the product mix, the displays and furnishings, the brand name and the information material and marketing of these gaming areas with its own sales force. In addition, the Group has organized sales and training initiatives especially developed for these points of sale.

The Branded Channel points of sale record the best performance in the distribution network, in terms of gaming volumes, and represent the format through which the Group is able to capture a larger share of the gaming value chain, resulting in higher margins. Specifically, besides the fees of the concessionaire, the Group, through the model developed in the Branded Channel, is also remunerated for the value chain component relating to the retailer, as in the case of WinCity and Matchpoint betting agencies, and for the component relating to the Slot Machine “operator”, as in the case of Matchpoint corners and SmartPoints.

Affiliated Channel

The Affiliated Channel at December 31, 2016 includes a network of 40,184 third-party points of sale in which the Group distributes its own products for lotteries and gaming machines as well as Payments and Services; such points of sales include the following:

- Points of sale with gaming machines, lotteries, Payments and Services;
- Points of sale with lotteries, Payments and Services;
- Points of sale with gaming machines only;
- Points of sale with Payments and Services only, also referred to as “Stand Alone”.

The Affiliated Channel includes both points of sale such as bars, tobacconists and newsstands, which are not predominantly associated with the Gaming and Betting or Payments and Services markets, and points of sale dedicated exclusively to gaming machines. The Affiliated Channel allows the Group to reach a broad community of consumers thanks to its widespread presence throughout Italy, which complements and supplements the Group’s distribution network through the Branded Channel.
The Affiliated Channel also includes 7,103 “Service Only” points of sale which the Group set up in the last two years in shops such as bars, tobacconists, newsstands, supermarkets, etc. where only Payments and Services are offered by the Group on an exclusive basis.
A summary of the revenues and EBITDA of the two above channels, related to Retail Gaming business unit, for the years ended December 31, 2016 and 2015 is presented in the following chart.

Retail Gaming (*in Euros millions*)	**12.31.2016**	**12.31.2015**
Revenues		
Branded Channel	249.2	272.6
Affiliated Channel	196	215.3
Total Revenues	**445.2**	**487.9**
EBITDA		
Branded Channel	38.5	48.5
Affiliated Channel	23.5	26.9
Total EBITDA	**61.9**	**75.4**

Industry Overview

Gaming and Services market in Italy: the scenario

2013–2016 trend

The Group operates in the following two markets:

- the gaming market with payouts in cash, that is, gaming regulated by the Ministry of the Economy and Finance (MEF) and the Amministrazione Autonoma dei Monopoli di Stato or the State Monopolies Board (AAMS), now the Agenzia delle Dogane e dei Monopoli or Customs and Monopolies Agency (ADM);

- the addressable payment services market, calculated net of payments made by direct debit, which includes the payment of utilities, taxes, fines, telephone top-ups and reloads of prepaid debit cards.

The trend is analyzed for the period from 2013 to 2016.

The aggregate of the two markets in 2016 reached a value of more than Euros 217 billion, with the addressable Services market representing over 56% of the total (note that in 2016 the scope of the market was updated to include all possible forms of payment and this led to an expansion of the total value of the addressable market).

The Gaming market rose by 8.9% in 2016 compared to 2015, whereas the Services market declined by 2.9%.

Considering the average period performance (2013-2016), the addressable payment services market shows an average compound annual growth rate ("CAGR") of -3.1% while the gaming market recorded 4.4% growth.

The data in the following charts are expressed in millions of Euros, unless otherwise indicated.

The 2016 figures are estimated from internal sources and ADM sources.

	2013	2014	2015	2016	CAGR 2013/2016
Total Gaming Market Turnover*	**84.308**	**84.229**	**88.019**	**95.859**	**4,4%**
Total Addressable Payment Services Market	**133.829**	**126.640**	**125.229**	**121.598**	**-3,1%**
Potential market	**218.137**	**210.869**	**213.247**	**217.457**	**-0,1%**

* excludes figures relating to products w ithout money w innigs (so called Paragraph 7)

Gaming Market in Italy: the scenario

2013–2016 trend

The total turnover of the gaming market increased with a CAGR of 4.4%.

The reasons behind this trend rest on two factors:

1) a material increase in the payout - the amount returned to players in the form of winnings - which in 2016 amounted to Euros 77.5 billion (80.8% of total turnover) up 8.8% compared to 2015. This indicator was also positive for the average period, recording a CAGR of +4.6%;
2) the second year of turnover for a number of foreign operators who previously operated under concessions from other European countries and from 2015 became Italian concessionaires, particularly in the online sports betting segment.

Other important gaming market indicators are the actual expenditure by the public, calculated as turnover less payout and taxes.

Expense and Tax Authorities both record a positive CAGR trend: the first achieves a CAGR of +3.3%; the second a CAGR of +5.3%, a decisive increase also due to the effect of the increased taxation on gaming equipment established by the 2016 Stability Law.

	2013	2014	2015	2016	CAGR 2013/2016
Total Turnover*	**84,308**	**84,229**	**88,019**	**95,859**	**4.4%**
Payout*	**67,621**	**67,624**	**71,247**	**77,482**	**4.6%**
Actual expenditure by public*	**16,687**	**16,605**	**16,772**	**18,377**	**3.3%**
Taxes	*8,270*	*8,027*	*8,073*	*9,651*	**5.3%**

	2013	2014	2015	2016	CAGR 2013/2016
Total Turnover*	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**0.0%**
Payout*	**80.2%**	**80.3%**	**80.9%**	**80.8%**	**0.3%**
Actual expenditure by public*	**19.8%**	**19.7%**	**19.1%**	**19.2%**	**-1.0%**
Taxes	**49.6%**	**48.3%**	**48.1%**	**52.5%**	**2.0%**

* excludes figures relating to products without money winnigs (so called Paragraph 7)

An analysis of the gaming market segments shows that market growth in 2016 is driven by the positive trend in sports betting, due to expansion of the operators offering this product, as well as the additional volumes from the European Football Championships. In fact, the CAGR for this segment recorded a 29.3% growth, and in 2016 alone (vs. 2015) the increase was 28.4%. All other segments also recorded a positive CAGR.

Total turnover details	2013	2014	2015	2016	CAGR 2013/2016
Lotteries	**17,321**	**17,258**	**17,195**	**18,669**	**2.5%**
Betting and Sports Pools	**4,651**	**6,285**	**7,836**	**10,063**	**29.3%**
Gaming machines	**47,391**	**46,744**	**48,161**	**49,440**	**1.4%**
Bingo	**1,664**	**1,624**	**1,598**	**1,702**	**0.8%**
Skill, Card & Casino Games	**13,281**	**12,318**	**13,229**	**15,986**	**6.4%**
Total Gaming Market	**84,308**	**84,229**	**88,019**	**95,859**	**4.4%**

The following chart shows the trend of the actual expenditure of the public in the different product segments.

In 2016 this indicator showed Euros 18.4 billion with a positive CAGR of 3.3% for the period 2013-2016.

The market turnover was driven by a steady increase in the amount of the payout, or winnings. As a consequence, the percentage rate of actual expenditure by the public to turnover shows a steady decrease from approximately 19.8% in 2013 to 19.2% in 2016.

Expenditure of the public details	2013	2014	2015	2016	CAGR 2013/2016
Lotteries	**5,666**	**5,453**	**5,319**	**5,706**	**0.2%**
Betting and Sports Pools	**1,027**	**1,199**	**1,145**	**1,307**	**8.4%**
Gaming machines	**9,027**	**9,021**	**9,348**	**10,277**	**4.4%**
Bingo	**499**	**487**	**477**	**508**	**0.6%**
Skill, Card & Casino Games	**469**	**444**	**483**	**580**	**7.3%**
Total Gaming Market	**16,687**	**16,605**	**16,772**	**18,377**	**3.3%**

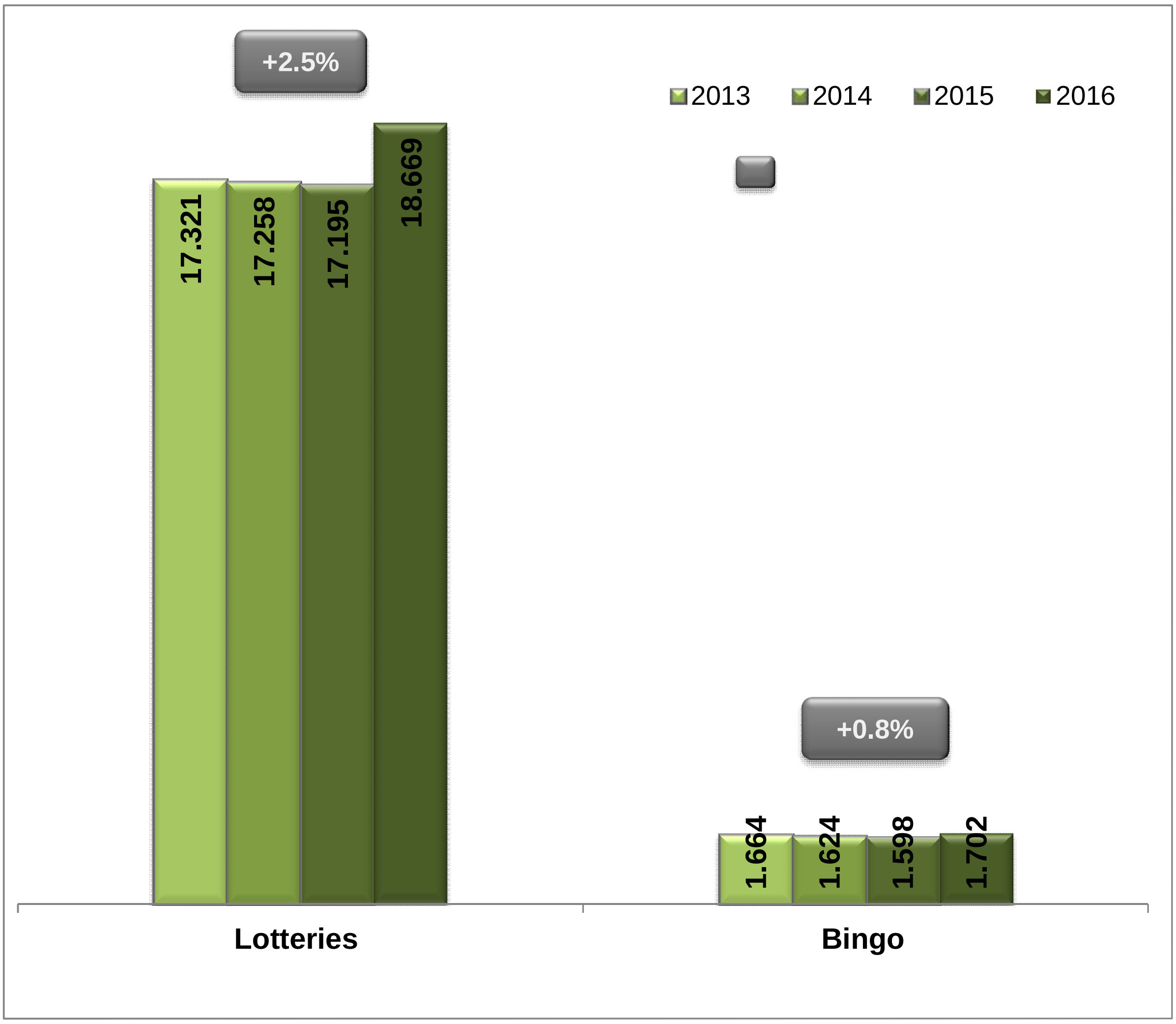
Business and Product Analysis - Turnover

Lottery & Bingo

Lottery records a growth rate during the period of 2.5%. In 2016, the overall trend in the segment turnover reflects the weakness of consumption by Italians for these products, which attract the largest number of consumers in the industry.

It should be emphasized that this performance was also affected by the success of the new SuperEnalotto formula introduced in February 2016.

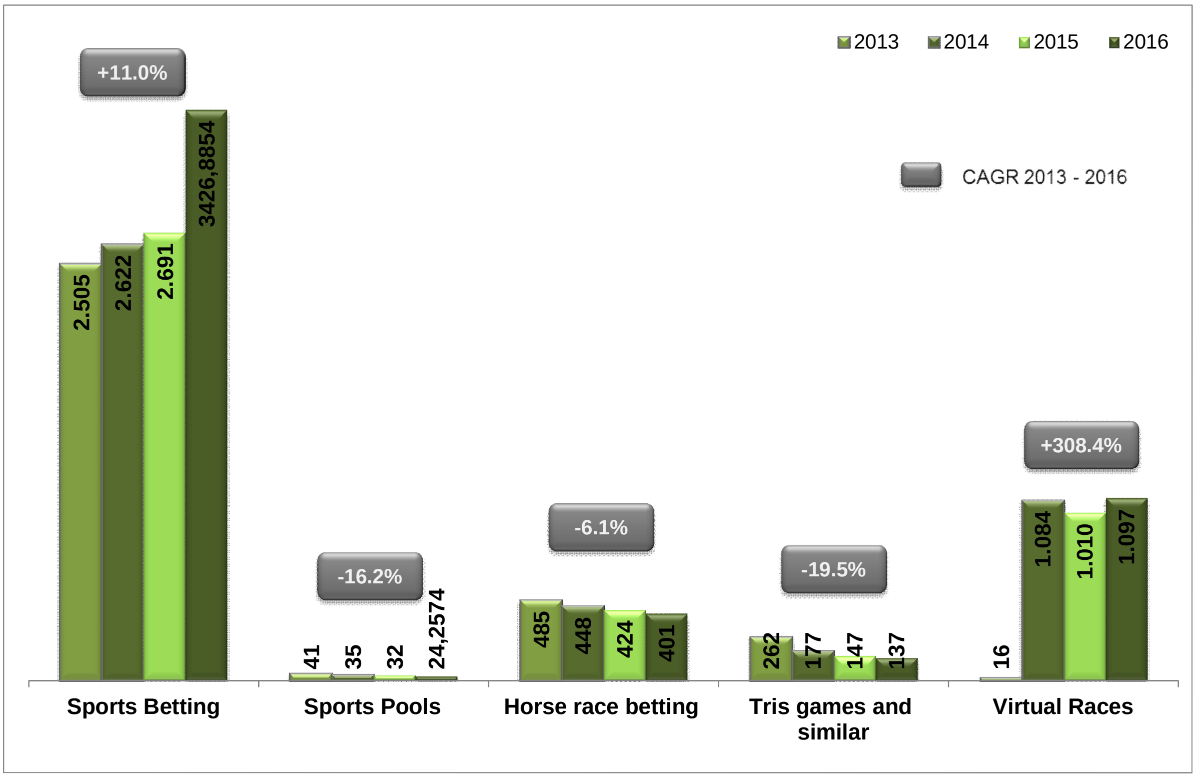
Bingo records a CAGR up by 0.8% for the period 2013-2016.



Betting market

The Sports Betting market, retail channel, displays an average overall growth of 11% during the period 2013-2016. Turnover for the past year was in excess of Euros 3.4 billion, up on the 27.3% of 2015.

The horse betting and traditional sector of Totocalcio (sports pool games) was affected, instead, by the intense market crisis that has continued for some years, recording a sharp reduction during the review period.

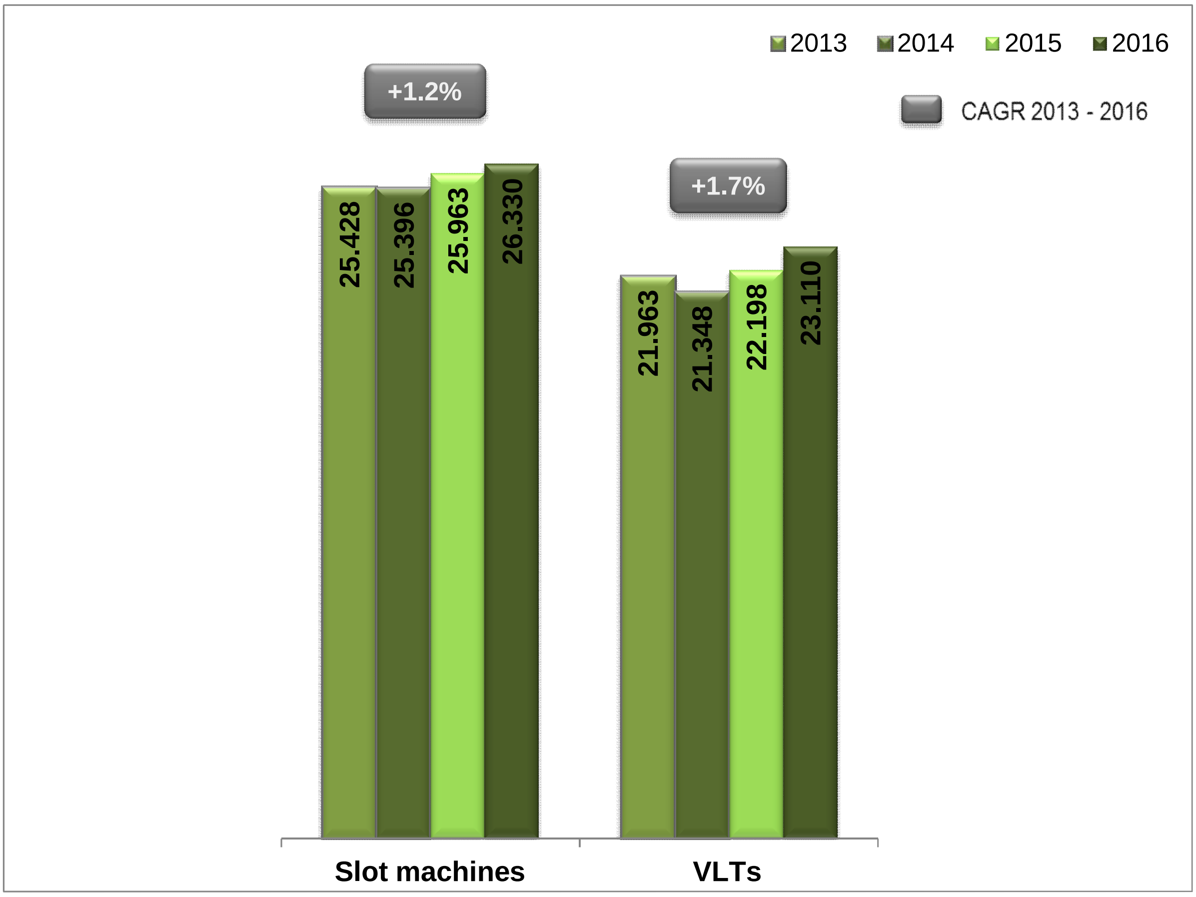


Gaming machines market (Slot machines and VLTs)

At the end of 2016, the Gaming Machines market accounts for 51.6% of the entire gaming market in Italy.

The segment turnover was Euros 49.4 billion, with a CAGR up by 1.4% in the 2013-2016 period.

Slot machines and VLT turnover both saw a CAGR growth of 1.2% and 1.7%, respectively.

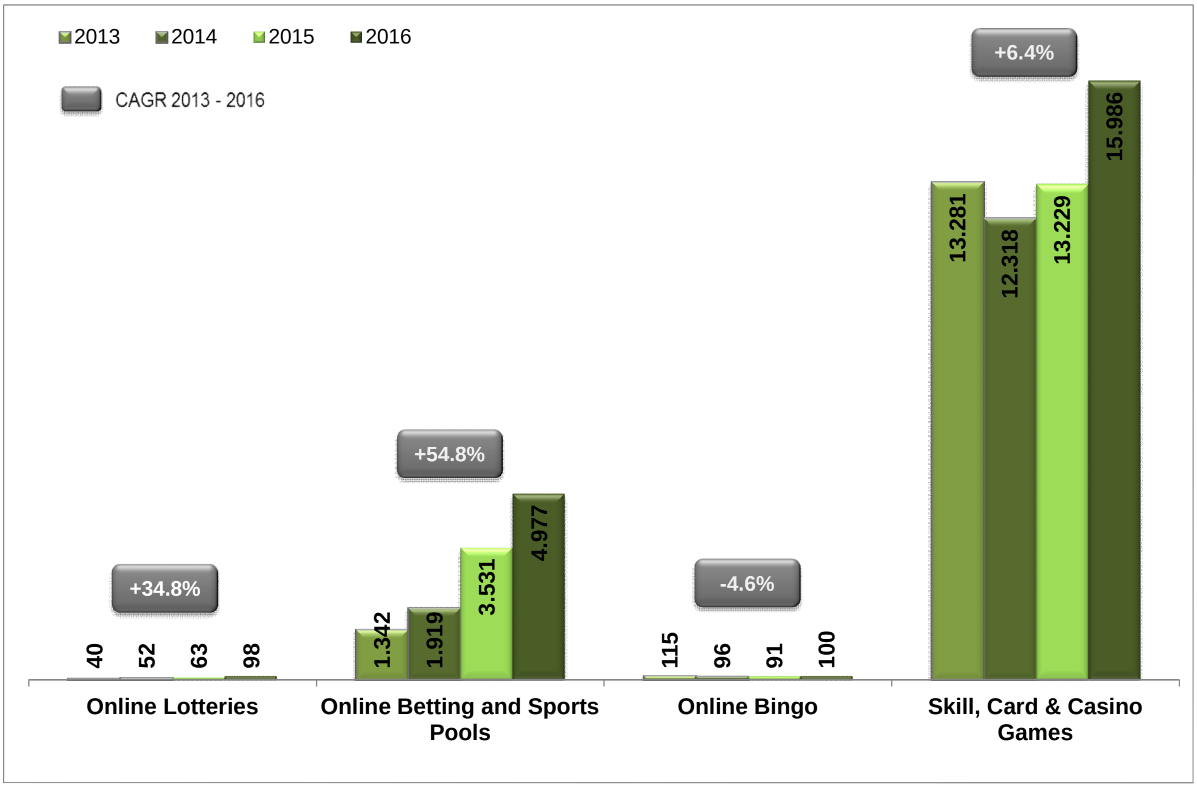


Online market

Online Gaming shows a positive trend, with a +12.7% CAGR.

The growth driver was sports betting, for the reason mentioned above. The other segments also record increases, except for online bingo which saw a CAGR down by -4.6%.

In addition to the reason mentioned above, for the online segment in particular the increasingly widespread use of applications for smart phones and tablets, increasing their usability, is valid.

