Sisal Group S.p.A. (with a sole shareholder)

A company subject to management and coordination by Schumann Investments S.A.
Registered in the List of Payment Institutions ex art. 114-septies Legislative Decree 385/93 – Code 33500.1
Registered office: Milan – Via A. di Tocqueville 13
Share capital: subscribed and paid-in for Euros 102,500,000
Milan Registry of Companies - Ordinary section no. 05425630968
R.E.A. of Milan No. 1820505
Tax Code and VAT no.: 05425630968

CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2017

Directors' Report on Operations, Separate Financial Statements

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SISAL GROUP

Directors' Report on Operations

Consolidated Financial Statements at December 31, 2017

Dear Shareholders,

We hereby submit for your attention the consolidated financial statements at December 31, 2017 of Sisal Group S.p.A. (hereinafter the "Parent" or "Company") which present a profit attributable to owners of the parent of Euros 27,250 thousand.

In the same year depreciation, amortization and impairment losses of fixed assets were recorded for Euros 99,453 thousand and revenues and income totaled Euros 831,983 thousand. The income statement is also impacted by net finance expenses for Euros 57,037 thousand.

With legal effective date of November 24, 2017, the former parent Schumann S.p.A. was merged into the Parent, which in December 2016 had acquired 100% of the share capital for a total of around Euros 459 million, net of transaction charges (for about Euros 7 million).

In parallel with completion of the merger procedure, in accordance with reference accounting standards, the purchase price allocation process was finalized and is reflected in these consolidated financial statements.

These extraordinary transactions had significant consequences in relation to the presentation methods and breakdowns of the statement of financial position and income statement in these consolidated financial statements of Sisal Group S.p.A.

Pursuant to IFRS 3 - Business Combinations, the aforementioned merger qualifies as a transaction, as a result of which the acquiring and acquired companies are identified as Schumann S.p.A. and Sisal Group S.p.A., respectively.

In fact, though in legal terms Sisal Group S.p.A. is the merging entity for accounting purposes, pursuant to IFRS 3, Schumann S.p.A. is considered the acquiring company in accordance with the definition of control in IFRS 10 - Consolidated Financial Statements and in line with that recorded in the consolidated financial statements of Schumann S.p.A. at December 31, 2016.

Consequently, the consolidated statement of financial position, statement of comprehensive income, statement of cash flows, consolidated statement of changes in equity and the balances indicated in the notes to the Consolidated Financial Statements, reflect the consolidated balances of the merging entity Sisal Group S.p.A. for the year ended December 31, 2017. The comparison data at December 31, 2016 instead refer to the consolidated income statement (including the economic values of the group acquired with effect from December 1, 2016) and the consolidated statement of financial position of the acquiring entity, Schumann S.p.A., adjusted to take into account the financial effects of the aforementioned purchase price allocation, details of which are provided in the related section of the notes to the Consolidated Financial Statements.

In order to provide a disclosure which, on the one hand, is consistent with the basis of preparation of the financial statements and, on the other, meaningful to adequate analysis of the Group's financial performance, this Board of Directors' Report on Group Operations contains an analysis of the Sisal Group performance for the year ending December 31, 2016, prepared on the basis of a pro forma consolidated income statement, illustrating the Sisal Group performance for all of 2016, and including the result of the acquiring entity Schumann S.p.A..

Key data

The key data for 2017 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 approximately Euros 1.8 million, mostly associated with reorganization costs. 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: amortization, depreciation, impairment losses and reversals; finance income and similar; finance expenses and similar and income taxes.

	2017	2016
Total revenues and income	831,983	72,867
EBITDA	213,276	2,158
Adjusted EBITDA	215,126	9,959
Operating profit (loss) - EBIT	100,428	(7,205)
Adjusted operating profit (loss) EBIT	102,278	596
Profit (loss) before income taxes	43,391	(38,014)
Profit (Loss) for the year	27,325	(36,789)

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 2017, 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. In fact, 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. To demonstrate this, in 2017 the Group companies obtained the highest level (Level 4) renewal of the Responsible Gaming certification from EL - European Lotteries and the WLA - World Lottery Association for the three-year period 2017-2020. The certification process was guaranteed by an independent third party which verified and assessed the Company's Responsible Gaming model, designed in particular to protect the player, promote a culture of responsible gaming, prevent excessive gaming and ban gaming by minors. 2017 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 through projects in support of sport, talent, culture and scientific research. The Group in particular continued to implement the Consumer Protection plan, based on a safe and aware responsible gaming model with particular attention to protecting the most vulnerable bands.