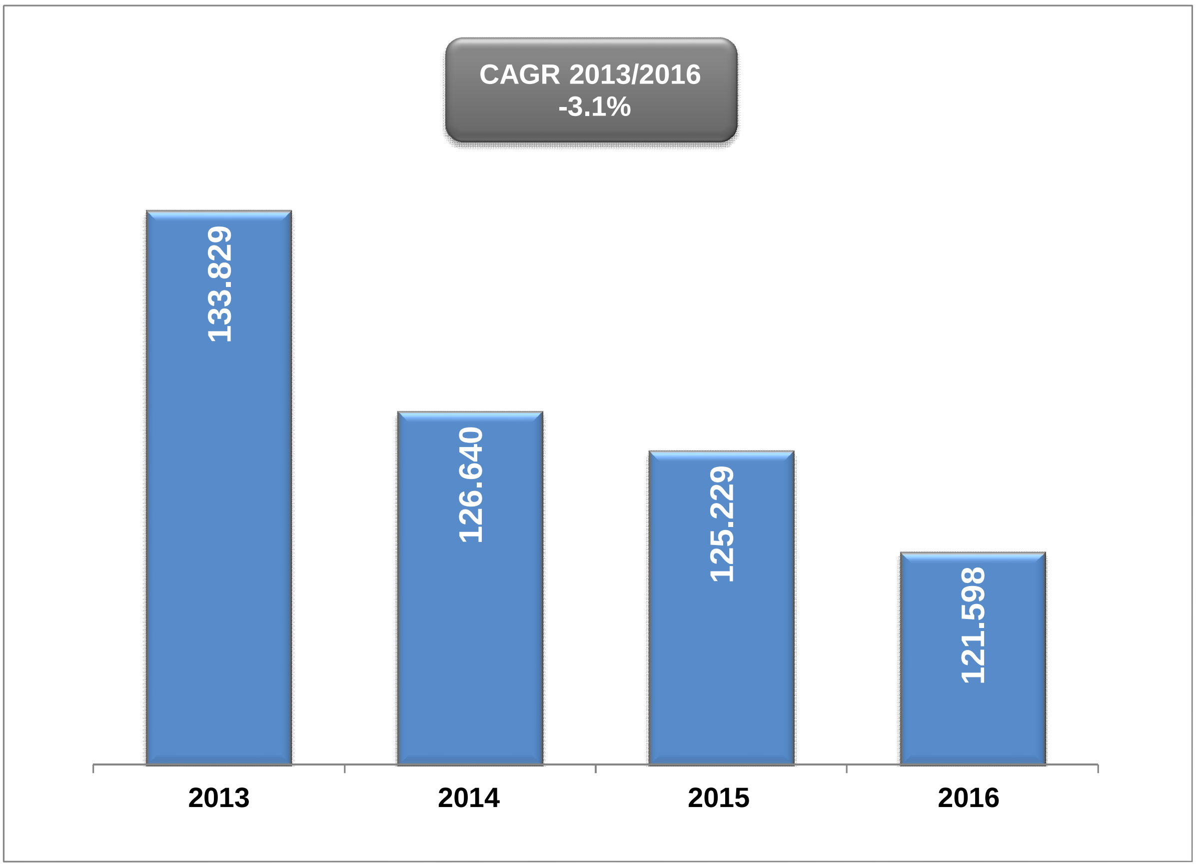


In an extremely dynamic market environment, with growth compared to the previous year of around 9%, the Group's total turnover for all of 2016 in the segments described above (approximately Euros 7.9 billion) resulted in a growth of just under 13% compared to last year.

This growth reflects the excellent performance in the Lottery segment of the new SuperEnalotto, growth of the VLT business, due to the combined effect of product-related activities, development of retail and the commercial acquisition of venues from competitors, as well as the further consolidation of online games with major growth rates in the sports betting segment. In the gaming machines segment, a less positive performance was recorded by the AWP segment (mainly due to the lower average performance per machine resulting from the reduced payout, whilst the number of machines remained essentially stable) and the effect of expansion of the legalized market in the betting segment. The combined result of these many factors led to a slight increase in the overall market share of the Group in the games segment, which at the end of 2016 was over 8%.

Payment Services Market

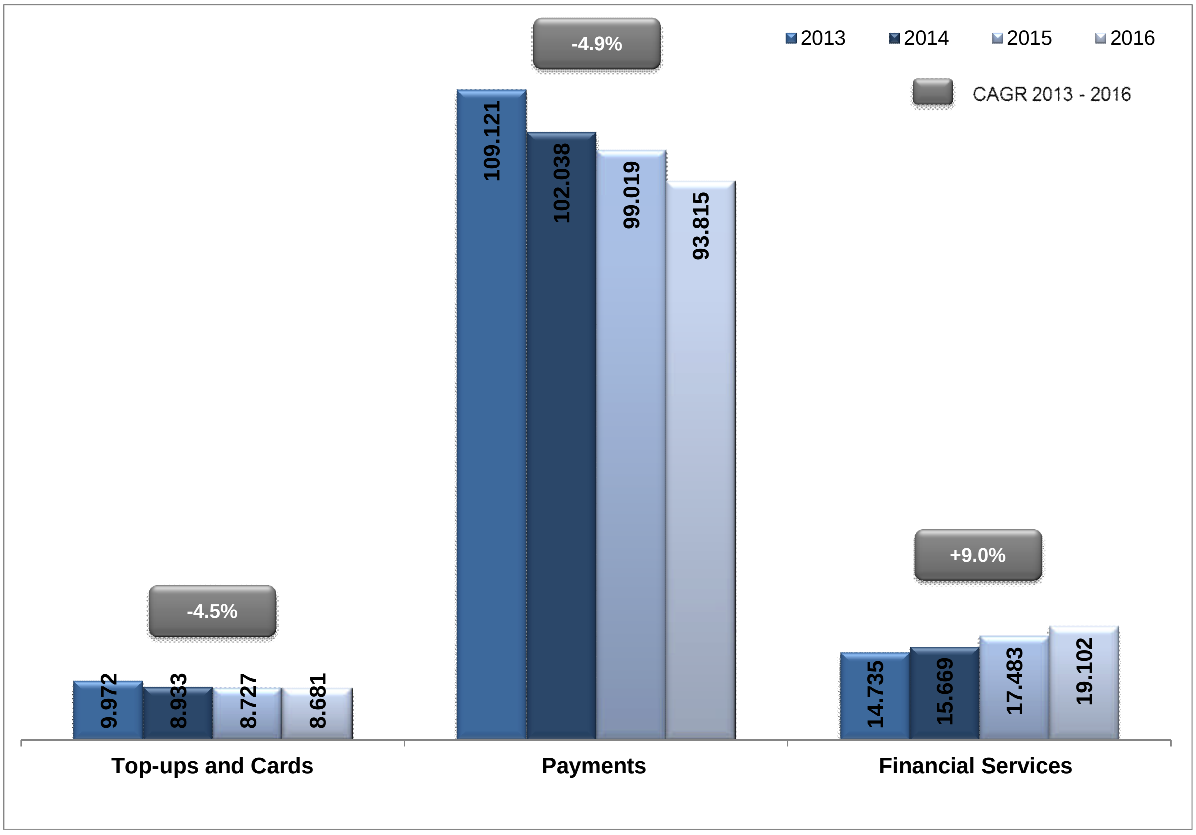
The addressable payment services market - the total paid by Italians net of direct debits - in 2016 reached turnover of Euros 121.6 billion, down by 2.9% compared to the 2015 figure.



An analysis of the various markets of the Services segment shows the increasing importance of the financial services, which grow faster than the other segments. In 2016, in fact, turnover reaches Euros 19.1 billion, with +9.0% CAGR in the period 2013-2016.

The top-ups and cards segment, however, continues its downtrend due to extensive changes to the product mix for the public by the major telephone operators. The segment's turnover in 2016 was close to Euros 8.7 billion with a CAGR of -4.5%.

Payment Services also decreased (CAGR -4.9%) due to higher direct debit, the migration for certain tax payments to collection methods typical of banks (F23/F24 forms) and a slight drop in the average bill, as a result of strong competitiveness with landline telephony and energy bill efficiency improvements.



The Payments and Financial Services within the Group are managed directly by the Sisal Gruppo S.p.A., based on authorization granted previously by the Bank of Italy, whereas mobile phone top-ups and media are distributed through Sisal S.p.A.

Overall in 2016 the Group reported turnover across its own network throughout the territory and the “Sisal Pay” online platform of approximately Euros 8.7 billion, recording an increase of approximately 7.3% compared to 2015 and improving its market share which, calculated in relation to the addressable services market, is around 7.2% at year-end 2016 compared to about 6.5% in the prior year.

Overview

The results of operations of the Group, reported in the related Statement of Comprehensive Income, as mentioned previously, include the assets acquired from December 2016. Also reflected are the effects of refinancing of the pre-existing debts of the group acquired, on the one hand through capital injections by the new Group owners and on the other through the trading and issue of new debt instruments (in particular two bond loans for a principal totaling Euros 725 million) which resulted in almost full settlement of the financial payables referred to above.

If from a proforma stance we analyse the results of assets acquired by the Group throughout 2016, the main indicators of Group results, calculated therefore as a sum of the consolidated income statements of the target group since 1 January 2016 and of the Parent since its incorporation date and compared with those of 2015 for the acquired group, would be as follows (amounts in thousands of Euros):

	2016	**2015**	**Change**	
Total Revenues and income	780,844	787,077	(6,233)	-0.8%
Purchases of materials, consumables and merchandise	12,826	10,394	2,432	23.4%
Costs for services	438,305	445,461	(7,156)	-1.6%
Lease and rent expenses	22,598	24,248	(1,650)	-6.8%
Personnel costs	86,943	90,463	(3,520)	-3.9%
Other operating costs	38,414	34,902	3,512	10.1%
Allocation to provisions	2,993	(692)	3,685	532.5%
EBITDA	178,765	182,301	(3,536)	-1.9%
Adjusted EBITDA	187,327	182,332	4,995	2.7%
Amortization, depreciation, impairment losses and reversals of the value of property, plant and equipment and intangible assets	100,627	130,199	(29,572)	-22.7%
Operating profit (loss) - (EBIT)	78,138	52,102	26,036	50.0%
Adjusted operating profit (loss) EBIT	86,700	71,609	15,091	21.1%
Net finance expenses and similar	109,037	84,401	24,636	29.2%
Profit (loss) before income taxes	(30,899)	(32,299)	1,400	4.3%
Income taxes	6,539	7,412	(873)	-11.8%
Profit (Loss) for the year	(37,438)	(39,711)	2,273	5.7%

With reference to the situation illustrated above, note that total revenues and income of the Group recorded a decrease of a little under 1% in 2016 compared to 2015. This reflects the trends in the various product and business segments of the Group as detailed in the following table (in thousands of Euros):

	2016	2015	Change	
NTNG	58,336	39,083	19,253	49.3%
Slot Machines and VLTs	332,650	367,714	(35,064)	-9.5%
Betting and Sports Pools	98,839	108,357	(9,518)	-8.8%
Online Games	58,145	47,369	10,776	22.7%
Bingo	0	731	(731)	n.s
Service and Product Revenues	142,829	137,448	5,381	3.9%
Point of Sales Revenues	81,250	78,372	2,878	3.7%
Other revenues and income	8,795	8,003	792	9.9%
Total Revenues and income	**780,844**	**787,077**	**(6,233)**	**-0.8%**

Additional details on the main segment performances are as follows:

- in the “games segment”, the result achieved by the NTNG records an increase in turnover of around 50%, similar to the final figure for related revenues, equal to around Euros 19.3 million more than recorded at the end of 2015. This significant performance that reverses the trend consolidated in recent years is the result of the launch in February 2016 of the new formula for SuperEnalotto which, due in particular to the increased payout and average jackpot level, was an immediate success with the gaming public.

  In 2016 the gaming machines segment the Group, alongside the other concessionaires and network operators, had to absorb the impact of gaming regulatory developments - national and local - and particularly in the provisions of the 2016 Stability Law, including in particular the change in the single tax (PREU) on slot machines from 13% in 2015 to 17.5% from 1 January 2016. The same legislation also allowed reduction of the minimum payout from 74% in force until December 31, 2015 to 70% with effect from 2016, a change which will in any event require significant input for its application to the entire pool of gaming machines managed by the Group, even if a tight schedule of operating plans was implemented immediately.

  With reference to the betting and sports pool games segment, which includes a considerable variety of gaming products, from the historic Totocalcio, national horse race betting (TRIS and similar games), to fixed-odds tote racing and sports bets, up to the more recent “Virtual Races”, as a whole the Group turnover in this segment (retail channel only) was around Euros 750 million. This was essentially in line with the 2015 figure, but the turnover trend was not reflected in a similar trend for revenues due to the higher payouts during the year.

  As for online games, (including online betting and bingo), while turnover grew by almost 24%, revenues increased by around Euros 11 million or approximately +23% over 2015. Unlike the retail channel, the fixed odds online sports betting channel recorded a turnover increase of around 58%. This development was associated in particular to the trend for live games, which encourage replays and the dissemination of the game on mobile devices. This trend offset the higher payouts and therefore offered a final revenues figure up by around 31% on the 2015 result, equivalent to an increase in revenues before promotions paid of around Euros 6 million. A similar trend is seen in the Slot games segment which record an increase in turnover and gross revenues of more than 35%, consolidating their position as the Group's leading product in the segment, in terms of revenues, after sports betting. The overall growth of this segment was also sustained by the continuous renewal of the product portfolio, investments in new client acquisitions and the continuing development of ways to use the online games on mobile devices;

- in the segment of convenience payment services offered by retailers, gross revenues, relating mainly to existing contracts for the sale and/or distribution through the Sisal retailers network of mobile telephone top-ups and TV content cards, decreased in total by approximately 2.5% compared to an increase of approximately 2.8% in turnover, mostly on account of the aggressive sales policies introduced in previous years by all the major operators in the telephony and media sector. As for the collection and payment services managed by Sisal Group S.p.A., since it is a qualified payment institution, during the year turnover recorded a further significant increase (+8%), mainly due to the trends in the Financial Services segment (prepaid card and/or digital wallet top-ups), corresponding to revenues of approximately Euros 102 million (+7%). Overall this segment generated gross revenues for the Group of about Euros 143 million, up approximately 4% compared to the previous year, whereas the margin (revenues net of the fees paid to the retail network) contributed by this segment in 2016, further increased from the prior year to approximately Euros 66 million compared to approximately Euros 62 million in 2015, growing around 7%;
- other income relating to various contractual relationships with the retail network shows an increase of about Euros 2.9 million (+3.7% compared to 2015) as a result of the sales policies implemented during the year, despite the further consolidation of the NTNG distribution network which reached about 34,200 units at year end compared to about 35,500 units at year-end 2015;
- other revenues and income which include, among others, net prior period income, revenues relating to the new food & beverage initiative at Group-operated points of sale and other charges to third parties, there was an increase of approximately Euros 0.8 million (+10% compared to 2015).

The change in operating costs, including depreciation, amortization and provisions, led to a reduction of just over 3% compared to the prior year. If non-recurring expenses are excluded, the decrease is approximately 3%.

The main factors behind this decrease were costs for services, which fell by around Euros 13 million (-2.9%) but with a contrasting performance between sales costs component (up by around Euros 9 million, or +43% on the prior year, mainly due to higher promotional expenses related to the launch of the new SuperEnalotto game) and other services (down by almost Euros 21.5 million, or -5.1% compared to 2015, due in particular to the lower costs of distribution chain remuneration, especially those operating in the gaming machines segment) and amortization and depreciation expense down overall by around Euros 13 million, mainly as a result of the decline in the component referring to intangible assets.

However, as regards non-recurring expenses and income, compared to the Euros 19.9 million in non-recurring expenses which affected the operating result in the prior year, essentially due to the impairment loss on goodwill recognized after impairment tests at the end of 2015, 2016 saw around Euros 8.6 million in net non-recurring expenses, mainly resulting from assets relating to the acquisition and subsequent financial restructuring of the Group and other reorganization-related expenses during the year.

The changes described above generated a decrease in the gross profit margin, as previously defined, of approximately 2% whereas the operating profit posted an increase of approximately Euros 26 million. Excluding the non-recurring income and expenses mentioned earlier, the gross profit rose by around 2.7%, while operating profit records an increase of around Euros 15 million (about +21.1% compared to operating profit in the previous year).

As for the net financial position, 2016 was characterized by the complex financial restructuring operation developed in parallel with the acquisition of Sisal Group business activities by the Parent. As previously mentioned, this transaction allowed the early settlement of pre-existing borrowings of the companies acquired and, in particular, those referring to the Senior Credit Agreement for approximately Euros 412 million and the bond issue for Euros 275 million arranged by the acquired group during 2013.
The funding necessary for these repayments and at the same time pay the acquisition price was provided through capitalization of the Parent for around Euros 300 million by the direct controlling entity Schumann Investments S.A., based in Luxembourg, income for a total of Euros 725 million from two new bond issues by the Parent, including one at floating rate (Euros 325 million) and one fixed rate (Euros 400 million), and the remainder through the use of financial resources available to the acquired group.
Note that the two new bond loans were issued in July 2016, the date on which the related finance expense began to accrue, but made available to the Group only after closing of the acquisition on December 14, 2016. On that same date the shareholder loan disbursed to the acquired company Sisal Group S.p.A. by the former sole shareholder Gaming Invest S.à.r.l. for a total of around Euros

435 million, including interest pending capitalization, was waived in full. The above-mentioned refinancing transaction also resulted in the removal of pre-existing collateral and its replacement with similar guarantees in favor of the new lenders, primarily pledges on the Parent's entire share capital and on the Group's portion of share capital of the other leading operating companies.

During the year, the Group also paid the lending banks (particularly under the "Senior Credit Agreement") and the noteholders an amount of interest and commissions of approximately Euros 46 million. This is approximately 19% more than in 2015, principally due to a different timing on the payment of interest accrued on the bond loans repaid at year end and the same-time payment of the first interest instalment on the new floating-rate bond loan. Also in 2016 Gaming Invest S.à.r.l., the former sole shareholder of Sisal Group S.p.A. was paid interest for approximately Euros 18 million. Another approximate Euros 24 million was instead capitalized on the basis of the arrangement that had been entered into with the lending shareholder and waived on closing of the acquisition along with the capital share. Additional finance expense totaling around Euros 16 million accrued during the year but was not paid on the issued bonds that pay interest quarterly and semiannually, respectively, on the floating-rate and fixed-rate bonds in January, April, July and October each year.

Also with a view to the events mentioned above, the key performance indicators relating to Net Invested Capital as well as some financial indicators, are summarized in the following table (in thousands of Euros), specifying that - as for the income statement values - the 2015 figures refer to the group acquired and headed by Sisal Group S.p.A.:

	2016	**2015**	**Change**
Net invested capital (NIC)	1,014,236	1,031,805	(17,569)
Funding by Third Parties	750,147	1,040,342	(290,195)
Total Equity	264,089	(8,537)	272,626
Debt/Equity Ratio	2.84	(121.86)	
Normalized ROI (EBIT/NIC)	8%	5%	

Net invested capital is the sum of the statement of financial position items related to trade receivables and payables, inventories, fixed assets, employee severance indemnities, provisions for risks and charges, current and non-current other assets and liabilities and restricted bank deposits, not taking into account the effect of the differences in timing in the settlement of the items relating to working capital for gaming and services for an amount equal to about Euros 84 million in 2016 (about Euros 74 million at year-end 2015). As a consequence the Funding by third parties represents the sum of the financial liabilities of the Group (for a total of approximately Euros 802 million) net of cash and cash equivalents adjusted of the amount related to the differences in timing.

The trend in Funding by third parties, that is, the Net Financial Position of the Group during all of 2016, reflects on the one hand the effects of the financial restructuring concluded at year end, which allowed a significant reduction in financial leverage, and on the other the strongly positive result of operations, which allowed the Group to promptly fulfill its obligations.

Gaming concessions

As regards the management of gaming concessions, the main developments are summarized here, and further details, particularly relating to litigation, are given in the Notes to the consolidated financial statements.

Concession for the operation and development of national tote number games (NTNG)

- on April 2, 2008, Sisal S.p.A. was declared outright winner of the tender procedure held in July 2007 for the award of the concession for the operation and development of national tote number games, including Enalotto, being chosen in preference to the bids submitted by Lottomatica S.p.A. and SNAI S.p.A.;

- on the legal front, the company had to contend with some appeals to the administrative tribunal, filed by the other two companies participating in the selection procedure (namely SNAI S.p.A. and Lottomatica S.p.A.) and by other companies (including Stanley International Betting Limited), mainly with a view to gaining access to all the documentation and having the provisional and final concession awards overturned. These proceedings were later rejected and were concluded during 2016;

- again with reference to the concession for the operation and development of national tote number games (NTNG), by writ served on July 10, 2014, Giovanni Baglivo, holder of a contract for the collection of NTNG bets in the retail channel, and then chairman of STS, the retailers' association, claimed that the rentals specified in that contract were not payable, because they related to the supply of services by Sisal, some of which were already due pursuant to the concession, while some were useless to the owner of the point of sale. Sisal S.p.A. considers that these claims are groundless, and instructed its lawyers to prepare related defense statements. At the first hearing held on March 25, 2015, the judge accepted the exception - proposed by Sisal - of the lack of jurisdiction of the Ordinary Chambers, remanding the case to the Presiding Judge for its assignment to the Specialist Corporate

Chambers. The proceedings were reassigned to these Chambers and a conclusions finalization hearing was set for February 1, 2017. On that date the case was adjourned for final decision;

- the Stability Law 2015 delegated power to the Economy and Finance Ministry to take measures in support of the gaming industry in cases where specific products have produced a loss of turnover and tax revenue of not less than 15% per annum in the last three years; as the NTNG concession was in that situation, with the aim of relaunching the most popular and best-known product of those managed by the Group, activities began and were completed to finalize the new SuperEnalotto game formula and the corresponding procedures for approval by the competent authorities. The new game formula went into effect from the pool opened on January 31, 2016.

- Art. 1, paragraph 576 of the 2017 Budget Law - Law no. 232 of December 11, 2016 - instead envisaged that, in view of the expiry of the present concession, the management of national tote number games, complementary and optional games and the related forms of remote participation, as well as every other number game based on a single tote at national level, was awarded in concession by the Customs and Monopolies Authority, in compliance with European and Italian principles and rules, to a qualified company with past experience in the management or turnover on games, meeting suitable requirements of technical and economic reliability, chosen by open competitive and non-discriminatory tender. The procedure was launched with the following basic terms:

a) concession duration of nine years, non-renewable;
b) selection based on the criterion of most economically advantageous bid and, with regard to price, based on an auction for bids starting at Euros 100 million;
c) payment of the price indicated in the bid by the bidder found to be in first place on the list, in the sum of 50 per cent on award and the remainder on actual take-up of the gaming service by the winning party;
d) premium for the concessionaire of 5 per cent of turnover on markdown of the bid;
e) specific inclusion, in the bid documents, of the trade practices or relations permitted pursuant to art. 2, paragraph 2, Law Decree no. 40 of March 25, 2010, converted with amendments to Law no. 73 of May 22, 2010;
f) option of the winning concessionaire to use the telecommunications network for the direct or indirect provision of services other than gaming deposits, subject to authorization from the Customs and Monopolies Authority (ADM) based on their compatibility with such deposits;

g) mandatory technological upgrading of the network and gaming terminals system in accordance with quality standards that guarantee maximum safety and reliability, in line with the investment plan forming part of the technical bid;

h) mandatory annual payment by the concessionaire to the tax authorities of any amounts not invested pursuant to the plan referred to in point g) and of amounts debited in violation of the tender provisions pursuant to point e).