The activities conducted by the Group over the years are described in depth in the 2016 Sisal Social Report, issued in September 2017, and in similar documents referring to the previous years. The activities specifically referring to 2017 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; (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, 2017 the Group operates with 4,445 points of sale featuring a series of formats identifiable with the Group's own brands ("Branded Channel") and through a network of 43,987 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.
For the Payments and Services market, the Group manages the following activities: (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 NTNG games are managed through the Branded and

Affiliated Channels as well as the Group's web portals and 14 online games portals operated by third parties and connected to the Group's NTNG online platform. The Lottery business unit also manages the points of sale of the Affiliated Channel that are not managed by the Retail Gaming business unit.

- "**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**": responsible for managing the following activities: (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 8,010 Service Only points of sale at December 31, 2017 – and through the web portal "sisalpay.it".

The tables below illustrate revenues and adjusted EBITDA for each business unit for the years ending December 31, 2017 and December 31, 2016 (considered on the basis of a full year of results of the acquired group).

Business units (in Euros millions)	12.31.2017	12.31.2016
Retail Gaming	478.8	445.2
Lottery	96.0	95.8
Online Gaming	72.4	58.1
Payments and Services	183.1	180.1
Other revenues	1.7	1.7
Total Revenues	**832.0**	**780.8**

Business units (in Euros millions)	12.31.2017	12.31.2016
Retail Gaming	74.8	61.9
Lottery	42.3	39.5
Online Gaming	31.2	23.4
Payments and Services	68.7	65.4
Total business unit EBITDA	217.0	190.3
Items with different classification	(1.9)	(2.9)
Total EBITDA	**215.1**	**187.3**

Retail Gaming: the 2017 results of the Retail Gaming business unit were mainly determined by performances of the gaming machines market (turnover of VLTs up and slot machines payouts down) and by sports betting, both in terms of turnover and of profitability, which recorded significant growth rates in the second part of the year, especially the fourth quarter, fully recovering from its less than brilliant performance in the first few months of 2017. As a percentage of total revenues, Retail Gaming Adjusted EBITDA in 2017 is 15.6% compared to 13.9% in 2016.

Lottery: the results in the Lottery business unit in 2017 reflect a revenues performance essentially in line with that of the previous year, despite an average SuperEnalotto Jackpot level like that of 2016. Contrary to this trend there was a lower impact from operating costs compared to 2016, which was characterized by the launch of the new SuperEnalotto, and therefore the Adjusted EBITDA of the Lottery business unit in 2017 is 44.1%, an increase of 41.3% on 2016 as a result of the factors mentioned above.

Online Gaming: Online Gaming's excellent results in 2017 were driven by the solid performance of most of the key products in this business unit, particularly slot games, quick games and - last but not least - the extremely positive sports betting performance in terms of transaction volumes and profit margins. As a percentage of total revenues, Online Gaming Adjusted EBITDA in 2017 is 43.0% compared to 40.3% in 2016, also absorbing the effect of 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 2017 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 2017 is 37.6%, up by around 1.3 percentage points on the final figure achieved in 2016.

The Group operates through a distribution network of 48,432 points of sale at December 31, 2017 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, 2017 by type of product normally offered under the various distribution formats is presented in the following chart.

Channel	Format	Number	Betting market	VLTs	Slot machines	Lottery	Payments and Services
Branded Channel	WinCity	24	√	√	√	√	√
	Matchpoint Betting Agencies	372	√	√	√	√	√
	Matchpoint Corners	3,273	√		√	√	√
	SmartPoint	776			√	√	√
	Total Branded Channel	**4,445**					
Affiliated Channel	POS with gaming machines, Lotteries, Payments and Services	2,888			√	√	√
	POS with gaming machines only	3,636		√	√		
	POS with Lotteries, Payments and Services	29,453				√	√
	POS "Service Only (stand-alone terminals)"	8,010					√
	Total Affiliated Channel	**43,987**					
Total Group Network		**48,432**					

Branded Channel

The Branded Channel at December 31, 2017 includes 4,445 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 372 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 3,273 Matchpoint betting corners and (ii) the 776 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, 2017 includes a network of 43,987 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 8,010 “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, 2017 and 2016 is presented in the following chart.

Retail Gaming (in Euros millions)	**12.31.2017**	**12.31.2016**
Revenues		
Branded Channel	266.6	249.2
Affiliated Channel	212.2	196
Total Revenues	**478.8**	**445.2**
EBITDA		
Branded Channel	48.2	38.5
Affiliated Channel	26.6	23.5
Total EBITDA	**74.8**	**61.9**

Industry Overview

Gaming and Services market in Italy: the scenario

2014–2017 trend

The Group operates in the following two markets:

- 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);

- 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 2014 to 2017.

The aggregate of the two markets in 2017 reached a value of more than Euros 224 billion, with the addressable Services market reaching over 55.0% of the total.

The Gaming market rose by 6.1% in 2017 compared to 2016, whereas the Services market declined by 1.6%.

Considering the average period performance (2014-2017), the addressable payment services market shows a decline in the average compound annual growth rate (CAGR) of -1.1% while the gaming market recorded +6.4% growth.

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

The 2017 figures are estimated from internal sources and ADM sources.

	2014	2015	2016	2017	CAGR 2014/2017
Gross turnover - Total Gaming Market*	84,229	88,019	95,744	101,571	6.4%
Total Addressable Services Market	126,640	125,229	124,593	122,618	-1.1%
Addressable Market	210,869	213,247	220,337	224,189	2.1%

* excludes figures relating to products that do not have cash payouts (see Paragraph 7)

Gaming Market in Italy: the scenario

2014–2017 trend

The total turnover of the gaming market increased with a CAGR of 6.4%.

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 2017 amounted to approximately Euros 83 billion (81.6% of total turnover) up 7.8% compared to 2016. This indicator was also positive for the average period, recording a CAGR of +7.0%;
2) the third 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 +4.0%; the second a CAGR of +6.9%, a decisive increase also due to the effect of the increased taxation on gaming machines applied from April 2017.

	2014	2015	2016	2017	CAGR 2014/2017
Total turnover*	**84,229**	**88,019**	**95,744**	**101,571**	**6.4%**
Pay out*	**67,624**	**71,247**	**76,933**	**82,911**	**7.0%**
Actual expenditure by the public*	**16,605**	**16,772**	**18,811**	**18,660**	**4.0%**
Tax Authorities	*8,048*	*8,100*	*10,282*	*9,838*	**6.9%**

	2014	2015	2016	2017	CAGR 2014/2017
Total turnover*	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**0.0%**
Pay out*	**80.3%**	**80.9%**	**80.4%**	**81.6%**	**0.6%**
Actual expenditure by the public*	**19.7%**	**19.1%**	**19.6%**	**18.4%**	**-2.3%**
Tax Authorities	**48.5%**	**48.3%**	**54.7%**	**52.7%**	**2.8%**

* excludes figures relating to products that do not have cash payouts (see Paragraph 7)

An analysis of the gaming market segments shows that market growth is driven by the positive trend in sports betting, due to expansion of the operators offering this product, as well as the product mix itself, increasingly rich and well-structured. In fact, the CAGR for this segment recorded a 28.0% growth, and in 2017 alone (vs. 2016) the increase was 31.0%. All other segments except Bingo also recorded a positive CAGR.

Breakdown of total turnover	2014	2015	2016	2017	CAGR 2014/2017
Lottery	**17,258**	**17,195**	**18,654**	**18,074**	**1.6%**
Betting and sports pools	**6,285**	**7,836**	**10,063**	**13,176**	**28.0%**
Gaming machines	**46,744**	**48,161**	**49,440**	**48,947**	**1.5%**
Bingo	**1,624**	**1,598**	**1,602**	**1,619**	**-0.1%**
Skill, Card & Casino Games	**12,318**	**13,229**	**15,986**	**19,755**	**17.1%**
Total Gaming Market	**84,229**	**88,019**	**95,744**	**101,571**	**6.4%**

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

In 2017 this indicator showed Euros 18.7 billion with a positive CAGR of 4.0% for the period 2014-2017.