In compliance with the above procedure, in 2017 the ADM will prepare the related invitation to tender. Sisal S.p.A. will participate in the tender to seek award of the concession in question and will therefore continue the gaming business referred to in the concession.

Concession for the activation and operation of the network for online management of legal gaming through gaming machines, and of the associated activities and functions

- As regards the penalties that the gaming concessionaires have been ruled liable to pay on various grounds, the proceedings pending in the Court of Auditors was closed with the reduced payment settlement and the corresponding payment and the Court's order to extinguish the proceedings. In 2015 the parallel administrative proceedings were finalized as well. The final decisions issued previously had already led to cancellation of three of the penalties imposed by the granting authority and the termination of the related litigation. For a fourth penalty, the Regional Administrative Tribunal had cancelled the penalty but AAMS had appealed. As regards this last dispute, on January 27, 2012 AAMS issued notification of the penalty for failure to comply with the service level agreement relating to the response of the gateway system to computerized queries sent by Sogei, quantified at Euros 8,995,332.98; at the main hearing held on February 20, 2013 the Regional Administrative Tribunal also cancelled this penalty, and AAMS appealed against the judgment of the Regional Administrative Tribunal by appeal served on January 30, 2014. In this appeal also, in its decision filed on December 3, 2015, the Council of State confirmed cancellation of the penalty;

- again in relation to the concession in question, the Stability Law 2015 provides a reduction of the fees paid for concession activities, amounting to a total of Euros 500 million, to be divided between the various concessionaires according to the number of authorizations for gaming machines held in their names on December 31, 2014; the sum payable by each concessionaire was specified in a Director's Decree issued by AAMS on January 15, 2015. After renegotiating the agreements with gaming network operators, concessionaires will be able to pass on a proportion of the fees reduction mentioned previously.

In view of the unfairness of the terms of the Stability Law 2015 and the alleged lack of constitutional legitimacy of the Law, Sisal Entertainment S.p.A. - in a manner similar to that applied also by the other concessionaires - appealed to the Lazio Regional Administrative Tribunal, which considered the exceptions to constitutional legitimacy raised by Sisal Entertainment to be acceptable and remanded proceedings to the Constitutional Court.

- the 2016 Stability Law again acted upon this matter through an overall review of the above-mentioned fee decrease. In particular, on the one hand it repealed the previous regulations from January 1, 2016 (replaced by increasing the taxes applied on the total amounts played through gaming machines), and on the other hand for the previous period of application of the measure adopted a rule that, though stated to be an interpretation, seems instead to have a strong novation effect. Specifically, it introduces the criterion of distribution within the network of the reduction applied under the 2015 Stability Law, anchoring it to the participation of each to the distribution of the fee, based on related contractual arrangements and taking into account their duration in 2015. After further legal and regulatory study, the Group’s concessionaire therefore reached the conclusion that the new legislation mentioned above, remedying the problem of non-quantification of the reduced fee for internal distribution among individual network operations related to each concessionaire, decreed autonomy and independence not only in terms of fee-related items but also of the related payables due from individual operators. Given the above, Sisal Entertainment S.p.A. consequently excluded from its statement of financial position (in terms of receivables from the network and payables due to tax authorities) any fees not yet collected from the network, amounts relating to the 2015 Stability Law to be paid to the AAMS when and to the extent they are collected from the operators.

Horse-racing and sports betting concession

- the horse-racing and sports betting concessions expired on June 30, 2016. In compliance with ADM requirements, by letters prot. no. 54917 of June 9, 2016, and prot. no. 58554 of June 20, 2016, the concessionaire of the Sisal Entertainment S.p.A. Group accepted the extension of the aforementioned concessions, the duration of which will be until the award of new concessions following the tender procedure.

Principal risks and uncertainties to which the Group is exposed

The Group operates in a complex regulatory environment which is subject to continuous evolution.

The strong presence of the Italian state regulatory activity and of the bodies responsible for the control and management of this market often subordinates the development of the entrepreneurial activities of the Group to acquisition of authorizations or to participation in public tenders which are made particularly competitive not merely by the presence of other historic operators in the Italian market but also by increasingly fierce pressure, not always conducted within the limits set by national laws, from foreign operators to expand and consolidate their presence in our national market.

The result is frequently a high level of litigation surrounding the outcome of tenders which is expressed in the numerous appeals and litigation claims submitted, in some cases opportunistically in order to create disturbance.

The impact of these factors on companies' financial statements is amply commented both in the description of the litigation in progress and in the analysis of the effects which regulatory developments have on revenue recognition and how the modifications to the contractual terms of the concessions rights awarded or to be awarded will affect the accounting treatment of the related financial statement items.

Group management monitors constantly the evolution of these factors in the light of the companies' many years of experience in the industry, undertaking legal action where necessary to protect the interests of the companies.

The exposure of the Group in particular to pricing, credit and liquidity risks and to the risk of fluctuations in cash flows and the policies developed to deal with these risks are amply described in the section of the notes dedicated to financial instruments, to which reference is made for further details.

Furthermore, as from 2006, the main Group companies have progressively adopted an organizational model that conforms to Legislative Decree 231/2001 on matters regarding their corporate administrative liability. In 2016, as in the previous years, the Supervisory Body has not reported any significant inconsistencies or deviations from the models referred to above.

Other information

A number of disputes and/or fiscal inspections and investigations of some subsidiaries were pending at the year end.

In particular, during the course of the years 2008 and 2009, two tax investigations of Sisal S.p.A. were conducted by the Lombardy Regional Office of the Revenues Agency, namely a general type of inquiry on the year 2005 and a partial type of inquiry on the year 2006. The latter, in particular, was aimed at checking income taxes, VAT and IRAP taxes on certain transactions carried out in that

period specifically in reference to the merger between the company and the merged company Sisal S.p.A. (the company resulting from the merger took the name of Sisal S.p.A.) and the tax treatment of certain tax expenses related thereto. This investigation ended on October 22, 2009, with the preparation of a Note of Findings ("NoF") mainly containing objections to the pertinence of some expenses connected with the loan secured for the foregoing merger transaction which, in turn, can be traced to the extraordinary transaction for the acquisition of control of the Sisal Group during 2005. In particular, in that NoF, the investigators disputed the deductibility for IRES and IRAP tax purposes of costs amounting to about Euros 8.2 million incurred in 2006, and denied the deductibility of VAT amounting to about Euros 0.5 million in 2005 and about Euros 0.1 million in 2006.
Following this NoF, on December 17, 2009, the Milan 2 Local Office of the Revenues Agency notified the company of an assessment for the unlawful deduction of VAT amounting to Euros 530,000 in 2005, plus interest, and imposed fines of the same amount. During 2010, Sisal S.p.A. promptly appealed the assessment before the Milan Provincial Tax Commission, and the first hearing, also dealing with the matters illustrated below, was adjourned to the end of October 2012. After the hearing, the Tax Commission upheld the company's appeal on the merits; the company appealed against the decision to the appropriate Regional Tax Commission (hearing in January 2014), which reversed the decision at first instance, ruling that said deduction related to costs not associated with activities designed to earn income for the company. Last December, the company, represented by Prof. Maisto, decided to appeal to the Court of Cassation on the grounds that said ruling is unfounded. In the meantime, following the decision of the Regional Tax Commission, the company was served with a provisional payment notice for the assessed tax, plus a 100% surcharge by way of penalty together with interest and enforcement fees, making a total of about Euros 1.3 million, which was duly paid in January 2015.

On May 10, 2010, the Milan Tax Police Nucleus, Second Complex Inspection Section, entered Sisal S.p.A. with a warrant to perform a tax inspection for the purpose of direct income taxes for the tax years 2008 and 2009. Later, on June 7, 2010, the officers charged with the inspection presented the company with a supplementary order extending the inspection to cover the tax years 2005 to 2007, only with regard to the effects of the same above-mentioned extraordinary operation regarding the acquisition of control of the Sisal Group which took place during 2005. The inspection activities were concluded on September 23, 2010 with the issue of a NoF in which the inspectors argued that the extraordinary operations put in place for the above acquisition fall under the scope of the anti-evasion provisions of art. 37-bis of Presidential Decree 600 of September 29, 1973. According to the inspectors, the legal acts performed in the course of these operations were not based on valid economic reasons, and generated an unlawful tax advantage represented by the company's deduction of finance expenses for IRES tax purposes. In particular, the finance expenses alleged by the inspectors to have been unlawfully deducted amount to a total of approximately Euros 37 million between the years 2005 and 2008, plus (on the basis of the report to the competent office contained in the NoF) expenses relating to the year 2009, for which the deadline for filing the tax return, comprising income estimated in the NoF at about Euros 9.5 million, had not yet expired on the date of the NoF.

On the basis of that NoF, on November 19, 2010, the Milan Provincial Office II sent the company a request for clarifications pursuant to art. 37-bis, Presidential Decree 600 of September 29, 1973, for the tax period 2005. On January 17, 2011, Sisal S.p.A. replied to the above questionnaire providing ample arguments and documentation as confirmation of the inapplicability of art. 37-bis cited above.

In the first few months of 2012 the company, through its consultants, decided to file an application for a 2006 tax settlement proposal relating to said NoFs with a view to commencing a formal procedure during which a possible reduction in the claims resulting from the NoFs could be discussed, without a binding commitment to accept any proposals made by the Office. These contacts also continued in 2013 and 2014, until in December 2014, probably to prevent the assessment periods from becoming statute-barred as a result of possible legislative changes introduced by the Tax Delegation Bill, the company and Sisal Group S.p.A. (in the capacity of tax consolidating entity) were served with assessment notices for the years 2006 to 2009 for taxes, penalties (100% surcharge) and interest amounting to a total of about Euros 38 million. The two companies, which are confident of the legitimacy of the operations they have performed from both fiscal and civil law standpoints, and the actual costs incurred by way of interest and expenses, evaluated the opportunity of submitting a tax settlement proposal for the years 2007 to 2009 in January 2015, while for the year 2006, for which a tax settlement proposal has already been submitted, a formal appeal had to be submitted to the Provincial Tax Commission. In May 2015 the Revenues Agency informed Sisal S.p.A. that agreement to the settlement proposal was impossible (also based on instructions from the Central Office of the Revenues Agency) and related appeals therefore had to be filed immediately with the Tax Commission.

Again in 2015 a general tax audit was performed on Sisal S.p.A. by the Large Taxpayers Office, Lombardy Regional Office of the Revenues Agency with regard to the three-year period 2010-2012. The audit was completed in September 2015 with the signing of a NoF containing a number of proposed findings for all three years, mainly in reference to the deductibility of finance expenses on the aforementioned leveraged buy-out and the VAT deduction considered by the inspectors to be higher than that due on a pro rata basis. Against a theoretical tax charge only of the higher taxes disputed for around Euros 11.5 million, in December 2015 and in March, October and December 2016, the company received assessment notices for the years 2010 and 2011 for a total of Euros 18.1 million (including related penalties), of which Euros 10.9 million related to the dispute arising from buy-out leverage and the remaining Euros 7.2 million from a VAT-related dispute. Formal attempts later made for settlement/finalization of the above-mentioned demands did not receive a positive response by the regulatory deadline and therefore the related appeals had to be filed with the competent Tax Commissions. Furthermore, at the last meeting held in December 2016, the Tax Revenues Agency stated the option of settling the dispute relating to the deductibility of finance expense and other minor disputes for all years audited (from 2006) with a total outlay of approximately Euros 1.7 million plus interest. The company accepted this proposal and further contact is in progress to reach a final settlement of this dispute on the basis of the above reported terms.

As regards further tax disputes triggered by the 2010 tax inspection of Sisal Entertainment S.p.A. by officials from the Lombardy Regional Office of the Revenues Agency - Large Taxpayers' Office, extensively illustrated in the financial statements for the preceding years, which relate to the allegedly unlawful deduction in the period in question and subsequent periods of allegedly excessive amounts of depreciation on "sub-section 6" gaming machines, due to the use of a fiscal depreciation rate (20%) considered inappropriate by the inspectors, the current situation is as follows:

- the tax years 2006 and 2007 are both awaiting a hearing in the Supreme Court of Cassation after the corresponding Regional Tax Commissions expressed conflicting opinions, one against and one in favor of the Company's defense arguments (thereby overturning diametrically opposite judgments issued by the Provincial Tax Commissions);
- the 2008 tax year formed the subject of a judgment at first instance favorable to the tax authority, against which the Company filed an appeal heard by the Regional Tax Commission in May 2015. The company filed a new appeal before the Court of Cassation against the adverse decision;
- as regards the year 2009, the company received the corresponding assessment notice in November 2014 and subsequently submitted a suspension application and appeal to the Provincial Tax Commission; the suspension application was heard and granted on March 9, 2015, and the case was heard on the merits in June 2015. The decision was later filed by which the Tax Commission rejected the appeal on the merits, with poor and certainly questionable reasons, against which the company promptly appealed in January 2016 and the discussion hearing was set for March 2017 and was followed by the filing of the related decision which partially accepted the appeal and reformed the first-instance ruling, declaring for the first time that the applied sanctions were non due;
- with reference to the year 2010, in December 2015 the Revenue Agency served an assessment notice on Sisal Entertainment, discussion of which before the Provincial Tax Commission again decided in favor of the Agency, with decision filed in September 2016 and despite the company having in the meantime identified a similar case dating back to 2000 in which the same Ministry of

Finance - Lombardy Revenues Department - responded to a query put forward by an entertainment machines owner by confirming the 20% depreciation rate. Even more anomalous was the decision regarding the IRAP dispute, which appears to raise a presumed irrelevance clearly in conflict with current regulations;

- lastly, in November 2016 an assessment notice was also issued related to 2011, against which the company promptly filed the related appeal in January this year.

Despite the above-mentioned contradictory rulings and unfavorable developments in the dispute in 2015-2016, pending future developments/decisions, there currently seems to be no reason to believe that higher taxes, interest or statutory penalties will eventually be imposed. As a result of developments in the dispute mentioned above and on the basis of current regulations, it became necessary to pay taxes and penalties for a total of around Euros 2.5 million up to December 31, 2016, as a temporary collection measure.

Always on the tax side in September 2015 a tax audit was performed on Sisal Group S.p.A. by the Milan Tax Policy Nucleous for the tax years from 2010 to 2013, with specific focus on the deductibility of the finance expenses and finalized to check that the company's behavior during the audited period has been consistent with the agreement established for the previous period 2006-2009. The above mentioned tax audit was completed with March 2017 with the signing of a clean NoF which confirmed the correctness and legitimacy of the behavior adopted by the company in the tax periods under investigation.

Moreover, in November 2014, assessments were begun at the Parent, Sisal S.p.A. and Sisal Entertainment S.p.A. by the Financial Intelligence Unit of Bank of Italy (UIF) pursuant to art. 47 and 53.4 of Legislative Decree 231/2007, to verify compliance with the provisions concerning anti-money laundering and anti-terrorism financing, in respect of reports of suspect transactions. The company functions involved offered the maximum collaboration to the UIF officers who concluded the inspection phase at the company in February 2015. After completion of the inspection activities, the UIF issued a final report indicating areas for improvement of operations, of which interested parties were promptly informed and reviews undertaken. At the same time, 5 positions were notified for which, according to the tax authority, suspicious transaction reports considered due in relation to the circumstances of the cases in question were either delayed or not issued. With respect to the penalty proceedings, the Group promptly arranged the filing of deductive pleadings by the legal deadlines, requesting a hearing in order to further discuss the reasons for failure to submit suspicious transaction reports. At present, the Group companies are awaiting administrative decisions as regard the defense action taken with appeal and defense briefs.

Note once again that in the first few months of 2016, following ascertainment of the lack of evidence of guilt, the proceedings before the Milan Public Prosecutor's Office in which the Public Prosecutor had conducted investigations to verify any involvement, amongst others, of the Sisal CEO in the offence pursuant to art. 2635 of the Italian Civil Code charged as part of the main investigation into the then CEO of Banca Popolare di Milano, was dismissed.

Lastly, note the dispute pending with INPS arising from the dispute concerning an assessment report of the social security institution in relation to the legal grading of employees used by Sisal Entertainment S.p.A. to carry out business activities. The company is awaiting service of the Injunction Order which will be appealed against before the competent Court with the aim of clarifying the fairness of the company's actions. In any event it has to be considered that, even if there should be partial liability, there is ample room for a major reduction in the claims formulated by the institution in the assessment report.

Information regarding human resources and the environment

The Group has 1,787 employees at December 31, 2016. No cases of death and/or serious work accidents or occupational diseases were recorded among employees or former employees, or any cases of mobbing.

As regards the question of any impact on the environment caused by the Group' activities, during the year no cases of damage to the environment occurred for which Group companies could be held responsible nor were any fines or penalties imposed on them for environmental violations or damage. As regards policies for the disposal and recycling of refuse and/or waste from business activities, the only procedures in place were those for the disposal of packaging, electronic components and/or consumables from electronic equipment (such as photocopier toner) through specialized firms.

Personnel training was also provided by specialist companies to provide the skills to better put waste disposal procedures into practice. Where necessary, special containers were installed that clearly indicate the CER (European Waste Certification) waste disposal codes so as to avoid errors during disposal. As in previous years, arrangements were also made for a more thorough classification of material for disposal, including the certification of certain types of materials according to their correct CER codes. The CER certification places Group companies in a position of safety as regards the accuracy of obligations to be complied with at the time of disposal.

Development and investment activities

Again in 2016 and always considering the assets acquired over the entire year, the Group maintained high levels of investments in property, plant and equipment and intangible assets, for a total of around Euros 45 million, recording an increase of approximately Euros 6 million on the total for the previous year.

As for property, plant and equipment, over Euros 25 million was invested by the Group, of which approximately Euros 16.5 million relating to purchases or technological updates of gaming machines and terminals for gaming and services.
Another Euros 4.4 million was spent during the year for plant systems, restructuring and furniture in the main operating centers of the Group and especially in the points of sale network, made up of the horse and sports betting agencies and corners and WinCity. Investments of approximately Euros 4.2 million were also made for central and peripheral hardware, network systems and equipment and ADSL connectivity.

As for investments in intangible assets and concessions, unlike the prior year, there was a recovery in investments made in concessions, particularly due to the purchase during the year of new VLT rights for a total of around Euros 3.7 million, whereas the investments in software and operating applications remained at high levels, for a total of approximately Euros 14 million.

Transactions with parent companies

As regards transactions with the parent Schumann Investments S.A., at year end there are no specific commercial and/or financial transactions to report.

Transactions with related parties

The transactions with related parties are detailed in the Notes to the Consolidated Financial Statements and in particular in Note 43.

Number and nominal value of treasury shares

Neither the Parent nor the other companies of the Group hold treasury shares, nor do they hold shares or quotas in Parent companies, either through trust companies or third parties. During the period, no acquisitions or sales of these types of shares or quotas took place.

Significant events occurring after the end of the year

In line with consolidated procedure, in February the Group approved the budget for the current year, which reflects the negative impact on entertainment equipment of the laws and regulations approved by the local authorities, as well as the planned 30% reduction in the number of machines, and with particular reference to the new tender for the NTNG concession and pending the tender for Betting concessions reflects the related effects of the associated new investments.

Also finalized in the first few months of 2017, in partnership with a strategic supplier of Sisal S.p.A., was a project to intensify and enhance the technical support designed to guarantee constant efficiency and immediate repairs of crashes and malfunctions of the technological equipment installed with sales network partners. This project will essentially define the conditions for a broader and more assiduous partnership with the supplier in question and at the same time finalize an integral service outsourcing model operated by that supplier, in order to ensure continuity of working relations and thereby exclude the risk of effects on the technicians used.

Art. 6 of the decree law 24 April 2017 no. 50, with an immediate effect, increased the withdrawal of slot machines from the current 17.5% to 19% and that of VLT from 5.5% to 6%.
From October 1, 2017, the taxation on the payout portion over Euro 500 for instant lotteries, VLT, SuperEnalotto and Win for Life, will go from 6% to 12%. Pending the conversion of this decree which may, as happened under other circumstances, make some amendments to this matter, the Group is considering the possible impacts of such changes and any containment measures that would be required.

Finally, in February 2017 the Board of Directors of the Parent ha deliberated the start of the activities aimed at the completion of the reverse merger project between the Company and Sisal Group S.p.A. expected to be finalized within next summer.

Outlook

The expectations for the current year, incorporated in the related Group budgeting process, are influenced to a significant degree by uncertainty in the legal and regulatory environment due to the previously mentioned negative impact of laws and regulations on entertainment equipment.
To overcome such potential impact an additional operating cost reduction plan has been prepared and a full review of investment projects performed in order to limit any impact the new regulations might have on company liquidity.

The total gaming market value is expected to stand at around Euros 93.9 billion in 2017, down by approximately 2.1% on the 2016 market forecast. Note that this is due to the expected decrease in the gaming machines segment (-7.1%) from cuts in the number of machines installed as a result of regulatory amendments approved at the end of 2015. Betting and pool games, instead, are expected to grow on the whole (+9.0%), also thanks to the contribution of operators on the Italian market under licenses obtained in other EU countries that have become Italian concessionaires.

Lastly, further growth is forecast in 2017, in line with market projections, in turnover from the online channel (+6%), whilst NTNG is expected to see a slight decline (-3.7%) compared to 2016, which benefited from a high jackpot level for a long period.

In the addressable payment services market, however, which in 2016 achieved turnover of Euros 121.6 billion, the forecast for 2017 is one of essential stability, but in the Group's operating segment, the "Convenience Channel", the trend is expected to be more positive with growth of +4.1%, rising from Euros 24.2 billion in 2016 to Euros 25.2 billion in 2017 and driven largely by financial and payment services.

The Group's business objective is to further consolidate its presence in this important economic area taking advantage of its already significant client portfolio and the planned launch of new payment services, along with the development of a dedicated distribution network and consolidation of the online platform, all initiatives already commenced in previous years.

In view of the above forecast performances, the outlook for turnover, revenues (net of operator remuneration) and the operating profit for the current year are expected to see growth higher than the 2016 proforma figures and a similar performance is also expected in terms of financial management, encouraged by a lower absolute value of debt and therefore of the associated finance expenses compared to the final figures from prior years of the group acquired, so much so as to allow additional investments in property, plant and equipment, and intangible assets, important among which are the one-off charges for renewal of the concessions about to expire, investments attributable to the technological development and installation of the Payments and Services distribution network, and the purchase and installation of latest-generation AWP entertainment machines that offer remote gaming machine management with a significant decrease in related network management costs.

Milan, April 28, 2017

* * *

On behalf of the Board of Directors

The Chairman

Federico Quitadamo

SCHUMANN S.p.A. (with a sole shareholder)

Registered in the List of Payment Institutions ex art. 114-septies Legislative Decree 385/93 – Code 33500.1
Registered office - Via del Vecchio Politecnico 9 - Milan
Share capital: subscribed and paid-in for Euros 9,919,809
Milan Registry of Companies - Ordinary section no. 0942759096
R.E.A. of Milan No. 2089389
Tax Code and VAT no.: 0942759096

Consolidated Statement of Comprehensive Income

(in Euros thousands)	Notes	Year ended December 31, 2016
Revenues	8	67,620
Fixed-odds betting income	9	5,167
Other income	10	80
Total Revenues and income		**72,867**
Purchases of materials, consumables and merchandise	11	1,672
Costs for services	12	55,288
of which related parties	*42*	*4,751*
of which non-recurring	*43*	*6,384*
Lease and rent expenses	13	1,891
Personnel costs	14	7,625
of which related parties	*42*	*355*
of which non-recurring	*43*	*90*
Other operating costs	15	4,573
of which non-recurring	*43*	*1,327*
Depreciation, amortization, provisions and impairment losses and reversals of the value of property, plant and equipment and intangible assets	16	7,727
Operating profit (loss) (EBIT)		**(5,909)**
Finance income and similar	17	13
Finance expenses and similar	18	30,699
Share of profit/(loss) of companies accounted for using the equity method	18a	122
Profit (loss) before income taxes		**(36,717)**
Income taxes	19	(859)
Profit (Loss) for the year		**(35,858)**
Attributable to non-controlling interests		-
Attributable to owners of the parent		**(35,858)**
Other comprehensive income:		
Other comprehensive income that will not be reclassified subsequently to the income statement:		
Remeasurement of defined benefit plans		(20)
Tax effect		5
Comprehensive loss for the year		**(35,873)**
Attributable to non-controlling interests		(0)
Attributable to owners of the parent		(35,873)

Consolidated Statement of Financial Position

(in Euros thousands)	Notes	At December 31, 2016
Non-current assets		
Property, plant and equipment	20	91,097
Goodwill	21	895,324
Intangible assets	22	113,157
Investments in associates		-
Total deferred tax assets	23	20,529
Other non-current assets	24	23,655
Total non-current assets		**1,143,762**
Current assets		
Inventories	25	9,171
Trade receivables	26	178,650
Current financial assets	27	-
Taxes receivable	28	546
Restricted bank deposits	29	297,630
Cash and cash equivalents	30	135,181
Other current assets	31	40,456
Total current assets		**661,635**
Total assets		**1,805,397**
Equity		
Share capital		9,920
Share premium reserve		289,580
Retained earnings (Accumulated deficit)		(35,873)
Total equity attributable to owners of the parent		**263,627**
Equity attributable to non-controlling interests		462
Total equity	**32**	**264,089**
Non-current liabilities		
Long-term debt	33	692,642
Provision for employee severance indemnities	35	9,486
Total deferred tax liabilities	23	10,148
Provisions for risks and charges	36	14,142
Other non-current liabilities	37	-
Total non-current liabilities		**726,418**
Current liabilities		
Trade and other payables	38	281,305
Short-term debt	33	92,070
Current portion of long-term debt	33	17,052
Taxes payable	39	943
Other current liabilities	40	423,520
of which related parties	*42*	*1,880*
Total current liabilities		**814,890**
Total liabilities and equity		**1,805,397**

Consolidated Statement of Cash Flows

(in Euros thousands)	**Year ended December 31, 2016**
Profit (loss) before income taxes	**(36,717)**
Amortization/depreciation	7,161
Impairment losses on current receivables	797
Impairment losses on property, plant and equipment and intangible assets	107
Allocations to provisions related to personnel and other provisions	(314)
Profit (loss) of companies accounted for using the equity method	123
Net finance (income)/expenses	30,685
Cash flows from operating activities before changes in net working capital	**1,842**
Change in trade receivables	(23,451)
Change in inventories	(323)
Change in trade payables	33,453
Change in other assets and liabilities	19,932
Taxes paid	(9)
Cash flows from operating activities	**31,444**
Investments in property, plant and equipment	(5,588)
Investments in intangible assets	(11,233)
Investments in non-current financial assets	(123)
Net acquisitions of cash acquired or paid	(264,435)
Cash flows absorbed by investing activities	**(281,379)**
New medium/long-term loans	725,000
Repayment of medium/long-term loans	(653,042)
Net change in lease-related loans	(84)
New short-term loans	92,000
Repayment of short-term loans	(34,286)
Interest paid	(43,972)
Cash flows absorbed by financing activities	**385,116**
Increase/(Decrease) in cash in hand and at banks	**135,181**
Cash and cash equivalents at the start of the year	**-**
Cash and cash equivalents at year end	**135,181**

Any effects of the flows relating to non-recurring transactions are indicated in Note 43.

Prospetto delle Variazioni del Patrimonio Netto Consolidato

(in migliaia di Euro)	**Note**	***Capitale Sociale***	***Riserva Legale***	***Riserva Sovrapprezzo***	***Altre Riserve***	***Risultati portati a nuovo***	***Totale Patrimonio netto di Gruppo***	***Interessenze di minoranza***	**Totale Patrimonio netto**
Costituzione marzo 2016		10	-	-	-		10	-	10
Aumento di capitale giugno 2016		40	-	-	-	-	40	-	40
Aumento di capitale dicembre 2016		9,870	-	289,580	-	-	299,450	-	299,450
Utili (perdite) attuariali su piani per i dipendenti a benefici definiti		-	-	-	-	(15)	(15)	-	(15)
Risultato d'esercizio		-	-	-	-	(35,858)	(35,858)	-	(35,858)
Risultato Complessivo dell'esercizio		**-**	**-**	**-**	**-**	**(35,873)**	**(35,873)**	**-**	**(35,873)**
Acquisizione gruppo Sisal Group		**-**	**-**	**-**	**-**	**-**	-	**462**	462
Operazioni con gli azionisti	**33**	**-**	**-**	**-**	**-**	**-**	**-**	**462**	**462**
Patrimonio netto al 31 dicembre 2016	**33**	**9,920**	**-**	**289,580**	**-**	**(35,873)**	**263,627**	**462**	**264,089**

SCHUMANN GROUP

Notes

to the Consolidated Financial Statements at December 31, 2016

1. General information

Schumann S.p.A. (hereafter also "**Schumann**", the "**Company**" or the "**Parent**") is a company incorporated in Italy, with registered and administrative offices in Milan, in Via del Vecchio Politecnico 9, organized under the laws of the Republic of Italy. The present name and corporate status was adopted in June 2016. Previously, the Company was incorporated in March 2016 under the name Debussy S.r.l., later changed to Schumann S.r.l. in May 2016.

The Company and its subsidiaries (together the "**Group**") operate principally: *i*) in the gaming sector, mainly on the basis of concessions for pool games, horse and sports betting and legal gaming with gaming machines (slot machines and video lottery terminals) and *ii*) in the collection and payment services sector, by specific authorization of the Bank of Italy, and in the marketing of telephone and TV content top-ups.

The sole shareholder of the Company is Schumann Investments S.A., a Luxembourg-based company indirectly owned, through vehicle companies, by funds promoted by the CvC Group and by a number of Group managers.

These consolidated financial statements were approved by the Board of Directors of Schumann S.p.A. on April 28, 2017.

2. Summary of accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The designation "IFRS" also includes all valid International Accounting Standards ("IAS"), as well as all interpretations of the IFRS Interpretations Committee, formerly the International Financial Reporting Interpretations Committee ("IFRIC") and before that the Standing Interpretations Committee ("SIC") which, at the balance sheet date, have been adopted by the European Union according to the procedure established by Regulation EC 1606/2002 of the European Parliament and European Council on July 19, 2002.

The Parent opted to apply international accounting standards in the preparation of these consolidated financial statements, even if the separate financial statements were prepared in condensed format using Italian accounting principles, as permitted by art. 2435-bis of the Civil Code, as the requirements were met.

However, as Sisal Group S.p.A. and its main subsidiaries instead prepare their financial statement in accordance with IAS/IFRS as permitted by art. 4, paragraph 6-bis, Legislative Decree no. 38 of February 28, 2005, the Directors, though backed by an expert opinion, decided it was appropriate to adopt IAS/IFRS international accounting standards in preparation of the Schumann Group consolidated financial statements. This approach, in addition to the requirements of transparency and truthful and fair representation, allowed the continuity, uniformity and comparability of the accounting data of the group recently acquired to be guaranteed.

These consolidated financial statements are presented in thousands of Euro, which represents the currency of the economic environment in which the Group operates. All amounts presented in the notes are expressed in thousands of Euro, unless otherwise stated.

The format of the financial statements and the relative classification criteria adopted by the Group, within the framework of the options provided by IAS 1 – *Presentation of financial statements* are presented below:

- the consolidated statement of financial position uses a format classifying the assets and liabilities according to current and non-current;

- the consolidated statement of comprehensive income, which classifies costs according to their nature, includes, besides the profit or loss for the year, other non-owner changes in equity;

- the consolidated statement of cash flows is prepared by recognizing cash flows from operating activities according to the indirect method. In the consolidated statement of cash flows, the cash flows provided by the Group's operating activities exclude the effects of fluctuations in the amounts payable for jackpots and winnings of the games which have a contra-entry in restricted bank deposits. This is because the cash flows generated by the sale of the various games and earmarked, by concession obligation, for the payment of the winnings are set aside in dedicated bank accounts. The change was made to provide a clearer representation of the cash flows relating to the cash actually available for the Group. Therefore, the cash movements correlated to the payment of winnings from the dedicated bank accounts are excluded. Consequently the cash at the beginning and at the end of the year shown in the consolidated statement of cash flows is reconciled only to the cash and cash equivalents shown in the statement of financial position, which excludes the restricted cash deposits for the payment of winnings, which are classified in a separate line of the consolidated statement of financial position.

  Since 2016 is the first year of activity for the Parent, above statements do not include any comparative balance.

2.2 Significant events during the year

In December 2016 the Parent acquired control of the Sisal Group through finalization of the acquisition of 100% of the share capital of Sisal Group S.p.A. for a total of around Euros 459 million, net of transaction charges (for about Euros 7 million).

The above transaction was finalized through capitalization of the Parent for around Euros 300 million by the direct controlling entity Schumann Investment S.A., based in Luxembourg, income for a total of Euros 725 million from two new bond issues by the parent, including one at floating rate (Euros 325 million) and one fixed rate (Euros 400 million), and the remainder through the use of financial resources available to the acquired group. This series of financial resources also allowed the early settlement of pre-existing borrowings of the companies acquired and, in particular, those referring to the Senior Credit Agreement for approximately Euros 412 million and the bond issue for Euros 275 million arranged by the acquired group during 2013.

At the acquisition date, the group acquired had consolidated equity calculated on the related accounting records at November 30, 2016 of around Euros 425 million (including waiver of repayment of the loan disbursed by the former majority shareholder) which, suitably adjusted by the value of goodwill already recognized due to the difference with the purchase price, led to the recognition of a higher value of around Euros 895 million. As permitted by IFRS 3 Business combinations, this difference was provisionally allocated to goodwill, whilst finalization of the fair value measurement of the assets and liabilities acquired is due to be completed during 2017.

Also given the timing of the acquisition process referred to above, these consolidated financial statements refer to the period March 2, 2016 to December 31, 2016 as regards activities directly attributable to the parent, whilst economic values for the group acquired were recorded from December 1, 2016.

2.3 Going concern

Also taking the above into account, 2016 closed with a loss of Euros 35,858 thousand, consolidated equity at December 31, 2016 was equal to Euros 264,089 thousand and net working capital at the same date is a negative Euros 179,314 thousand. As this is the Group's first year of operations, there is no comparison with the previous year. Therefore, as an indication only, it should be remembered that the group acquired had recorded a consolidated loss for the whole of 2015 of around Euros 40 million. The profit (loss) for 2016 was impacted by net non-recurring expenses of approximately Euros 7.8 million, mainly related to the acquisition of the Sisal Group and for Euros 24 million to the finance expenses incurred by the Parent, largely for the issue in July 2016 of the new notes, a few months earlier than the closing of the acquisition.

With regard to working capital, it should be mentioned that the business of the Group is characterized by a financial cycle in which the cash flows payable to the partners and the State are taken up by the network in advance of the relative obligation of payment. Therefore, the presence of a negative working capital should be considered an ongoing phenomenon of the Group.

With reference to the debt structure, note that following finalization of the complex financial restructuring arranged in parallel with the Sisal Group acquisition, the Group was able to achieve, as shown in detail in the following table, a more balanced structure of capital resources and debt to third parties compared to the pre-existing position of the group acquired, and at the same time was able to significantly extend the due dates of the loans received, which in particular reference to the floating rate and fixed rate notes fall in July 2022 and July 2023, respectively:

	At December 31,	
(in Euros thousands Percentages computed on total debt and equity)	**2016**	
Long-term debt	692,642	
Short-term debt and current portion of long-term debt	109,122	
Funding from third parties	**801,764**	**75.2%**
Equity	264,089	**24.8%**
Total debt and equity	**1,065,853**	**100.0%**

With regard to the activities acquired, on the whole, despite a context of partial deterioration of the reference regulatory conditions (particularly affecting the Gaming segment), 2016 recorded gross profit and operating profit levels (net of the impact of non-recurring expenses) that were essentially in line with - if not an improvement on - those of 2015, and an overall growth compared to forecasts made at the beginning of the year.

These trends are also confirmed by recent projections drafted by management, particularly for the current year and the next, sufficient to allow further expansion of the Group investments plan.

On the basis of the assessments previously illustrated with particular reference to the current and expected profitability of the Group and to the amortization plans for the repayment of debt, the directors therefore believe that there is the reasonable expectation that the Group will continue its operating activities in the foreseeable future and will be able to meet its financial commitments, and in any case for a period of time beyond twelve months, and has therefore prepared these financial statements on a going concern basis.

2.4 Scope of consolidation and consolidation principles

The consolidated financial statements include the financial statements of the Parent and the financial statements of its subsidiaries, approved by their relative boards. The companies included in the scope of consolidation at December 31, 2016 are reported as follows:

Companies included in the scope of consolidation			
			% Direct and Indirect ownership at December 31,
Name	**Headquarters**	**Share capital**	**2016**
Schumann S.p.A. (Parent)	Milan	€ 9,919,809	-
Sisal Group S.p.A	Milan	€ 102,500,000	100.00%
Sisal SpA	Milan	€ 125,822,467	99.81%
Sisal Point SpA	Milan	€ 600,000	99.81%
Sisal Entertainment SpA	Milan	€ 2,131,622	99.81%
Acme S.r.l.	Santorso (VI)	€ 20,000	99.81%
Friulgames S.r.l.	Tavagnacco (UD)	€ 100,000	99.81%

For additional details on the changes in the scope of consolidation during the year under examination see Note 6. Below is a brief description of the criteria used for the consolidation of subsidiaries and associates.

Subsidiaries

The consolidated financial statements include the financial statements of all the subsidiaries. Control exists when the parent company holds, directly or indirectly, the decision-making power over the subsidiary or has rights or liability with respect to variable returns deriving from its relations with the entity concerned and, at the same time, is able to affect such returns by exercising its power over that entity. The subsidiaries are consolidated using the line-by-line method starting from the date that control commences until the date that control is transferred to a third party. The closing date of such financial statements coincides with that of the parent company. The principles adopted for line-by-line consolidation are as follows:

- The assets, liabilities, revenues and expenses of the subsidiaries are consolidated on a line-by-line basis, attributing to the non-controlling interests, where applicable, their share of equity and profit or loss for the year which is shown separately in equity and in the income statement;

- The business combinations in which control is acquired are recorded as set out in IFRS 3 – Business Combinations by applying the acquisition method of accounting. The acquisition cost is represented by the fair value of the assets transferred, liabilities assumed and equity instruments issued at the acquisition date. The identifiable assets acquired, the liabilities and contingent liabilities assumed are recognized at their fair value at the acquisition date except for deferred tax assets and liabilities, assets and liabilities for employee benefits and assets held for sale which are recognized on the basis of the relative accounting principles. The difference between the acquisition cost and the fair value of the assets and liabilities acquired, if positive, is recognized in intangible assets as goodwill, or, if negative, after reviewing the fair value measurements of the assets and liabilities acquired, is recognized directly in the income statement, as income. Transaction costs are recorded in the income statement when incurred;

- The acquisition cost also includes contingent consideration measured at fair value at the control acquisition date. Subsequent changes in fair value are recognized in the income statement or the statement of comprehensive income if the contingent consideration is a financial asset or liability. If the contingent consideration is classified as equity, the original amount is not re-measured and when extinguished is recorded directly in equity;

- Non-controlling interests in equity and in the profit (loss) are shown as separate items in the financial statements. At the acquisition date, non-controlling interests can be measured at either the acquisition date fair value or according to the proportionate share of the net identifiable assets of the acquired entity. The choice in the measurement method for non-controlling interests is decided on a transaction by transaction basis. If the business combination is achieved in stages, the Group re-measures any previously held interest in the acquired entity at acquisition date fair value and any resultant gain or loss is recognized in the income statement as appropriate;

- Changes in non-controlling interests in a subsidiary which do not constitute an acquisition or a loss of control are accounted for as equity transactions. Therefore, for purchases subsequent to the acquisition of control and the partial disposal of a subsidiary without loss of control, any positive or negative difference between the purchase cost/sales price and the corresponding share of equity is recognized directly in the equity of the Group;

- In the case of the partial disposal of a subsidiary resulting in the loss of control, the investment retained is adjusted to fair value and the revaluation forms part of the gain or loss on the transaction;

- Significant gains and losses (including the related tax effects) resulting from transactions between fully consolidated Group companies which have not yet been realized with third parties at the end of the reporting period are eliminated. Receivables and payables, costs and revenues and finance income and expenses between companies included in the consolidation are also eliminated, if significant.

Associates

Associates are those companies over which the Group exercises significant influence, which is presumed to exist when the Group holds a minimum of 20% of the voting rights. Investments in associates are accounted for using the equity method and are initially recorded at cost and, following the acquisition, adjusted to reflect the changes in parent's interest related to net assets of the subsidiary. In particular:

- The carrying amount of such investments is aligned to the adjusted equity, where necessary, to reflect the application of IFRSs and includes the recognition of the higher/lower value attributed to the assets and liabilities and goodwill, if any, identified at the date of acquisition;

- The Group's share of the investee's profit or loss is recorded starting from the date that significant control commences until the date that control ceases. In the event in which, as a result of losses, the investee shows a negative equity, the carrying amount of the investment is reduced to zero and any additional losses are provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations, or in any case is required to cover the losses. Changes in the equity of the investee, accounted for using the equity method, unrelated to profit or loss are recognized in the statement of comprehensive income.

- Unrealized gains and losses between the Company/subsidiaries and the investee, accounted for using the equity method including the distribution of dividends, are eliminated to the extent of the Group's investment in the investee.

2.5 Accounting policies

A brief description is provided of the most significant accounting policies and principles used in the preparation of the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at acquisition or production costs including directly chargeable incidental expenses necessary to bring the asset to use. Cost comprises the finance expenses directly attributable to the acquisition, construction or production of the asset. Cost also includes the expected costs of dismantling and removing the asset and restoring it to its original condition if a contractual obligation exists.

The expenses incurred for ordinary and/or cyclical maintenance and repairs are charged directly to the income statement in the year incurred. The capitalization of costs inherent to the expansion, modernization or improvement of the structural elements owned or used by third parties is made solely to the extent that they meet the conditions for being classified separately as an asset or part of an asset under the component approach method.

For investments made by Group companies, specifically Sisal Entertainment S.p.A., which exercised the option for the exemption from the obligations for the transactions exempted under art. 36 bis of Presidential Decree 633/72, non-recoverable VAT referring to a specific purchase transaction increases the original cost, with the result being that such expense constitutes a part of the value of the capitalized asset. On the other hand, non-deductible VAT, calculated on the basis of the pro-rata coefficient, since it cannot be calculated objectively at the date of acquisition, is similar to a general cost and entirely recognized in other operating costs. The above assets are depreciated systematically each year on a straight-line basis at economic and technical rates calculated according to the assets' estimated useful lives. When the depreciable asset is composed of distinctly identifiable elements, the useful life of which differs significantly from that of the other parts which compose the asset, depreciation is taken separately for each of the parts which make up the asset under the component approach principle.

The estimated useful life by class of property, plant and equipment is the following:

Class of property, plant and equipment	Useful life in years
Buildings	33
Plant	3-10
Equipment	3-8
Other assets:	
- vehicles	4-5
- furniture and fixtures	8
- electronic office equipment	5
Leasehold improvements	**shorter of the estimated useful life of the asset and the duration of the lease contract**

When capital expenditures made by the companies refer to assets for the management of gaming obtained by concession from the Customs and Monopolies Agency (AAMS) and are transferable free of charge at the end of the concession period, depreciation is taken over the shorter of the estimated useful life of the asset and the remaining period of the concession.

Depreciation starts when the asset is ready for use taking into account the time at which such condition actually arises.

Leased assets

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Group, are initially recognized as assets of the Group at fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability due to the lessor is included in the statement of financial position under financial liabilities. Such assets are depreciated according to the criterion and rates indicated previously, unless the lease term is shorter than the useful life represented by those rates and there is no reasonable certainty of transfer of ownership of the leased asset on expiry of the lease, in which case the depreciation period is represented by the lease term.

Leases where the lessor substantially retains all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

INTANGIBLE ASSETS

Intangible assets are non-monetary assets which are without physical substance, identifiable, controllable and have the capacity to produce future economic benefits. Such assets are initially recognized at purchase and/or construction cost, including directly attributable expenses to prepare the asset for use. Interest expenses, if any, during and for the development of intangible assets are considered part of the acquisition cost. In particular, the following intangible assets can be identified in the Group.

(a) Goodwill

Goodwill is recognized as an intangible asset with an indefinite useful life. It is recognized initially at cost, as described previously, and subsequently tested for impairment at least annually. The reversal of a previous goodwill impairment loss is not permitted.

(b) Other intangible assets with a finite useful life

Intangible assets with a finite useful life are recognized at cost, as described previously, net of accumulated amortization and impairment losses, if any. Amortization starts when the asset is available for use and is charged systematically over the residual period of benefit, that is, over the estimated useful life. The estimated useful life for the various classes of intangible assets is as follows:

Class of intangible asset	Useful life in years
Patent rights and intellectual property	3
Concessions	Period of concession
Software user licenses	Period of utilization on a straight-line basis
Retail network and technological network	11
Sisal brand	19
Match Point brand	6

Rights and licenses acquired under finance leases, or linked to an agreement which, although not explicitly a finance lease, transfers substantially all the risks and rewards incidental to ownership, are recorded in intangible assets at fair value, net of any amounts due to the lessee, or, if lower, at the present value of minimum lease payments, with a corresponding financial payable to the lessor being recorded in liabilities. The assets are amortized in the manner described below. When there is no reasonable certainty that the lessee will obtain ownership of the assets at the end of the lease term, amortization is made over the shorter of the lease term and the useful life of the assets.

The costs relating to the development of new products and sales channels, particularly with reference to software (for example, the website software used for online gaming and betting, as well as the management of online payment services), are also capitalized. In accordance with IFRS, such costs are capitalized since it is believed that the estimated future economic benefits linked to the receipts from games and services, also online, are able to sustain the amount capitalized.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

(a) Goodwill

As mentioned previously, goodwill is tested for impairment annually or more frequently whenever events or changes in circumstances indicate that goodwill may be impaired.

To test for impairment, goodwill is allocated to each **Cash Generating Unit** ("CGU") monitored by management. An impairment loss on goodwill is recognized when the carrying amount exceeds the recoverable amount. The recoverable amount of the CGU to which goodwill is allocated is the higher of fair value less costs to sell and its value in use, intended as the present value of future cash flows estimated for the asset in question. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate before taxes that reflects current market assessments of the time value of money, proportionate to the investment period, and the risks specific to the asset. If the impairment loss is higher than the carrying amount of goodwill allocated to the CGU, the excess is applied to the other assets of the CGU in proportion to their carrying amount.

The carrying amount of an asset should not be reduced below the highest of:

- the fair value of the asset less costs to sell;
- the value in use, as defined above;
- zero.

The reversal of a previous goodwill impairment loss is not permitted.

(b) Tangible and intangible assets with a finite useful life

At every closing date, the Group assesses whether there are any indications of impairment of intangible and tangible assets. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, trend in market interest rates and the cost of capital used to evaluate investments.

When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount and any impairment loss is recorded in the income statement. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use, the latter being the present value of future cash flows estimated for the asset in question. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate before taxes that reflects current market assessments of the time value of money, proportionate to the investment period, and the risks specific to the asset. For assets that do not generate largely independent cash flows, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the carrying amount of the cash-generating unit exceeds the recoverable amount, an impairment loss is recognized in the income statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset is re-recognized in the income statement, up to the carrying amount that would have been recorded had no impairment loss been recognized and if normal amortization/depreciation been applied.

TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

Trade receivables and other financial assets are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Trade receivables and other financial assets are included in current assets, except for those with a contractual due date beyond twelve months after the date of the financial statements, which are classified as non-current assets.

The factoring of trade receivables which does not provide for the transfer to the factoring company of substantially all the risks and rewards of ownership (the Group thus remains exposed to the risk of insolvency and late payment: with recourse factoring) is similar to obtaining a loan guaranteed by the receivables factored. In this circumstance, the receivables transferred remain in the statement of financial position of the Group until collection is received by the factoring companies and, as a contra-entry to any advance obtained from the factoring company, a financial payable is recorded. The finance expenses for the factoring transactions represented by the interest on the amounts advanced are charged to the income statement on an accrual basis and classified under finance expenses. The commissions accruing on with recourse factoring are included in finance expenses, whereas the commissions on without recourse factoring are classified in other operating costs.

Impairment losses on receivables are recognized when there is objective evidence that the Group will no longer be able to recover the receivables due from the counterparty on the basis of the contract terms.

Objective evidence includes events such as:

- significant financial difficulties of the counterparty;
- legal disputes with the counterparty over the receivables;
- probability that the counterparty will declare insolvency or other financial restructuring procedure.

The amount of an impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows and is recognized in the income statement. If in subsequent periods the reasons for the impairment cease to exist, the asset value is reinstated up to the amount that would have been recognized had amortized cost been applied.

Financial assets, relating to non-derivative financial instruments, with fixed or determinable payments and fixed maturity dates, which the Company intends and has the ability to hold until maturity are classified as “held-to-maturity financial assets”. Such assets are measured at amortized cost using the effective interest method, adjusted by impairment losses, if any. Whenever there are impairment losses, the same principles as described above for loans and receivables are applied.

Available-for-sale financial assets, including investments in other companies representing available-for-sale assets, are measured at fair value, if determinable. Changes in fair value are recognized directly in an equity reserve in other components of comprehensive income until they are disposed or impaired, at which time they are reversed to income. Other unlisted investments classified as "available-for-sale financial assets" whose fair value cannot be measured reliably are measured at cost adjusted by any impairment losses which are recognized in the consolidated income statement, as required by IAS 39.

Dividends received from investments in other companies are included in finance income.

INVENTORIES

Inventories of playslips and rolls of paper for gaming terminals are stated at the lower of purchase cost, using the weighted average cost method, and realizable value by reference to the market price.

Inventories of spare parts for the gaming terminals are stated at the weighted average cost based on purchase prices.

Obsolete and slow-moving inventories are written down according to their possibility of utilization or realization by setting up a specific provision recorded directly as a decrease in the corresponding asset item.

The inventories of virtual and scratch top-up cards for telephone and television content are stated at the weighted average cost of the purchase prices.

CASH AND CASH EQUIVALENTS

Restricted bank deposits are separately reported from ordinary cash and cash equivalents since they are mainly related to the gaming cash flows which have to be mandatorily segregated for the payment of winnings. Cash and cash equivalents include cash and available bank deposits and other forms of short-term investments, with original due dates equal to or less than three months. Cash and cash equivalents are recorded, according to their nature, at their nominal amount or at amortized cost.

DEBT AND OTHER FINANCIAL LIABILITIES

Debt and other financial liabilities are initially recorded at fair value, net of directly attributable incidental expenses, and subsequently measured at amortized cost using the effective interest method. If there is a change in the estimate of expected cash flows, the value of the liabilities is re-measured to account for this change on the basis of the present value of the new cash flows expected and the effective interest rate determined initially. Financial liabilities are classified within current liabilities, except those with contractual maturities due beyond twelve months of the balance sheet date and those for which the Group has an unconditional right to defer payment for at least twelve months after that date.

Financial liabilities are recognized at the transaction date and are derecognized when paid and when the Group has transferred all the risks and expenses related to the instruments.

FOREIGN CURRENCY TRANSLATION

Transactions in currencies other than the functional currency are translated at the foreign exchange rate prevailing at the transaction date. Foreign exchange gains and losses arising from the settlement of transactions or from year-end translation of assets and liabilities in currencies other than Euro are recognized in the income statement.

STOCK OPTIONS

Stock option plans and other initiatives remunerated by equity instruments, if any, are accounted for in accordance with IFRS 2, separating those which will be settled through the issue of equity instruments from those which will be settled by payments in cash based on the value of the options granted.

The fair value is determined at the grant date and causes the cost to be recognized (under personnel costs in the income statement) over the vesting period of the options. When the employee's service is remunerated with an equity instrument or when the options granted are on the shares of the Parent, the contra-entry is to an equity reserve. Instead, when the cost of the share-based payment transaction is settled in cash, the contra-entry is to a payable account.

EMPLOYEE BENEFITS

Short-term benefits are represented by salaries and wages, social security, indemnities in lieu of holidays and incentives in the form of bonuses payable in the twelve months subsequent to the date of the financial statements. Such benefits are recognized as components of personnel costs in the period in which their services are rendered.

Post-employment benefits are divided into two categories: defined contribution plans and defined benefit plans.

In defined contribution plans, contributory costs are charged to the income statement as they occur, based on the relative nominal value.

In defined benefit plans, which include severance indemnity due to employees regulated by art. 2120 of the Civil Code ("TFR"), the amount of the benefit to be paid is quantifiable only after termination of employment, and associated with one or more factors such as age, the years of service and compensation. Therefore, the relative cost is charged to the statement of comprehensive income based on actuarial computations. The liability recorded in the financial statements for defined benefit plans corresponds to the present value of the obligation at the date of the financial statements. The obligations for defined benefit plans are determined annually by an independent actuary using the projected unit credit method.

The present value of defined benefit plans is determined by discounting future cash flows at an interest rate equal to high-quality corporate bonds issued in Euro which take into account the period of the relative pension plan.

Starting from January 1, 2007, Finance Law 2007 and the relative implementing decrees introduced amendments concerning TFR employee severance indemnity. The amendments include the decision of employees as to the destination of their accruing indemnity. In particular, new flows of TFR can be directed by the employee either to pre-chosen pension funds or retained in the company. In the case of external pension funds the payment of the defined contribution will be made to the fund and starting from such date the new amounts accrued have the nature of defined contribution funds not subject to actuarial measurement.

Starting from January 1, 2013, following the adoption of IAS 19 – Employee Benefits, changes in actuarial gains and losses are recognized in other consolidated comprehensive income.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are set up to cover losses or liabilities whose existence is certain or probable but which at the end of the reporting period are uncertain as to amount or as to the date on which they will arise. Provisions are recognized only when there is a current obligation (legal or constructive) for a future outflow of resources deriving from a past event and it is probable that the outflow will be necessary to fulfill the obligation. This amount represents the best estimate of the present value of expenditures required to settle the obligation. If the effect of the time value is material, and the payment date of the obligations can be reasonably estimated, provisions to be accrued are the present value of the expected cash flows, using a rate which reflects market conditions, the change in the time value of money and the risks specific to the obligation. The increase in the provision due to the cost of money over time is recognized as interest expense.

RECOGNITION OF REVENUES

Revenues are recognized initially at the fair value of the consideration received net of rebates and discounts. Revenues from services are recognized by reference to the value of the services rendered as at the end of the reporting period.

Revenues from sales of goods are recognized when the company has substantially transferred all the risks and rewards of ownership of the goods.

In accordance with IFRSs, sums collected on behalf of third parties, such as in an agency relationship, which do not cause an increase in the company's equity, are excluded from revenues which, instead, are represented solely by the fees and commissions accrued on the transaction. Specifically, the cost pertaining to the purchase of telephone top-up and television content cards are shown as a deduction from gross revenues to highlight that with these transactions the Group's revenue is only the difference between the sales price and the nominal cost of the card.

FIXED-ODDS BETTING INCOME

The bets connected with fixed odds betting are recognized initially as a financial liability in accordance with IAS 39 at the date the bet is accepted. Subsequent changes in the amount of the financial liability are recognized in the income statement under “Fixed-odds betting income” until the date of the event on which the bet was accepted.

COST OF GOODS PURCHASED AND SERVICES PERFORMED

Purchases of goods and the performance of services are recognized in the income statement on an accrual basis. The costs incurred by Sisal Entertainment S.p.A., which exercised the option to dispense with obligations for the transactions exempted under art. 36 bis of Presidential Decree 633/72, are recognized in the income statement inclusive of non-recoverable VAT. On the other hand, non-deductible VAT, calculated on the basis of the pro-rata coefficient, since it cannot be calculated objectively at the date of acquisition, is similar to a general cost and entirely recognized in other operating costs.

INCOME TAXES

Income taxes are allocated on the basis of an estimate of the tax expense for the year according to current laws. The corresponding liability is shown under “Taxes payable”.

Deferred tax assets and liabilities are recognized on the temporary differences between the carrying amount of an asset or a liability in the financial statements and its tax base, except for first-time recognition of goodwill and for those differences related to investments in subsidiaries when the reversal of such differences is under the control of the Group and it is probable that they will not reverse in the reasonably foreseeable future.

Deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority, there is a legally enforceable right of offset and settlement of the net balance is expected. If the net amount is an asset it is shown as “deferred tax assets” and if a liability as “deferred tax liabilities”. When the effects of a transaction are credited or charged directly to equity, the related current and deferred taxes are also recognized directly in equity.

Deferred tax assets and liabilities are computed based on tax rates that are expected to apply in the period in which the asset is recovered or settled to the extent that such rates have been approved at the date of the financial statements.

Expenses, if any, in connection with litigation with the tax authorities for the portion relating to the evasion of taxes and the corresponding penalties is recorded in “income taxes”.

2.6 Recently issued accounting standards

In the year ending December 31, 2016, the Group applied the accounting standards and their interpretations entering into force with effect from January 1, 2016, as follows:

- Regulation (EC) 2016/1703 of September 22, 2016 endorsed the amendments to IFRS 10, IFRS 12 and IAS 28, which specified the accounting requirements for investment entities and envisaged exemptions in particular circumstances;
- on December 18, 2015, Regulation (EC) 2015/2441 was issued, which amended IAS 27 - Separate Financial Statements, allowing companies to apply the equity method described in IAS 28 - Investments in Associates and Joint Ventures for the accounting of investments in subsidiaries, joint ventures and associates in their respective separate financial statements;
- Regulation (EC) 2015/2406 of December 18, 2015 endorsed the amendments to IAS 1 - Presentation of Financial Statements, designed to improve the effectiveness of financial statements disclosures and including a series of clarifications in reference to the issues of materiality, any ungrouping of items, the structure of the explanatory notes, the disclosure on adopted accounting principles and the presentation of other comprehensive income;
- on December 15, 2015, Regulation (EC) 2015/2343 was issued, which transposed into EU law various improvements to the standards and interpretations in force, issued by the IASB and by IFRIC as part of the annual improvements cycle to simplify and clarify the international accounting standards. The document: (i) in reference to IFRS 5 clarifies that any different classification of an asset (or disposal group) from available for sale to held for distribution to shareholders (or vice versa), must not be considered a new disposal plan but rather a continuation of the original plan; (ii) in reference to IFRS 7 “Financial Instruments: Disclosure”, provides additional guidance on determining the existence or not of a residual involvement in a financial asset transferred, where a related service agreement exists; in reference to this same standard, it also clarifies the non-applicability of disclosures required in reference to the netting of financial assets and liabilities in interim financial reporting; (iii) in reference to IAS 19, clarifies that the discounting rate to be used for discounting obligations must be determined in reference to the market returns on securities of leading companies identified in the same currency used to pay the benefits, rather than in reference to the home member state; (iv) in reference to IAS 34, clarifies that the information required by IAS 34 on significant transactions and events can be provided in interim financial reporting or through specific reference to other documents, to which users of the interim reports have access under the same conditions and same time as for the interim report itself, failing which the latter is incomplete.
- on December 2, 2015, Regulation (EC) 2015/2231 was issued, which implemented the amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets, introduced with the aim of providing guidance on the depreciation and amortization methods, particularly with a view to clarifying whether it is appropriate to use revenue-based methods to calculate the depreciation/amortization of an asset;
- on November 24, 2015, the Regulation (EC) 2015/2173 was issued, which implemented the amendments introduced to IFRS 11, providing new guidance on accounting for the acquisition of interests in jointly-controlled entities that constitute a business asset;

- by Regulation (EC) 2015/2113 of November 23, 2015, the amendments to IAS 16 - Property, Plant and Equipment and IAS 41 - Agriculture were implemented at European level, relating to the accounting treatment of plants used solely as bearer plants.
- On January 9, 2015, the Official Journal of the European Journal saw the publication of Regulations 2015/28 and 2015/29, both of which issued by the European Commission on December 17, 2014, respectively endorsing: (i) the regulatory provisions contained in the “Annual Improvements to IFRSs: 2010-2012 Cycle”; and (ii) the amendments to IAS 19 of provisions contained in the document “Defined benefit plans: employee contributions (Amendments to IAS 19)”. The provisions contained in the “Annual Improvements to IFRSs: 2010-2012 Cycle” introduced the following amendments: (i) to IFRS 2, clarifying the definition of “vesting condition” and introducing definitions of the length of service (service condition) and achievement of the result (vesting condition); (ii) to IFRS 3, clarifying that obligations to pay a potential consideration, other than those covered by the definition of equity instrument, are measured at fair value at every reporting date, with changes recognized in the income statement; (iii) to IFRS 8, requiring a disclosure on the measurements carried out by company management, describing segments that have been aggregated and the economic indicators measured to determine the existence of similar economic terms between the sectors aggregated; (iv) to IAS 16 and IAS 38, clarifying the method for determining the gross book value of assets in the event of revaluation after application of the revaluation model; (v) to IAS 24, establishing the information to be provided when a third-party entity provides key management services on behalf of the entity preparing the financial statements (or the controlling entity). The amendments to IAS 19 allow the accounting recognition of a decrease in the current service cost for the period of contributions paid by employees or third parties, in place of allocating these contributions over the entire period of service, if such contributions (i) are not correlated with the number of years’ service of the employee, (ii) are indicated in the formal terms of the plan and (iii) are associated with the service provided by the employee.

The adoption of these standards and amendments had no significant impact on the Company’s financial statements.

The accounting standards and interpretations issued by the IASB/IFRIC and endorsed by the European Commission but not yet in force are illustrated below:

- by Regulation (EC) 2016/1905, issued by the European Commission on September 22, 2016, the regulatory provisions of IFRS 15 - Revenue from Contracts with Customers, issued by the IASB on May 28, 2014, were endorsed. The Regulation provides a single model for revenue recognition (including revenue from contracts relating to work orders) based on the transfer of control of an asset or service to the customer. This provides a more structured approach to the measurement and recognition of revenue, with detailed application guidance. The provisions of IFRS 15 following the amendments introduced by those issued on September 11, 2015, will enter into force from years beginning on or after January 1, 2018;

- by Regulation (EC) 2016/2067, issued by the European Commission on November 22, 2016, the regulatory provisions of IFRS 9 - Financial Instruments, issued by the IASB on July 24, 2014, were endorsed, together with the related Basis for Conclusions and Application Guidance, replacing all previous versions of the standard issued. The new provisions: (i) amend the classification categories for financial assets and envisage that this classification is based on contractual cash flows of the asset and on the company's business model; (ii) also eliminate the compulsory unbundling of derivatives embedded in the financial assets; (iii) identify a new impairment model using forward-looking data with a view to earlier recognition of impairment losses on receivables than in the "incurred loss" model, which postpones recognition of the loss to the time of the loss event in reference to financial assets measured at amortized cost, to financial assets designated at fair value in other comprehensive income, receivables on leases, and assets deriving from contracts and certain commitments to disburse loans and financial guarantees; (iv) introduce a substantial review of the qualification of hedging transactions to guarantee that these are aligned with the risk management strategies of the companies and founded on a more principle-based approach. IFRS 9 consequently also amended IFRS 7 - Financial Instruments: Disclosures". The provisions of these documents, which replace those contained in IAS 39 - Financial Instruments: Recognition and Measurement" will enter into force from years beginning on or after January 1, 2018.

The impact of the adoption of these standards on the Group is currently under review.

Illustrated below are the newly issued accounting standards and interpretations which, at the date of preparation of these financial statements, have not yet completed the European Commission endorsement procedure:

- IFRS 16 "Leases"
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7: Disclosure Initiative
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 40: relating to transfers of investment property
- Annual Improvements 2014-2016
- IFRIC 22 "Foreign currency transactions and advance consideration"

3. Management of financial risks

The Group is exposed to: market risk – defined as foreign exchange rate, interest rate and bookmaker risk – liquidity risk, credit risk and capital risk.

The risk management strategy of the Group focuses on minimizing the potential adverse effects on the Group's financial performance. As far as considered necessary, certain types of risk are mitigated by using derivative instruments. Risk management is centralized in the treasury function which identifies, assesses and hedges financial risks, in close cooperation with the operating units of the Group, particularly with the risk management function. The treasury function provides guidelines for monitoring risk management, just as it provides guidelines for specific areas such as interest rate risk, foreign exchange rate risk and the use of derivative and non-derivative instruments.

MARKET RISK

Foreign exchange rate risk

The Group is active on the Italian market and is therefore exposed to exchange rate risk to a limited extent, solely in reference to insignificant amounts for the supply of spare parts for gaming equipment purchased mainly in foreign currency (USD and GBP).

Interest rate risk

The Group is exposed to risks related to fluctuations in interest rates since it uses a mix of debt instruments according to the nature of its financial needs.

In particular, the Group normally looks for short-term debt to finance its working capital requirements and for medium-and long-term financing to support investments related to its operations and extraordinary transactions. The financial liabilities which expose the Group to interest rate risk are mainly medium- and long-term indexed loans at variable rates of interest. Specifically, on the basis of the analysis of the Group's indebtedness, approximately 50% of the medium- and long-term debt and short-term debt at December 31, 2016 is at floating rates.

See Note 34 for additional details.

Concerning interest rate risk, a sensitivity analysis was performed to determine the effects on income statement and equity of hypothetical positive and negative 100 bps variations to current effective interest rates.

The analysis performed related mainly to the following:

- cash and cash equivalents, excluding restricted cash deposits used for the payment of winnings;
- short-term and medium- and long-term debt, including the related derivative financial instruments, where existing.

Regarding cash and cash equivalents, reference was made to the average balance and the average interest rate thereon for the year, while for short-term and medium- and long-term debt the effect was calculated at the reporting date of the consolidated financial statements. This analysis did not include financial payables contracted at fixed rates, further reported amounts do not reflect any tax impact.

		2016			
		Income Statement		Equity	
(in Euros thousands)	**At December 31, 2016**	**+1% profit/(loss)**	**-1% profit/(loss)**	**+1% profit/(loss)**	**-1% profit/(loss)**
Net financial debt at variable rates	(281,343)	(2,988)	2,988	(2,988)	2,988
Total	**(281,343)**	**(2,988)**	**2,988**	**(2,988)**	**2,988**

Bookmaker risk

Quoting odds, or the process of bookmaking, is the activity of setting odds for fixed odds betting, which, in effect, represents a contract between the bookmaker, who agrees to pay a pre-determined amount (the odds) and the player, who accepts the proposal made by the bookmaker and decides on the amount of his bet within the limits allowed by existing law.

The implicit risk of this activity is managed by the Group through the systematic and professional work of its odds staff in the “risk management function” who are also assisted by external consultants in order to correctly determine the odds and limit the possibility of speculative betting.

LIQUIDITY RISK

Liquidity risk is the risk of not being able to fulfill present or future obligations owing to insufficient available funds. The Group manages this risk by seeking to establish a balance between outflows of cash and the sources of short-term and long-term debt and the distribution of maturities of medium- and long-term debt over time. In particular, a prudent management of liquidity risk implies maintaining a sufficient level of cash and the availability of funds obtainable through an adequate amount of lines of credit.

At December 31, 2016 credit facilities agreed but not used for Euros 33 million were in place, attributable to a revolving credit facility for a total of Euros 125 million. The facility will expire in 2022.

Set out below are the cash flows expected in future years for the repayment of financial liabilities subdivided by repayment date at December 31, 2016.

		2016			
		Financial Liabilities Disbursements Analysis			
(in Euros thousands)	**At December 31, 2016**	**To three months**	**More than three months to one year**	**More than one year to five years**	**More than five years**
Bank debt and payables to other lenders	**801,765**	108,280	842	400	725,000
Trade payables	**281,305**	239,016	40,705	1,770	-
Other payables	**415,558**	358,561	56,998	-	-
Total	**1,498,628**	**705,857**	**98,545**	**2,170**	**725,000**

The flows indicated for the loans refer exclusively to the repayments of principal. Actual disbursements will be increased by the interest charges based on the rates applicable to the various loans as summarized in Note 34.

Further, the table does not include the payments associated with taxes payable which will be paid to the tax authorities at due dates established by existing laws.

During the year, the Group complied with all the clauses stated in the existing loan agreements.

CREDIT RISK

Potential credit risk in commercial relations existing mainly with the points of sale, under partnership contracts, is mitigated by specific selection procedures for points of sale, by imposing operating limits on the wagers played on the gaming terminals and by daily controls over changes in credit which provide for the blocking of the terminal in the event of non-payment and the revocation of the authorization to operate as a SISAL outlet in the event of recurrent non-payment.

The potential risk in the commercial relations with the agencies managed by third parties, under partnership agreements, and with the parties operating gaming machines who are entrusted by the Group with the receipts from legal gaming is mitigated by the issue of notes and guarantees at the time of signing the contract: these relationships are also subject to monitoring and periodic audit by the Group.

The gaming credit granted to individual players, in accordance with the internal procedure, is subject to examination and authorization by management on the basis of technical and commercial assessments.

The amount of financial assets that the Group does not expect to collect is covered by the provisions for the impairment of receivables.

Current trade receivables at December 31, 2016 are analyzed in the following table:

	At December 31,
(in Euros thousands)	**2016**
Receivables from Public Authorities	24,720
Receivables from points of sale (outlets) and shops	222,829
Receivables from Betting Agencies	9,488
Receivables from Network	18,338
Other receivables	12,066
Provision for impairment of receivables	(69,493)
Total	**217,948**

- *Receivables from Public Authorities* include receivables from AAMS for games managed according to the regulations of the specific concessions, receivables from advances made on behalf of the concession granting Authority in the course of management of the Totip game and receivables from the Public Administration for reimbursement requests already forwarded at year end, to be settled shortly thereafter; no credit risk is believed to exist on these positions;

- *Receivables from points of sale (outlets) and shops* represent essentially amounts due from gaming activities and payments and other services referring to the last few days of the year and the relative receivables arising from the automated weekly collections of the preceding periods that have gone unpaid. The large number of outlets exposes the Group to a partial uncollectibility risk which, following suitable evaluation by the directors, has duly been covered by a specific provision for impairment of trade receivables;

- *Receivables from Betting Agencies* represent mainly receivables from third parties which manage some of the horse and sports betting agencies on the basis of partnership agreements; the size of individual accounts, some inherited through acquisitions of business segments, requires constant monitoring and the formation of a provision for certain critical cases, often resolved with agreed repayment plans;

- *Receivables from Network* represent mainly receivables from gaming machines, including the single tax (PREU tax) which the concessionaire, Sisal Entertainment S.p.A., must pay regularly to the tax authorities; the large number of customers and the substantial amounts involved expose the Group to a partial collection risk which, following suitable evaluation by the directors, has been covered by a specific provision for impairment of trade receivables;

- *Other receivables* include insurance receivables, receivables from employees and sundry receivables not classifiable in the preceding categories. There are no specific forms of credit risk for the Group associated with this category.

Tax receivables have been excluded from this analysis as no significant risk profile is believed to exist.

<u>*Risk exposure*</u>

Exposure to credit risk, analyzed by reference to the ageing of receivables, is the following:

		Ageing of Receivables			
(in Euros thousands)	**At December 31, 2016**	**Current**	**Overdue 0-90 days**	**Overdue between 90-180 days**	**Overdue more than 180 days**
Trade receivables	248,044	142,522	12,641	6,853	86,028
Provision for impairment of receivables	(69,394)	(615)	(3,814)	(2,911)	(62,054)
Net book value	**178,650**	**141,907**	**8,827**	**3,942**	**23,974**
Other receivables	39,397	37,653	-	-	1,744
Provision for impairment of receivables	(99)	(68)	-	-	(31)
Net book value	**39,298**	**37,585**	**-**	**-**	**1,713**
Total	**217,948**	**179,492**	**8,827**	**3,942**	**25,687**

Overdue trade receivables not covered by provisions represent balances on which the Group believes an insignificant risk of uncollectibility to exist. As already mentioned, the Group monitors credit risk mainly existing with the outlets through specific procedures for selecting points of sale, by assigning operating limits for wagers on the gaming terminal and by daily control over changes in credit which provides for the blocking of the terminal in the event of non-payment and the revocation of the authorization to operate as a SISAL outlet in the event of recurrent non-payment.

CAPITAL RISK

The objective of the Group in the management of capital risk is principally that of guaranteeing returns to the shareholders and ensuring benefits to the other stakeholders while protecting going concern.

The size of the debt was decided at the time the new private equity fund became shareholder on the basis of the assessment of the Group's capacity to generate a steady profit and financial flows sufficient to repay the debt and settle the related expenses but also provide cash flows from operating and investing activities for the development of the business.

Moreover, in the presence of investment opportunities aimed at increasing the value and the stability of the Group, the international scope of the shareholders which control the Group and the relative amount of the Group's assets enable the Group to take advantage of such opportunities through recourse to risk capital as an alternative to debt.

CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities by category at December 31, 2016 are presented in the following table:

	At December 31, 2016					
(in Euros thousands)	**Loans and receivables**	**Investments held to maturity**	**Financial assets or liabilities at fair value**	**Total financial assets or liabilities**	**Non-financial assets and liabilities**	**TOTAL**
Current financial assets						-
Trade receivables	178,650			178,650		178,650
Other assets (current and non-current)	62,953			62,953	1,158	64,111
Restricted bank deposits	297,630			297,630		297,630
Cash and cash equivalents	135,181			135,181		135,181
Total assets	**674,414**			**674,414**	**1,158**	**675,572**
Debt (current and non-current)	801,764			801,764		801,764
Trade payables and other payables	281,305			281,305		281,305
Other liabilities (current and non-current)	415,784			415,784	7,735	423,519
Total liabilities	**1,498,853**			**1,498,853**	**7,735**	**1,506,588**

During the years under review, the Group did not reclassify any financial assets among the different categories.

For short-term trade receivables and payables and other receivables and payables, the carrying amount is considered to be a reasonable approximation to fair value. At December 31, 2016, the market price of the senior secured notes was a total of Euros 749.5 million compared to a face value of Euros 725 million.

FAIR VALUE MEASUREMENT

The fair value of financial instruments listed in an active market is based on the market prices at the balance sheet date. The fair value of instruments not listed in an active market is determined using valuation techniques based on a series of methods and assumptions connected with market conditions at the balance sheet date.

The classification of financial instruments based on a hierarchy that reflects the significance of the inputs in the determination of fair value is the following:

- Level 1: Fair value based on inputs that are quoted prices (unadjusted) on active markets for identical financial instruments;
- Level 2: Fair value based on measurement methods referring to variables observable on active markets;
- Level 3: Fair value based on measurement techniques referring to unobservable market variables.

There were no assets and liabilities measured at fair value at December 31, 2015 and 2014.

4. Use of estimates

The preparation of the consolidated financial statements requires that management apply accounting standards and methods which, under certain circumstances, are based on difficult subjective measurements and estimates based on past experience and on assumptions considered, at various times, to be reasonable and realistic in terms of the respective circumstances. The use of such estimates and assumptions affects the amounts reported in the consolidated financial statements (the statement of financial position, the statement of comprehensive income and the statement of cash flows) and also disclosure. Actual results for those areas requiring management judgment or estimates may differ from those recorded in the financial statements due to the occurrence of events and the uncertainties which characterize the assumptions and conditions on which the estimates are based.

Below are briefly described the areas that require greater subjectivity of management in making estimates and for which a change in the conditions of the underlying assumptions may have a significant impact on the financial statements.

Goodwill

The Group, in accordance with its adopted accounting policies and procedures for impairment, tests goodwill at least annually if there is any indication that the goodwill may be impaired. The recoverable amount is determined on the basis of the calculation of the value in use. This calculation requires the use of estimates that depend on factors which may vary over time and influence the assessments made by the directors. Further information on the impairment test is disclosed in Note 22.

Depreciation of property, plant and equipment and amortization of intangible assets

The cost of property, plant and equipment and intangible assets is depreciated/amortized on a straight line basis over the estimated useful life of each asset. The economic useful life of these assets is determined at the time of purchase, based on historical experience for similar assets, market conditions and expected future events which may affect them, such as technological changes. The effective economic useful life may, therefore, be different from its estimated useful life. Each year the Company assesses the technological and business segment developments, any contractual and legislative changes related to utilization of the assets and their recovery values are reviewed in order to update the residual useful life. Such updating may modify the depreciation/amortization period and consequently the annual rate and charge for current and future periods.

Impairment loss/reversal of fixed assets

Non-current assets are periodically tested for impairment and where indicators of difficulty in recovery are present an impairment loss is recorded as a deduction from the relative net carrying amount. The existence of such indicators can be verified through subjective valuations, based on information available within the Group or externally and on historical experience. Moreover, in the presence of a potential impairment, this is determined by suitable impairment tests. The correct identification of the factors, indicating a potential impairment and the estimates to determine the loss, may depend on conditions which vary over time, affecting the assessments and estimates. Similar considerations regarding the existence of indicators and the use of estimates in the application of valuation techniques can be found in the valuations to be made in the event of the reversal of impairment losses charged in previous periods.

Deferred tax assets

Deferred tax assets are recorded on the basis of expectations of future taxable income. The assessment of expected future taxable income for the purpose of recognizing deferred tax assets depends on factors which may vary over time and may have significant effects on the measurement of this item.

Provisions for risks and charges

The Group accrues in these provisions the probable liabilities relating to litigations and controversies with staff, suppliers, and third parties and in general expenses arising from any commitments. The quantification of such accruals involves assumptions and estimates based on presently available knowledge of factors which may vary over time. Thus, the final outcomes may be significantly different from those considered during the preparation of the financial statements.

Provision for impairment of receivables

This provision reflects the estimated losses on receivables. The provision covers the estimate of the risk of losses which derives from past experience with similar receivables, from the analysis of overdue receivables (current and historical), of losses and recoveries and finally from monitoring economic trends and forecasts both currently and prospectively of the Company's business.

5. Concessions and litigation

The following principal developments have taken place in the main concession agreements and the related litigation.

Concession for the operation and development of national tote number games (NTNG)

- on April 2, 2008, Sisal S.p.A. was declared outright winner of the tender procedure held in July 2007 for the award of the concession for the operation and development of national tote number games, including Enalotto, being chosen in preference to the bids submitted by Lottomatica S.p.A. and SNAI S.p.A.. The concession is 9 years length and will expire on June 30, 2018;

- on the legal front, the company had to contend with some appeals to the administrative tribunal filed by the other two companies participating in the selection procedure (namely SNAI S.p.A. and Lottomatica S.p.A.) and by other companies (including Stanley International Betting Limited), mainly with a view to gaining access to all the documentation and having the provisional and final concession awards overturned. These proceedings were later rejected and were concluded during 2016;

- by writ served on July 10, 2014, Giovanni Baglivo, holder of a contract for the collection of NTNG bets in the retail channel, and then chairman of STS, the retailers' association, claimed that the rentals specified in that contract were not payable, because they related to the supply of services by the Company, some of which were already due pursuant to the concession, while some were useless to the owner of the point of sale. Sisal S.p.A. considers that these claims are groundless, and instructed its lawyers to prepare related defense statements. At the first hearing held on March 25, 2015, the judge accepted the exception - proposed by Sisal - of the lack of jurisdiction of the Ordinary Chambers, remanding the case to the Presiding Judge for its assignment to the Specialist Corporate Chambers. The proceedings were reassigned to these Chambers and a conclusions finalization hearing was set for February 1, 2017. On that date the case was adjourned for final decision;

- the Stability Law 2015 delegated power to the Economy and Finance Ministry to take measures in support of the gaming industry in cases where specific products have produced a loss of turnover and tax revenue of not less than 15% per annum in the last three years; as the NTNG concession was in that situation, with the aim of relaunching the most popular and best-known product of those managed by the Group, activities began and were completed to finalize the new SuperEnalotto game formula and the optional SuperStar game, and the corresponding procedures for approval by the competent authorities. The new game formula went into effect from the pool opened on January 31, 2016.

- Art. 1, paragraph 576 of the 2017 Budget Law - Law no. 232 of December 11, 2016 - instead envisaged that, in view of the expiry of the present concession, the management of national tote number games, complementary and optional games and the related forms of remote participation, as well as every other number game based on a single tote at national level, was awarded in concession by the Customs and Monopolies Authority, in compliance with European and Italian principles and rules, to a qualified company with past experience in the management or turnover on games, meeting suitable requirements of technical and economic reliability, chosen by open competitive and non-discriminatory tender. The procedure was launched with the following basic terms:

a) concession duration of nine years, non-renewable;

b) selection based on the criterion of most economically advantageous bid and, with regard to price, based on an auction for bids starting at Euros 100 million;

c) payment of the price indicated in the bid by the bidder found to be in first place on the list, in the sum of 50 per cent on award and the remainder on actual take-up of the gaming service by the winning party;

d) premium for the concessionaire of 5 per cent of turnover on markdown of the bid;

e) specific inclusion, in the bid documents, of the trade practices or relations permitted pursuant to art. 2, paragraph 2, Law Decree no. 40 of March 25, 2010, converted with amendments to Law no. 73 of May 22, 2010;

f) option of the winning concessionaire to use the telecommunications network for the direct or indirect provision of services other than gaming deposits, subject to authorization from the Customs and Monopolies Authority (ADM) based on their compatibility with such deposits;

g) mandatory technological upgrading of the network and gaming terminals system in accordance with quality standards that guarantee maximum safety and reliability, in line with the investment plan forming part of the technical bid;

h) mandatory annual payment by the concessionaire to the tax authorities of any amounts not invested pursuant to the plan referred to in point g) and of amounts debited in violation of the tender provisions pursuant to point e).

- In compliance with the above procedure, in 2017 the ADM will prepare the related invitation to tender. Sisal S.p.A. will participate in the tender to seek award of the concession in question and will therefore continue the gaming business referred to in the concession.

Concession for the activation and operation of the network for online management of legal gaming through gaming machines, and of the associated activities and functions

- The subsidiary Sisal Entertainment S.p.A., formerly Sisal Slot S.p.A., operates in the gaming machines segment, having replaced Sisal S.p.A. as concessionaire of AAMS pursuant to a rider to the concession agreement for the activation and operation of the network for online management of legal gaming through gaming machines, and of the associated activities and functions, signed on June 3, 2006.

- By Director's Decree of August 6, 2009, AAMS laid down the regulations for the activation of the new gaming systems (Video Lottery Terminals or "VLTs") described in art. 110.6.b of TULPS, stating that this activity is governed by the agreements already in force for the operation of the gaming machines network, and can therefore be entrusted to operators which, like the above Group company, are already concessionaires. In 2010, Sisal Entertainment S.p.A. and AAMS entered into an additional contract supplementing the Agreement, which was extended until conclusion of the procedures required for a new concession to be granted.

- By notice published in the Official Journal of the European Union on August 8, 2011, ID 2011 – 111208, AAMS initiated the procedure for the grant of the "Concession for the activation and operation of the network for online management of legal gaming through gaming machines, as specified in art. 110.6 of the Consolidated Law Enforcement Act (TULPS), and of the associated activities and functions". Sisal Entertainment S.p.A. took part in said selection procedure, together with 12 other candidates, and was awarded the new concession. Twelve out of the thirteen candidates, excluding BPlus S.p.A., signed the new agreement on March 20, 2013. This concession has a nine-year duration expiring March 30, 2022.

- The sector has been fraught with disputes for several years (information about which has been given in the Annual Reports for the years concerned), which have created a general situation of serious difficulty and uncertainty. In particular, the dispute regarding loss of Treasury revenues, which AAMS and the Prosecutor at the Court of Auditors believed could be charged to concessionaires of gaming machines, has now concluded. As regards the allegations of breach of contractual obligations and the consequent penalties that AAMS has imposed on concessionaires in various circumstances on the basis of the terms of the concession agreements, against which the latter have appealed to the administrative courts, the final judgments have led to the annulment of three of the penalties imposed and the termination of the related litigation; the Regional Administrative Tribunal cancelled a fourth penalty, but the AAMS appealed against that decision. In relation to this last dispute, on January 27, 2012 AAMS issued notification of the penalty for failure to comply with the service level agreement relating to the response of the gateway system to computerized queries sent by Sogei, quantified at Euros 8,995,332.98; at the main hearing held on February 20, 2013 the Regional Administrative Tribunal also cancelled this penalty, and AAMS appealed against the judgment of the Regional Administrative Tribunal by appeal served on January 30, 2014. In this appeal also, in its decision filed on December 3, 2015, the Council of State confirmed cancellation of the penalty.

- Again in the gaming machines sector, in a report dated July 16, 2012, served on the concessionaires and, in particular, on Sisal S.p.A., on September 5, 2012, the Office of the Reporting Judge for Treasury Accounts asked the Judicial Section to rule on “the impossibility of making any judicial check on the said accounting statements, as supplied by the concessionaires, due to the absence of certainty in the accounting data they contain”; the report states that the concessionaire/accounting agent “is obliged to fulfill the obligation of accounting to its Authority”, that the latter has not certified “the reality of the data, due to the absence of an Internet connection and the extremely generic nature of the criteria used to draw up said accounting statement”, that “the accounting statements produced up to the 2009 financial year have not been checked by the Authority’s Internal Control Office, which should have approved the Account”, and that “in absence of approval by the Internal Control Office, no judicial checking activity can be performed by this Judge”.

At the hearing held on January 17, 2013, the concessionaires were informed that in mid-December 2012 the Combined Sections of the Court of Auditors had filed a template that concessionaires must follow when drawing up accounting statements. The proceedings were therefore adjourned to the hearing of May 16, 2013, at the end of which the court confirmed that a judicial verification of the accounts was impossible and ruled that the file should be sent to the Public Prosecutor. The concessionaire appealed against that decision, and the appeal judgment was published after the hearing held on January 15, 2015. The Court ruled that the report by the Examining Judge did not indicate that a debt was payable by the concessionaire, only that there were deficiencies and irregularities in the accounts submitted by it, and that a decision on those accounts therefore could not be made, “still less a judgment” ordering the concessionaire to make a payment; the court therefore referred the case back to the court of first instance to reconstruct and finalize the accounts and produce a final result, possibly quantifying any sums which were not eligible for deduction, and must therefore be repaid.

- Also in the slot machine sector, proceedings filed by Sisal Entertainment S.p.A. against the AAMS order of August 5, 2013, relating to the requirements laid down in art.1.81.f of Law 220/2010, are pending before the Lazio Regional Administrative Tribunal. Specifically, in the order appealed against, AAMS asked Sisal Entertainment S.p.A. to pay, by way of administrative penalty, the sum of Euros 300 for each slot machine exceeding the number established by the quota rules in force at the time. According to AAMS, the AAMS/SOGEI database indicated, for January to August 2011, surpluses which did not relate to a single network concessionaire, but were due to the coexistence, in the same location, of machines operated by a number of concessionaires, including Sisal Entertainment S.p.A. The latter therefore appealed against the order to the Lazio Regional Administrative Tribunal, requesting its revocation on the ground that AAMS had erred in considering that those surpluses were the responsibility of Sisal Entertainment S.p.A. and that the request for payment of sums amounting, according to AAMS, to a total of Euros 4,293,258.16, was therefore unlawful. AAMS does not seem to have entered an appearance in the proceedings to date, and the case does not appear to have been set down for hearing.

Again in relation to the concession in question, the Stability Law 2015 provides a reduction of the fees paid to gaming machines concessionaires for the concession activities, amounting to a total of Euros 500 million, to be divided between the various concessionaires according to the number of authorizations for gaming machines held in their names on December 31, 2014; the sum payable by each concessionaire was specified in a Director’s Decree issued by AAMS on January 15, 2015. After renegotiating the agreements with gaming network operators, concessionaires will be able to pass on a proportion of the fees reduction mentioned previously.

In view of the unfairness of the terms of the Stability Law 2015 and the alleged lack of constitutional legitimacy of the Law, Sisal Entertainment S.p.A. - in a manner similar to that applied also by the other concessionaires - appealed to the Lazio Regional Administrative Tribunal, which considered the exceptions to constitutional legitimacy raised by Sisal Entertainment S.p.A. to be acceptable and remanded proceedings to the Constitutional Court.

The 2016 Stability Law again acted upon this matter through an overall review of the above-mentioned fee decrease. In particular, on the one hand it repealed the previous regulations from January 1, 2016 (replaced by increasing the taxes applied on the total amounts played through gaming machines), and on the other hand for the previous period of application of the measure adopted a rule that, though stated to be an interpretation, seems instead to have a strong novation effect. Specifically, it introduces the criterion of distribution within the network of the reduction applied under the 2015 Stability Law, anchoring it to the participation of each to the distribution of the fee, based on related contractual arrangements and taking into account their duration in 2015. After further legal and regulatory study, the Group’s concessionaire therefore reached the conclusion that the new legislation mentioned above, remedying the problem of non-quantification of the reduced fee for internal distribution among individual network operations related to each concessionaire, decreed autonomy and independence not only in terms of fee-related items but also of the related payables due from individual operators. Given the above, Sisal Entertainment S.p.A. is not bounded over what due by its network operators under the 2015 Stability Law and is paying to ADM the related amounts when and to the extent they are collected.

As a consequence the amounts due by the operators under the 2015 Stability Law but not yet collected by the Group concessionaire (both in terms of receivables from operators and of payables to Administration) are not reported in the financial statements.

Horse-racing and sports betting concession

- the horse-racing betting concessions, originally awarded in 2000, expired on June 30, 2016. In compliance with ADM requirements, by letters prot. no. 54917 of June 9, 2016, and prot. no. 58554 of June 20, 2016, Sisal Entertainment accepted the extension of the aforementioned concessions, the duration of which will be until the award of new concessions following the tender procedure.

In relation to the horse-racing betting concessions, on December 23, 2011 AAMS sent a request to the various concessionaires, including Sisal Match Point S.p.A. (now Sisal Entertainment S.p.A.), to upgrade to the minimum guaranteed annual figures.

Clause 4 of the said agreements states that concessionaires shall pay the additional sum up to the minimum guaranteed amount, determined pursuant to the InterDirectors' Decree of October 10, 2003, if the annual fee referred to in art. 12 of Presidential Decree 169 of 8 April 1998, destined for UNIRE, is less than said minimum annual amount.

The earlier requests by AAMS to concessionaires to increase the minimum guaranteed amounts for the years 2006, 2007, 2008 and 2009 were suspended as a result of some judgments by the Lazio Regional Administrative Tribunal pending the application of the "safeguard measures" specified by art. 38.4.l of Decree Law 223 of July 4, 2006.

The request to increase the minimum figures in question, as literally argued by AAMS in its application, appears to be based on the fact that it is impossible at present to identify safeguarding measures additional to those already identified according to the criteria of the selection procedures conducted in 2006, which introduced the alleged obligation for concessionaires to pay the additional minimum guaranteed amounts suspended by the earlier judgments of the Regional Administrative Tribunal.
All the concessionaires, including Sisal Match Point S.p.A. (now Sisal Entertainment S.p.A.), appealed to the Lazio Regional Administrative Tribunal against that application by AAMS, and the Tribunal granted a suspension.

The Fiscal Decree Law 16/2012, now converted to Law 44/2012, cancelled said provision relating to "safeguarding measures" for concessionaires, and provided that pending disputes could be settled by paying 95% of the amount requested by AAMS.

As a result of the appeals and additional documents filed by all the concessionaires, including Sisal Match Point S.p.A. (now Sisal Entertainment S.p.A), the Regional Administrative Tribunal referred the question to the Constitutional Court which, on November 20, 2013, declared that the part of the provision specifying a maximum reduction of 5% of the amount theoretically payable was unconstitutional. As a result of the Constitutional Court's judgment, the provision appealed against has become ineffective, also as regards pending legal proceedings, so that AAMS will have to review the orders issued against Sisal Match Point S.p.A. (now Sisal Entertainment S.p.A.) in view of the principles laid down by the Constitutional Court. Consequently, at present there are currently no legislative provisions indicating the sums that concessionaires may be required to pay, and AAMS has not issued any order in this respect, which can in any event be appealed against if issued. The remaining amounts payable, amounting to about Euros 3.9 million, were therefore written off to Other Income in the 2013 consolidated financial statements.

Other claims and proceedings in progress

A number of disputes and/or fiscal inspections and investigations of some subsidiaries were pending at year end, broadly commented in the Report on Operations. Despite some contradictory rulings, and pending future developments/proceedings, there currently seems to be no reason to believe that higher taxes, interest or statutory penalties will be imposed on top of what already included in the Financial Statements.

Moreover, in November 2014, assessments were begun at the Parent, Sisal S.p.A. and Sisal Entertainment S.p.A. by the Financial Intelligence Unit of Bank of Italy (UIF) pursuant to art. 47 and 53.4 of Legislative Decree 231/2007, to verify compliance with the provisions concerning anti-money laundering and anti-terrorism financing, in respect of reports of suspect transactions. The company functions involved offered the maximum collaboration to the UIF officers who concluded the inspection phase at the company in February 2015. After completion of the inspection activities, the UIF issued a final report indicating areas for improvement of operations, of which interested parties were promptly informed and reviews undertaken. At the same time, 5 positions were notified for which, according to the tax authority, suspicious transaction reports considered due in relation to the circumstances of the cases in question were either delayed or not issued. With respect to the penalty proceedings, the Group promptly arranged the filing of deductive pleadings by the legal deadlines, requesting a hearing in order to further discuss the reasons for failure to submit suspicious transaction reports. At present, the Group companies are awaiting administrative decisions as regard the defense action taken with appeal and defense briefs.

Lastly, note the dispute pending with INPS arising from the dispute concerning an assessment report of the social security institution in relation to the legal grading of employees used by Sisal Entertainment S.p.A. to carry out business activities. The company is awaiting service of the Injunction Order which will be appealed against before the competent Court with the aim of clarifying the fairness of the company's actions. In any event it has to be considered that, even if there should be partial liability, there is ample room for a major reduction in the claims formulated by the institution in the assessment report.

6. Business combinations

In 2016, the only business combination concerned the previously mentioned acquisition by the Parent of 100% of the share capital of Sisal Group S.p.A., the holding company for the group of the same name.

The following tables shows the assets and liabilities of the group acquired in reference to the related book values at November 30, 2016, as well as the provisional value of goodwill calculated on the basis of the price paid.

	Sisal Group
(in Euros thousands)	
Intangible assets	106,118
Property, plant and equipment	88,582
Other assets – current and non-current	78,396
Inventories	8,848
Trade receivables	155,995
Cash and cash equivalents (including restricted bank deposits)	482,609
Assets acquired	**920,548**
Provision for employee severance indemnities	9,442
Current and non-current financial payables	688,549
Trade payables and other payables	247,852
Other current and non-current liabilities	410,309
Non-controlling interests	462
Liabilities acquired	**1,356,614**
Net liabilities acquired	**(436,066)**

(in Euros thousands)	
Present value of consideration	459,258
Net liabilities acquired	(436,066)
Goodwill	**895,324**

The revenues in the consolidated financial statements were generated in full by the group acquired, whilst the profit (loss) for the year includes a net loss of the Sisal Group for Euros 5.4 million.

Year on year, the acquired group achieved revenues and income for a total of Euros 780.8 million and a net loss of Euros 7.4 million.

The related net cash flows from the acquisition referred to above are as follows:

(in Euros thousands)	
Consideration paid on acquisition	**(459,258)**
Cash at acquisition date	194,823
Net cash at acquisition	**194,823**
Net cash flows used for acquisition	**(264,435)**

Part of the price paid was restricted by a guarantee, also based on the outcome of a number of disputes indicated in the paragraph “Other disputes and proceedings in progress”.

7. Operating segments

This disclosure is not requested under accounting standards IAS/IFRS and as the companies are not listed and/or due to be listed, and appears irrelevant also in consideration of the particular nature of the income figures indicated in these consolidated financial statements, most of which - for the reasons stated previously - referring to the performances achieved in December only.

The above information is in any event provided in the Directors' Report on Operations in reference to the proforma results for all of 2016 of the group acquired.

8. Revenues

This item is composed as follows:

	Year ended December 31,
(in Euros thousands)	**2016**
Gaming and betting revenues	46,568
Payments and other services revenues	13,045
Points of sale revenues	7,245
Other revenues from third parties	760
Total	**67,620**

Gaming and betting revenues are analyzed as follows:

	Year ended December 31,
(in Euros thousands)	**2016**
NTNG revenues	5,383
Gaming machines revenues	34,764
Horse race betting revenues	777
Big bets revenues	2
Virtual races revenues	2,444
Sports pools revenues	39
Online game revenues	3,159
Total	**46,568**

Payments and Other Services revenues are those revenues recognized by the Group linked primarily to the sale/distribution of telephone top-ups, the sale/distribution of TV card top-ups and also revenues from collection and payment services.

Points of sale revenues include mainly the annual affiliation "Point-of-Sale" fee from Sisal retail outlets according to the contract terms in addition to fees invoiced to outlets qualified as horse and sports betting points of sale, pursuant to the "Bersani Decree" and fees charged to the outlets under the "Sisal Point" contracts.

Group revenues are essentially achieved in Italy.

9. Fixed-odds betting income

This item is composed as follows:

	Year ended December 31,
(in Euros thousands)	**2016**
Fixed-odds sports betting income	5,011
Fixed-odds horse race betting income	143
Reference horse race betting income	13
Total	**5,167**

10. Other income

This item is composed as follows:

	Year ended December 31,
(in Euros thousands)	**2016**
Income arising from changes in estimates	-
Other sundry income	80
Total	**80**

11. Purchases of materials, consumables and merchandise

This item is composed as follows:

	Year ended December 31,
(in Euros thousands)	**2016**
Gaming materials purchases	709
Spare parts purchases	666
Sundry materials purchases	357
Warehousing	20
Change in inventories	(80)
Total	**1,672**

12. Costs for services

This item is composed as follows:

	Year ended December 31,
(in Euros thousands)	**2016**
Marketing and commercial expenses	2,549
Other commercial initiatives	474
Other commercial services	277
Commercial services	**3,300**
Sales channel - Gaming	23,676
Sales channel - Payment services	6,933
Consulting	7,484
Other service costs	13,896
Other services	**51,988**
Total	**55,288**

The fees paid to the audit firm for audit of the annual financial statements of the Parent (including these consolidated financial statements) amount to approximately Euros 111 thousand (net of VAT). On yearly basis the audit fees related to the financial statements of the subsidiaries and related activities are equal to Euros 367 thousand.

13. Lease and rent expenses

This item is composed as follows:

	Year ended December 31,
(in Euros thousands)	**2016**
Building leases	1,574
Other rentals and operating leases	318
Total	**1,891**

14. Personnel costs

This item is composed as follows:

	Year ended December 31,
(in Euros thousands)	**2016**
Salaries and wages	5,243
Social security contributions	1,362
Employee severance indemnities	369
Other personnel costs	651
Total	**7,625**

15. Other operating costs

This item is composed as follows:

	Year ended December 31,
(in Euros thousands)	**2016**
Other taxes and duties	1,105
Gifts and donations	561
Gaming concession fees	1,851
Sundry operating costs	1,055
Total	**4,573**

The gaming concession fees refer mainly to the concession fees due under existing regulations on the collection of gaming revenues with gaming machines, sports betting and horse and sports games and NTNG games.

16. Depreciation, amortization, provisions and impairment losses and reversals of the value of property, plant and equipment and intangible assets

This item is composed as follows:

	Year ended December 31,
(in Euros thousands)	**2016**
Amortization of intangible assets	4,195
Depreciation of property, plant and equipment	2,967
Other impairment losses on fixed assets	107
Impairment losses on current receivables	797
Allocations to provisions for risks and charges	(339)
Total	**7,727**

17. Finance income and similar

This item is composed as follows:

	Year ended December 31,
(in Euros thousands)	**2016**
Finance income bank accounts	5
Finance income guarantee deposits	7
Other finance income	1
Total	**13**

18. Finance expenses and similar

This item is composed as follows:

	Year ended December 31,
(in Euros thousands)	**2016**
Interest and other finance expenses - related parties	749
Interest and other finance expenses - third parties	29,953
Exchange (gains) losses realized	1
Exchange (gains) losses unrealized	(4)
Total	**30,699**

Interest and other finance expenses – third parties are mainly referred to interest and other finance expenses, for approximately Euros 3,800 thousand, related to the previous financing structure subject to early repayment in December 2016.

19. Income taxes

Income taxes comprise the following:

	Year ended December 31,
(in Euros thousands)	**2016**
Current income taxes	(518)
Deferred tax liabilities	(280)
Deferred tax assets	(61)
Total	**(859)**

The reconciliation between the theoretical and effective tax is presented in the following table:

	Year ended December 31,
(in Euros thousands)	**2016**
Profit (loss) before income taxes	(36,717)
Nominal tax rate	27.5%
Theoretical tax using the nominal tax rate	(10,097)
Non-deductible interest expense	8,443
Other changes	709
Effective IRES tax	**(945)**
Effective IRAP tax	**86**
Total effective tax expense (benefit)	**(859)**

20. Property, plant and equipment

The composition and changes in property, plant and equipment are as follows:

(in Euros thousands)	2016 opening 12/01/2016	Change in scope of consolidation	Investments	Depreciation and impairments	Disinvestments	Reclassifications	December 31, 2016
Land and building:							
Original cost	-	49,124	229	-	(41)	-	49,312
Accumulated depreciation	-	(24,348)		(315)	28	-	(24,635)
Impairments	-	-	-	-	-	-	-
Net book value	**0**	**24,776**	**229**	**(315)**	**(12)**	**0**	**24,677**
Plant and equipment:							
Original cost	-	32,574	572	-	(72)	-	33,075
Accumulated depreciation	-	(25,353)		(250)	53	-	(25,550)
Impairments	-	(1)	-	-	-	-	(1)
Net book value	**0**	**7,221**	**572**	**(250)**	**(19)**	**0**	**7,524**
Industrial equipment							
Original cost	-	385,346	4,574	-	(2,921)	-	386,999
Accumulated depreciation	-	(336,313)		(2,178)	2,666	(2)	(335,828)
Impairments	-	(2,096)		(107)	1	-	(2,202)
Net book value	**0**	**46,937**	**4,574**	**(2,285)**	**(254)**	**(2)**	**48,969**
Other assets:							
Original cost	-	36,393	526		(84)	-	36,835
Accumulated depreciation	-	(26,559)	-	(224)	60	-	(26,723)
Impairments	-	(186)	-	-	-	-	(186)
Net book value	**0**	**9,648**	**526**	**(224)**	**(24)**	**0**	**9,926**
Property, plant and equipment in progress							
Original cost	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-
Impairments	-	-	-	-	-	-	-
Net book value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total:							
Original cost	-	503,438	5,901	-	(3,117)	-	506,221
Accumulated depreciation	-	(412,572)	-	(2,967)	2,807	(2)	(412,735)
Impairments	-	(2,283)	-	(107)	1	-	(2,389)
Net book value	**0**	**88,582**	**5,901**	**(3,074)**	**(310)**	**(2)**	**91,097**

"*Industrial and commercial equipment*" includes assets under finance leases whose net value was Euros 2,933 thousand at December 31, 2016.

Investments made in 2016 totaled approximately Euros 6 million and regard mainly:

- investments in gaming and services equipment such as POS and cards for approximately Euros 0.6 million;
- hardware for the management of business operations for approximately Euros 3.2 million;
- investments in plant, furniture and restructuring work of the points of sale of around Euros 1.3 million.

The values in the *Change in scope of consolidation* column refer to the book values at November 30, 2016 of property, plant and equipment of the acquired group.

Information on outstanding finance leases is reported in the following table:

(in Euros thousands)	**Net book value at December 31, 2016**	**Leasing instalments 2016**	**Residual debt at December 31, 2016**	**Residual leasing instalments at December 31, 2016**
Microlot gaming terminals	-	-	-	-
Big Touch G.T. (industrial & commercial equipment)	217	183	-	-
POS G.T. (industrial & commercial equipment)	1,499	672	252	254
HW (industrial & commercial equipment)	224	104	219	238
Slot machines Series 6A	993	360	182	184
Total	**2,933**	**1,319**	**653**	**676**

There are no mortgages or liens on any of the property, plant and equipment owned by the Group.

21. Goodwill

At December 31, 2016, goodwill amounted to Euros 895,324 thousand, arising as a result of the acquisition of Sisal Group S.p.A., finalized on December 14, 2016 for a total of Euros 459 million. A reconciliation of this amount is reported under Note 6. "Business Combinations".

The Sisal Group is currently organized in 4 operating segments: Retail Gaming, Lottery, Online Gaming and Payments and Services.

In particular:

- ***Retail Gaming***, manages activities involving slot machines and VLTs, fixed-odds sports betting and also traditional sports pools, as well as bingo. The Retail Gaming segment also manages the Branded Channel and a part of the points of sale of the Affiliated Channel;

- ***Lottery*** is responsible for operating the exclusive concession for national tote number games ("NTNG"), of which the most popular products are SuperEnalotto, WinForLife!, SiVinceTutto and EuroJackpot. The NTNG games are managed through the Branded and Affiliated Channels as well as the Group's web portal and 23 online gaming portals operated by third parties and connected to the

Group's NTNG online platform. The Lottery segment also manages the points of sale of the Affiliated Channel that are not managed by the Retail Gaming segment.

- ***Online Gaming*** presents players with the opportunity to play online games and place online bets through the sisal.it web portal and through the mobile phone channel. The online product mix offered by the Group is one of most extensive and includes the entire portfolio of products available in accordance with the laws in force, such as online betting and online poker and casino games as well as lotteries and bingo.

- ***Payments and Services*** operates payment and financial services such as: *(i)* payment of bills, utilities, fines, taxes, subscriptions etc.; *(ii)* top-up of prepaid debit cards; *(iii)* mobile phone top-ups and pay-for-view TV cards and also *(iv)* marketing of some products such as gadgets and mini-toys. The operating segment distributes the products and services of the Group through both the Branded and Affiliated Channels - the latter also including the 7,103 Service Only points of sale as at December 31, 2016 - through the web portal sisalpay.it.

The process of identifying and measuring the assets and liabilities acquired, and subsequent allocation of goodwill to the cash generating units (CGUs) of the Sisal Group, as required by reference accounting standards, had not yet been completed at the time the consolidated financial statements were prepared. The necessary analyses, already commenced by management, are still in progress and, given that the acquisition was close to the end of the year, it was not possible to complete the allocation in the time envisaged for preparing the financial statements at December 31, 2016.

Accounting of the acquisition was reflected in the financial statements at December 31, 2016 on a provisional basis, as permitted by the reference standards, and will be completed within 12 months of the acquisition date.

Management has completed a number of tests to confirm that write-downs were not necessary on the values recognized on a provisional basis. For this purpose, five-year cash flow projections were used on the basis of growth rates differentiated according to the historical trends of the various products and relative reference markets.
The growth rate used to estimate cash flows beyond the explicit projected period was determined on the basis of market data and information available to management according to reasonable projections of estimated sector growth in the long term.

The current cash flows discounting rate used is 8.30%.

No need emerged from these tests to write down the assets acquired.

22. Intangible assets

The composition and changes in intangible assets are as follows:

(in Euros thousands)	2016 opening 12/01/2016	Change in scope of consolidation	Investments	Amortization and impairments	Disinvestments	Reclassifications	December 31, 2016
Industrial patent and intellectual property rights							
Original cost	-	84,912	3,985	-	(149)	-	88,748
Accumulated amortization	-	(75,028)	-	(1,160)	147	-	(76,042)
Impairments	-	(6)	-	-	-		(6)
Net book value	**0**	**9,878**	**3,985**	**(1,160)**	**(2)**	**0**	**12,700**
Concessions, licenses, trademarks and similar rights							
Original cost	-	644,264	7,227	-	(3)	-	651,489
Accumulated amortization	-	(500,664)	-	(3,034)	2	-	(503,696)
Impairments	-	(47,667)	-	-	-		(47,667)
Net book value	**0**	**95,933**	**7,227**	**(3,034)**	**(0)**	**0**	**100,126**
Other intangible assets							
Original cost	-	307	24	-	-	-	331
Accumulated amortization	-	-	-	-	-	-	-
Impairments	-	-	-	-	-	-	-
Net book value	**-**	**307**	**24**	**-**	**-**	**0**	**331**
Total:							
Original cost	-	729,484	11,236	-	(151)	-	740,568
Accumulated amortization	-	(575,692)	-	(4,195)	149	-	(579,738)
Impairments	-	(47,673)	-	-	-	-	(47,673)
Net book value	**0**	**106,118**	**11,236**	**(4,195)**	**(2)**	**-**	**113,157**

In 2016, investments in intangible assets amount to approximately Euros 11.2 million, composed mainly as follows:

- purchase and development of software for the management of business operations for approximately Euros 2.7 million;
- new VLT concessions for approximately Euros 3.7 million;
- internal capitalization of new software applications for around Euros 3.7 million.

In a similar manner to that reported above for property, plant and equipment, the values in the *Change in scope of consolidation* column refer to the book values at November 30, 2016 of intangible assets of the acquired group.

23. Deferred tax assets and liabilities

Deferred tax assets and liabilities are composed as follows:

	At December 31,
(in Euros thousands)	**2016**
Deferred tax assets	**20,529**
Deferred tax liabilities	**(10,148)**
Net amount	**10,381**

Net changes are as follows:

	Year
(in Euros thousands)	**2016**
December 1, 2016	**-**
Charge/release to income statement	341
Charge/release to statement of comprehensive income	5
Use of losses for tax consolidation	1,685
Change in scope of consolidation	8,350
December 31, 2016	**10,381**

Deferred tax assets are summarized in the following table:

	At December 31,	
(in Euros thousands)	**2016**	
	Temporary differences (Amount)	Tax effect
Allocation to provision for impairment of receivables	46,546	11,171
Allocation to provision for risks and charges	11,751	3,213
Severance indemnity discounted and deducted out of books	1,017	244
Other temporary differences	19,961	5,210
Losses from tax consolidation	37,936	9,105
Total deferred tax assets	**117,210**	**28,943**
Amount offset against deferred tax liabilities	(30,246)	(8,413)
Total deferred tax assets	**86,964**	**20,529**
Temporary differences excluded from deferred tax asset computation	24,374	5,850

The Group expects to have sufficient taxable income in the future to recover deferred tax assets.

The temporary differences excluded from the computation of deferred tax assets relate to losses, reported by the Parent and by Sisal Group S.p.A. in their first year of operations (which can be carried forward for an unlimited period of time) prior to opting for tax consolidation, on which deferred tax assets have not been recorded, based on the probability, supported by current information, of realizing future taxable income against which the losses can be applied.

Deferred tax liabilities are summarized in the following table:

	At December 31,	
(in Euros thousands)	**2016**	
	Temporary differences (Amount)	Tax effect
Amortization/depreciation deducted out of books	34,416	9,710
Business combinations	22,740	6,413
Other temporary differences	8,969	2,439
Total deferred tax liabilities	**66,125**	**18,561**
Reversal of quota of non-current deferred taxes	(30,246)	(8,413)
Total deferred tax liabilities	**35,879**	**10,148**

24. Other non-current assets

Other non-current assets amount to Euros 23,655 thousand at December 31, 2016 and mainly comprise VAT receivables for refunds requested upon presentation of the VAT return for 2008 and 2007 (respectively for Euros 6,305 thousand and Euros 3,906 thousand) and the interest accrued on such amounts. They also include guarantee deposits (a capitalization type policy) activated by Sisal S.p.A. in 2013 with the Assicurazioni Generali group which became the guarantor in favor of AAMS for the 19 installment payments of the penalty for failure to reach the guaranteed minimum on NTNG games; this deposit amounts to Euros 855 thousand at December 31, 2016, including the return accrued to date.

It also includes Euros 1,500 thousand related to the valorization of certain guarantees provided by previous shareholders in the acquisition process.

25. Inventories

This item is composed as follows:

	At December 31,
(in Euros thousands)	**2016**
Playslips	217
Rolls of paper for gaming terminals	581
VLT tickets	32
Spare parts (repairs)	3,887
Spare parts (consumables)	1,676
Materials, auxiliaries and consumables	**6,393**
Top-up and scratch cards	220
Virtual top-ups	2,545
Mini-toys	8
Finished gaming machines inventory	6
Finished gaming machines and merchandise	**2,779**
Total	**9,171**

Inventories are shown net of the provision for inventory obsolescence. Changes in the provision are as follows:

(in Euros thousands)	Provision for inventory obsolescence
December 1, 2016	**0**
Net provisions	9
Usage	(37)
Change in scope of consolidation	3,625
December 31, 2016	**3,597**

26. Trade receivables

This item is composed as follows:

	At December 31,
(in Euros thousands)	**2016**
Receivables from points of sale	137,387
Trade receivables from gaming machines network	14,813
Trade receivables from betting agencies	9,488
Trade receivables from third parties	3,704
Other trade receivables from third parties	3,529
Doubtful receivables	79,123
Provision for impairment of receivables	(69,394)
Total	**178,650**

Receivables from points of sale represent amounts due to the Group for bets placed on the last games in December and for payment services performed in the same month.

Trade receivables from network represent the sums due from the customer network of gaming machines for which Sisal Entertainment S.p.A., as the concessionaire, offers the interconnecting service to the AAMS computer network. These receivables are composed of the fee of the concessionaire, the PREU tax and the AAMS concession fee.

Trade receivables from betting agencies represent wagers on horse and sports events, accepted by the agencies operating under partnership contracts, not yet paid into the Group's bank accounts.

Doubtful receivables represent unpaid outstanding amounts generated by receivables that were subject-to-collection, due mainly from retail outlets, on which recovery procedures and possibly legal actions were initiated, excluding amounts due on situations that can be resolved in the short term.

There are no foreign currency denominated trade receivables and the analysis by geographical area is not significant as all receivables are from domestic operators.

The changes in the provision for impairment of receivables are as follow:

(in Euros thousands)	**Provision for impairment of network trade receivables**	**Provision for impairment of other trade receivables**	**Total**
December 1, 2016	**0**	**0**	**0**
Net provisions	(797)		(797)
Usage	760	172	932
Change in scope of consolidation	(69,357)	(172)	(69,529)
December 31, 2016	**(69,394)**	**(0)**	**(69,394)**

The increases recorded in the year reflect the trend in debtor insolvency (particularly with reference to the outlet points of sale). The decrease in the year under review refers mainly to the write-off of doubtful positions no longer considered recoverable.

27. Current financial assets

There is no balance for this item at the end of 2016.

28. Taxes receivable

This item is composed as follows:

	At December 31,
(in Euros thousands)	**2016**
Receivables for IRES tax from tax authorities	310
Receivables for IRAP tax from tax authorities	220
Other receivables from tax authorities	16
Total	**546**

Receivables for IRES and IRAP taxes from the tax authorities are shown net of advance payments made during the year and reflect, respectively, the receivable positions of the tax group and of Sisal S.p.A. and Sisal Entertainment S.p.A.

29. Restricted bank deposits

Restricted bank deposits mainly include the balances of the accounts for the payment of winnings, including the amounts deposited for the special winnings of the Vinci per la Vita – Win for Life games and for the so-called SuperStar Reserve Fund which comprises the difference between the prize money available and the winnings payable calculated for each single game, in addition to the bank balances of the deposits made by online game players.

These deposits are managed by the Group but their use is restricted to payment of the cumulative winnings on the relative games and the payment of any winnings from online games.

Fluctuations in the total deposits mainly refer to the amount of the SuperEnalotto Jackpot at the end of the year and the prize monies for the Vinci per la Vita - Win for Life and SiVinceTutto SuperEnalotto games.

30. Cash and cash equivalents

This item is composed as follows:

	At December 31,
(in Euros thousands)	**2016**
Bank and postal accounts	129,225
Cash and cash equivalents in hand	5,956
Total	**135,181**

31. Other current assets

	At December 31,
(in Euros thousands)	**2016**
Receivables from the Public Administration	24,720
Other receivables from tax authorities	1,159
Prepaid expenses	2,885
Other receivables from third parties	11,356
Other receivables from employees	435
Provision for impairment of other receivables	(99)
Total	**40,456**

Other receivables from third parties, equal to Euros 11,356 thousand are mainly related to the short term component of the policy activated by Sisal S.p.A. (Euros 3,711 thousand) as guarantee of the payment timing of the NTNG penalty charged to the company in 2012 and to the insurance policy, equal to Euros 1,107 thousand, activated by the same company to manage the NTNG game Win For life Vinci Casa, launched in July 2014.

Receivables from the Public Administration are mainly composed of receivables for security deposits with the AAMS, under the concessions relating to collections from legal gaming through gaming machines, equal to Euros 20,085 thousand at December 31, 2016.

Other receivables from tax authorities mainly refer to receivables for VAT totaling Euros 732 thousand.

Prepaid expenses mainly represent the prepaid portion of expenses not relating to the current year incurred for the issue of bank guarantees, rent and health insurance premiums.

32. Equity

Share capital

The share capital of the Company at December 31, 2016, fully subscribed and paid-in, is composed of 9,919,809 ordinary shares of par value Euro 1 each.

Non-controlling interests

The change in value of non-controlling interests is exclusively due to the effect of acquisition of the Sisal Group, which includes Sisal S.p.A. of whose share capital 0.19% is held by third parties outside the Group.

33. Long-term debt

Long-term debt of the Group at December 31, 2016, shown net of transaction charges in accordance with IFRS, is presented as follows:

	At December 31,
(in Euros thousands)	**2016**
Super Senior Revolving Facility	**88,882**
Senior Secured Notes	**711,210**
Loans from other banks	915
Payables to other lenders - leasing contracts	757
Other loans from third parties	**1,672**
Total	**801,764**
of which current	*109,122*
of which non-current	*692,642*

Existing debt at December 31, 2016, including the current portion, total around Euros 802 million.

The net debt is essentially divided equally between fixed rate and floating rate. The fixed-rate debt amounts to around Euros 397 million and refers entirely to the SSN. The floating-rate debt totals around Euros 404 million, of which approximately Euros 314 million relating to the FRN bond issue and Euros 90 million in bank debt or similar (including the debt to leasing companies).

A description follows of the most significant outstanding debt.

Bond issues and revolving credit facilities

At the end of 2016, the Schumann Group had two outstanding bond issues for a total of Euros 725 million, of which Euros 325 million in floating rate notes (FRNs) and Euros 400 million at fixed rate (Senior Secured Notes).

The FRN amounting to Euros 325 million offers quarterly coupon payments of interest (due January 31, April 30, July 31 and October 31) and repayment of the principal in a lump sum on July 31, 2022. The floating-rate interest is calculated on the 3-month Euribor rate plus 6.625% spread.

The SSN amounting to Euros 400 million offers semi-annual coupon payments of interest (due January 31 and July 31) and repayment of the principal in a lump sum on July 31, 2023. The interest is calculated at a fixed annual rate of 7%.

In addition, the Group obtained a ssRCF (Super Senior Revolving Facility) from a pool of banks for a total of Euros 125 million expiring in September 2022 and with interest calculated on the Euribor rate when due, plus a 3.50% spread subject to decrease as certain financial ratios are achieved.

At year end the facility was used for a total of Euros 92 million (of which Euros 30 million by the parent, Euros 22 million by Sisal Group S.p.A. and Euros 40 million by Sisal S.p.A.) and with a residual commitment of Euros 33 million.

Details of the lines of credit which form the above loans are as follows:

		Residual Debt at December 31,		
(in Euros thousands)	**Type**	**2016**	**Due**	**Repayments**
SSN (fixed rate)	Bullet	400,000	July 31, 2023	when due
FRN (floating rate)	Bullet	325,000	July 31, 2022	when due
Senior Secured Revolving Credit Facility	Revolving facility	92,000	January 2017	when due
Total gross of transaction charges		**817,000**		
Matured interest		**15,851**		
Transaction charges connected to loans		**(32,759)**		
Total		**800,092**		

The loan agreements in place do not envisage maintenance covenants, but the Group is in any event required to comply with a series of restrictions such as, for example: *i)* entering into merger, spin-off, corporate restructuring and joint venture transactions, *ii)* carrying out acquisitions or investments, *iii)* carrying out acts disposing of all or part of its assets and *iv)* increasing financial debt. Exceptions to these restrictions are permitted, on authorization from the lending banks and by the noteholders.

The Group has also arranged pledges in favor of the lenders on shares in Sisal S.p.A. and Sisal Entertainment S.p.A, and likewise the shares held by the Parent in the controlling entity Schumann Investment S.A., representing 100% of the Company's share capital, have also been pledged.

The Company has the right to full or partial early repayment of the notes issued, as established in the contract governing their issue. The main terms applicable in the event of early repayment are described below.

As regards the SSN (fixed-rate notes), in the event of full or partial early repayment: i) between August 1, 2019 and July 31, 2020, the Group would have to pay an amount equal to 103.5% of the amount repaid in addition to any interest accrued and not paid; ii) between August 1, 2020 and July 31, 2021, the Group must pay an amount equal to 101.75% of the amount repaid in addition to any interest accrued and not paid; and iii) subsequent to July 31, 2021, any early repayments only require payment of the face value of the amount repaid and any interest accrued and not paid. Early repayment is also possible of up to 40% of the nominal value of the notes at a price equal to 107% of the amount repaid, up to the total value of net income if the Company should be listed.

As regards the FRN (floating-rate notes), in the event of full or partial early repayment: i) between August 1, 2017 and July 31, 2018, the Group would have to pay an amount equal to 101% of the amount repaid in addition to any interest accrued and not paid; and ii) subsequent to July 31, 2018, any early repayments only require payment of the face value of the amount repaid and any interest accrued and not paid.

These options are considered strictly linked to the debt instrument to which they refer, and in this sense are not segregated from the primary contract. In addition, note that there is the option of early repayment before August 1, 2019 for the SSN notes and August 1, 2017 for the FRN notes at conditions that are particularly costly to the Group in that they envisage payment of the discounted flow of all interest from the date of exercise to either August 1, 2019 or August 1, 2017, respectively, plus the spreads indicated for the subsequent exercise windows. Given the exercise terms, these options have no appreciable value.

Other loans from third parties

Details of other loans from third parties are detailed in the following table:

	At December 31,
(in Euros thousands)	**2016**
Mortgages and other loans from third parties	1,019
Payables to leasing companies	653
Other loans from third parties	**1,672**

"*Mortgages and other loans from third parties*" refer mainly to the pre-existing medium-/long-term debt in Friulgames S.r.l.

"*Payables to leasing companies*" refer mainly to the contracts signed in prior years for the purchase of new generation Microlot gaming terminals, and industrial and commercial equipment (Big Touch terminals, POS and hardware) for a total debt at December 31, 2016 of Euros 0.7 million.

The minimum lease payments for finance lease liabilities are summarized in the following table:

	At December 31,
(in Euros thousands)	**2016**
Minimum lease payments due	
Within 12 months	542
Between 1 and 5 years	134
After 5 years	-
Future financial expenses	(23)
Present value of payables to leasing companies	**653**

34. Net financial debt

The net financial debt of the Group at December 31, 2015 and 2014, determined in conformity with paragraph 127 of the recommendations contained ESMA Document no. 81/2011, implementing Regulation (EC) 809/2004 is presented as follows:

		At December 31,
	(in Euros thousands)	**2016**
A	Cash	5,956
B	Other liquid assets	129,225
C	Securities held for sale	-
D	**Liquidity (A+B+C)**	**135,181**
E	**Current financial receivables**	-
F	Current financial payables	92,070
G	Current portion of medium-/long-term debt	17,052
H	Other current financial payables	-
I	**Current financial debt (F+G+H)**	**109,122**
J	**Net current financial debt (I-E-D)**	**(26,059)**
K	Medium-/long-term debt	-
L	Notes issued	692,242
M	Other non-current financial payables	400
N	**Non-current financial debt (K+L+M)**	**692,642**
O	**Net financial debt (J+N)**	**666,583**

35. Provision for employee severance indemnities

The changes in this item are the following:

	Year
(in Euros thousands)	**2016**
December 1, 2016	**-**
Current service costs	8
Finance expenses	16
Actuarial (gains) losses	19
Contributions made - Benefits paid	-
Change in scope of consolidation	9,442
December 31, 2016	**9,486**

The provision includes the effects of the present value calculation required by IAS 19.

Details of the financial and demographic assumptions used in the actuarial calculations are as follows:

Discount rate	1.5%
Inflation rate	1.5%
Future salary increase rate	2.5%
Estimated mortality rate	ISTAT2014 table reduced by 80%
Estimated disability rate	table CNR reduced by 70%
Probability of resignation/retirement (annual)	3%

There are no plan assets servicing the defined benefit plans.

36. Provisions for risks and charges

The changes in this item are the following:

(in Euros thousands)	Sundry risks and charges provisions	Technological updating provision	Total
December 1, 2016	**0**	**0**	**0**
Change in scope of consolidation	13,738	946	14,684
Net provisions	480	(820)	(340)
Usage	(202)	-	(202)
December 31, 2016	**14,016**	**126**	**14,142**

The *Technological updating provision* refers to the provision that must be allocated by the Group's concessionaire companies, based on the relative concession agreements, in order to ensure over time that the online network and infrastructures are updated according to the technology and size necessary for the gaming business.

It should be noted that the Group operates in a complex legal environment where regulations are continuously evolving. See Note 5 for further details.

As of the date of preparation of the consolidated financial statements, and at this time, although in a context of uncertainty, it is believed that such pending cases and proceedings will not give rise to liabilities besides those already recorded in the consolidated financial statements or have significant consequences.

At the same time, it should be mentioned that at year-end 2016 there are certain tax audits and inspections in progress; however, it is believed, at this time, that there will be no further additional costs to the Group other than those already recognized in the consolidated financial statements.

37. Other non-current liabilities

There is no balance for this item at December 31, 2016.

38. Trade payables and other payables

This item is composed as follows:

	At December 31,
(in Euros thousands)	**2016**
Payables to suppliers	78,351
Payables to partners for services	201,966
Payables to gaming machines network	319
Trade payables to concessionaires	296
Other trade payables	373
Total	**281,305**

Payables to partners for services relate mainly to the sale of top-ups of telephone and TV content cards and collection and payment services operated directly by Sisal S.p.A. and Sisal Group S.p.A., respectively, on behalf of private and public entities.

Payables to gaming machines network mostly include the amount due to the network based on turnover.

39. Taxes payable

This item is composed as follows:

	At December 31,
(in Euros thousands)	**2016**
Payables for IRAP tax	943
Payables for IRES tax on income tax consolidation	-
Total	**943**

At December 31, 2016 the payables for IRES taxes show a zero balance since the Group recorded a net receivable based on the national tax consolidation, in reference to the tax consolidation headed by Sisal Group S.p.A.

40. Other current liabilities

This item is composed as follows:

	At December 31,
(in Euros thousands)	**2016**
Payables on games	72,166
Payables for winnings	313,333
Payables to employees	13,631
Other current liabilities	6,135
Payables to social security agencies	8,571
Other taxes payable	7,735
Payables to collaborators	1,949
Total	**423,520**

The main items forming other current liabilities are analyzed below.

Payables on games

Payables on games refer to the following:

	At December 31,
(in Euros thousands)	**2016**
Payables to tax authorities on games	54,455
NTNG subscribers	1,317
Payables for online games	8,211
Payables for guaranteed minimum	3,905
Payables for betting management	4,277
Total payables on games	**72,166**

Payables to tax authorities on games mainly include: *i)* the tax on the last NTNG games played in the year; *ii)* payables for the PREU tax and concession fees on the turnover from gaming machines, for the last two months of the year and *iii)* taxes relating to the turnover for the month of December on sports pool games, horse and sports betting and online games. This item includes approximately Euros 3.4 million for the short-term portion of the aforementioned NTNG penalty paid in 2016 for Euros 3.3 million in accordance with the amortization plan agreed with the AAMS.
NTNG subscribers include the payable for subscriptions to SuperEnalotto and the additional SuperStar game, Vinci per la vita - Win for life, and Eurojackpot games.

Payables for online games report the sums deposited by players in order to bet online.

Payables for guaranteed minimum include the remaining amount payable to the concession granting Authorities for the integration due on the guaranteed minimum adjustment specified in the horse-race betting concession agreements signed by Sisal Match Point S.p.A. The latter, by agreement with the concession granting Authority, in 2009 did not pay the installment due for 2009 relating to the guaranteed minimum adjustment for horse betting concessions in view of the receivable resulting from the Arbitration award on May 26, 2003. In the arbitration proceedings, between 171 plaintiff companies and the concession granting authority UNIRE, the Arbitration Board ruled in favor of the companies, confirming the existence of a receivable in favor of the concessions owned by Sisal Match Point S.p.A. as a result of mergers and acquisitions in the preceding years. AAMS appealed against the Arbitration Board's award before the Rome Court of Appeal, which revoked the award in question and ruled that the Administrative Judge had jurisdiction over the matter. No claim has so far been made against Sisal Entertainment S.p.A. following that revocation order. An appeal was filed with the Supreme Court against the previous year's judgment of the Rome Court of Appeal, requesting that its decision be overruled and the Award reinstated.

Payables for winnings

Payables for winnings include jackpots payable by the Group to winners of pool games, betting and VLTs at the closing date of the financial statements; the contra-entry to such payables is mainly restricted bank deposits set up for this purpose and recorded under assets in the statement of financial position. Payables for winnings can be analyzed as follows:

	At December 31,
(in Euros thousands)	**2016**
Payables for SuperEnalotto-SuperStar winnings	293,347
Payables for Win for Life winnings	11,519
Payables for Si Vince Tutto-SuperEnalotto winnings	1,329
Payables for Tris games and horse betting winnings	182
Payables for CONI games	54
Payables for VLT winnings	5,859
Payables for Eurojackpot winnings	996
Payables for Play Six winnings	33
Payables for bet winnings	15
Total payables for winnings	**313,333**

Payables to employees

Payables to employees include the 14th month bonus, other bonuses, vacation, former holidays, outstanding leave, remuneration and overtime accrued but not yet paid at the end of the year.

Other taxes payable

Other taxes payable are detailed as follows:

	At December 31,
(in Euros thousands)	**2016**
Payables for IRPEF payroll tax	7,179
Payables for loan withholding tax	19
Payables for equalization tax	17
Payables for VAT	520
Total	**7,735**

Other current liabilities

Other current liabilities principally include payables relating to the acquisition of business segments and/or companies, guarantee deposits received, non-deductible VAT on invoices to be received and also dividends not yet paid.

41. Commitments

The commitments of the Group at the reporting dates are detailed as follows:

	At December 31,
(in Euros thousands)	**2016**
Customs and Monopolies Agency	208,688
Payments and services	167,102
Other guarantees provided	3,340
Tax revenues agency	1,792
Total	**380,922**

The *Customs and Monopolies Agency* (ADM) commitments refer to the aggregate of the guarantees and/or commitments issued by the concessionaire companies of the Group on behalf of the granting Authority for the concession to operate and develop various games, and also for the related tax and operating obligations. Payments and services instead refer to the guarantees issued by the Company and Sisal S.p.A. on behalf of partner customers mainly for agreements relating, respectively, to payment services and to the sale and/or distribution of mobile phone top-ups for which the above companies are required to guarantee payment, net of their fees, of the amounts collected under the terms of the agreements.

Moreover, to guarantee the debt deriving from the financing contracts signed in the course of acquisition of the majority interest in Sisal Group S.p.A., the Group pledged the shares held in Sisal

Group S.p.A., Sisal S.p.A. and Sisal Entertainment S.p.A. in favor of the lending banks (including the noteholders).

42. Related party transactions

Related party transactions are mainly non-financial in nature. The Company holds that all such transactions are substantially settled on an arm's length basis.

The balances referring to related party transactions in the statement of financial position at December 31, 2016 are detailed in the following table:

(in Euros thousands)	Parent companies	Management	TOTAL	TOTAL ITEM IN FINANCIAL STATEMENTS	PERCENTAGE OF TOTAL ITEM
Other current liabilities					
At December 31, 2016	-	1,880	1,880	423,520	**0.4%**

The effects of related party transactions on the income statement for the year ended December 31, 2016 are detailed in the following table:

(in Euros thousands)	Parent companies	Management	TOTAL	TOTAL ITEM IN FINANCIAL STATEMENTS	PERCENTAGE OF TOTAL ITEM
Costs for services					
Year ended December 31, 2016	-	4,751	4,751	55,288	**8.6%**
Personnel costs					
Year ended December 31, 2016	-	355	355	7,625	**4.7%**

Management

The following Group officers are considered key managers: i) Chief Executive Officer on the board of directors; ii) Chief Financial Officer; iii) executives heading the business units (Retail Gaming, Lottery, Online Gaming and Payments and Services); iv) executive heading the betting business, v) executives heading the HR, Legal, Strategy, Marketing & Communication, Institutional Affairs and Security & Anti Money-Laundering functions.

Compensation to the key executives of the Group is as follows:

	Year ended December 31,
(in Euros thousands)	**2016**
Salaries	331
Employee severance indemnities	24
Total	**355**

Executives who are also Company directors, with related powers and responsibilities, are entitled to directors' compensation determined by the shareholders at the annual general meeting.

43. Significant non-recurring events and transactions

Pursuant to Consob Communication DEM/6064293 of July 28, 2006, the following information is presented in respect of the impact of non-recurring events and transactions on the results of operations and the cash flows for the year and the financial position of the Group.

Non-recurring events and transactions are identified mainly on the basis of the nature of the transactions. Specifically, non-recurring income and expenses include events that by their nature do not occur continuously under normal business operations (for example: income and expenses deriving from the acquisition and/or disposal of buildings, business segments and investments included in non-current assets, income and expenses deriving from company reorganizations, income and expenses deriving from sanctions levied by regulatory entities and impairment losses on goodwill or intangible assets).

The impacts of non-recurring events and transactions relating to the year 2016 are as follows:

		At December 31, 2016			
(in Euros thousands)		**Equity**	**Profit (Loss) for the year**	**Carrying amount of net financial debt**	**Cash flows**
Book value	***(a)***	**264,089**	**(35,858)**	**666,583**	**135,181**
Costs for acquisitions		(7,073)	(7,073)		(7,073)
Refinancing costs		(508)	(508)		(508)
Costs for company reorganizations		(220)	(220)		
Total effects	***(b)***	**(7,801)**	**(7,801)**	**-**	**(7,581)**
Notional book value	***(a-b)***	**271,890**	**(28,057)**	**666,583**	**142,762**

With regard to the consolidated income statement, the gains and losses arising on non-recurring transactions are indicated according to the specific items of the statement and the relative effects on the main intermediate levels of earnings as follows:

	Year ended December 31,
(in Euros thousands)	**2016**
Costs for services	**(6,384)**
Costs for acquisitions	(6,155)
Refinancing costs	(99)
Costs associated with company reorganization projects	(130)
Personnel costs	**(90)**
Costs associated with company reorganization projects	(90)
Other operating costs	**(1,327)**
Costs for acquisitions	(918)
Refinancing costs	(409)
Impact on Operating profit (loss) (EBIT)	**(7,801)**
Profit (loss) before income taxes	**(7,801)**
Impact on profit (loss) for the year	**(7,801)**

44. Significant events occurring after the end of the year

In line with consolidated procedure, in February the Company approved the budget for the current year, which reflects the negative impact on entertainment equipment of the laws and regulations approved by the local authorities, as well as the planned 30% reduction in the number of machines, and with particular reference to the new tender for the NTNG concession and pending the tender for Betting concessions reflects the related effects of the associated new investments.
Also finalized in the first few months of 2017, in partnership with a strategic supplier of Sisal S.p.A., was a project to intensify and enhance the technical support designed to guarantee constant efficiency and immediate repairs of crashes and malfunctions of the technological equipment installed with sales network partners. This project will essentially define the conditions for a broader and more assiduous partnership with the supplier in question and at the same time finalize an integral service outsourcing model operated by that supplier, in order to ensure continuity of working relations and thereby exclude the risk of effects on the technicians used.

Art. 6 of the decree law 24 April 2017 no. 50, with an immediate effect, increased the withdrawal of slot machines from the current 17.5% to 19% and that of VLT from 5.5% to 6%.
From October 1, 2017, the taxation on the payout portion over Euro 500 for instant lotteries, VLT, SuperEnalotto and Win for Life, will go from 6% to 12%. Pending the conversion of this decree which may, as happened under other circumstances, make some amendments to this matter, the Group is considering the possible impacts of such changes and any containment measures that would be required.

Finally, in February 2017 the Board of Directors of the Parent ha deliberated the start of the activities aimed at the completion of the reverse merger project between the Company and Sisal Group S.p.A. expected to be finalized within next summer.

Milan, April 28, 2017

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On behalf of the Board of Directors

The Chairman

Federico Quitadamo