The gross 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 gross turnover shows a steady decrease from approximately 19.7% in 2014 to 18.4% in 2017.

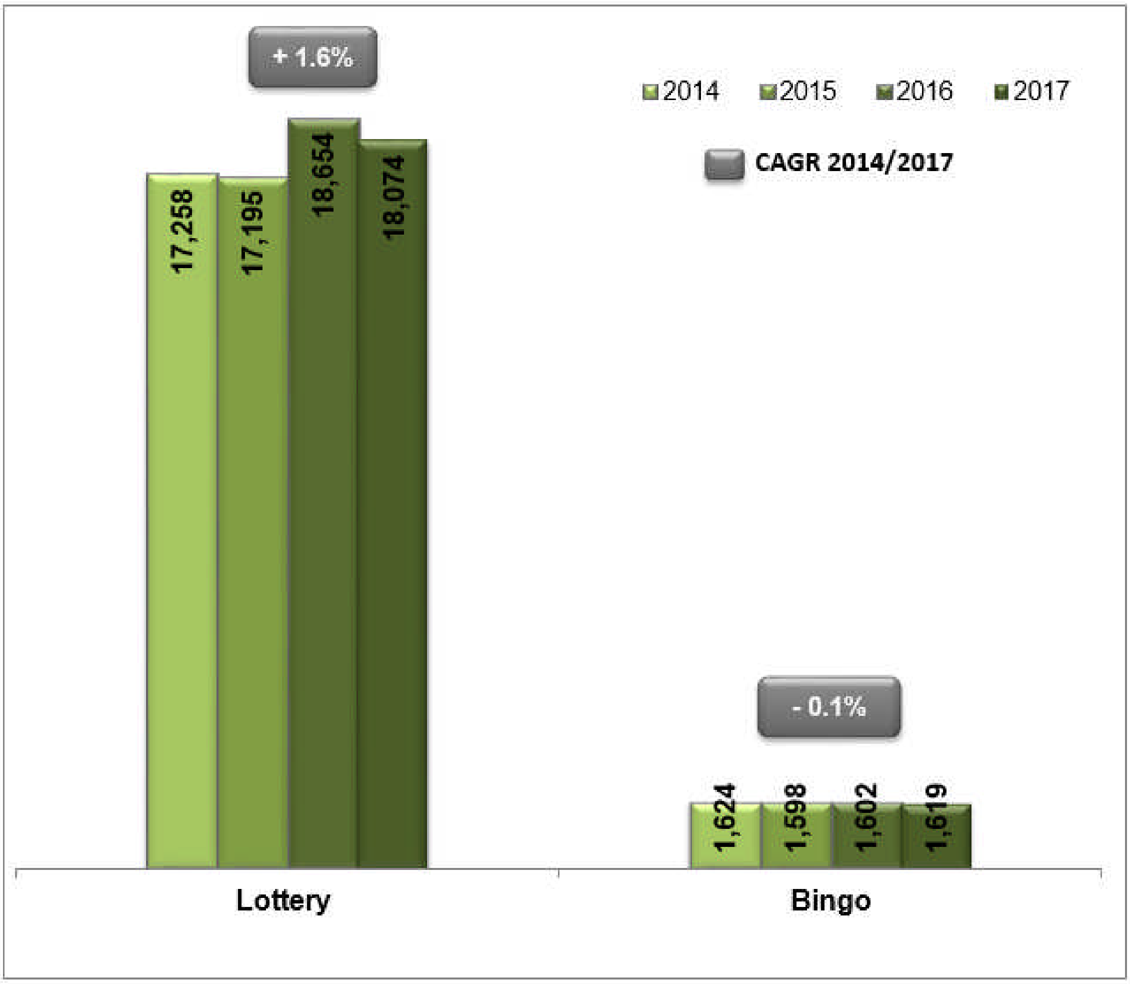
Breakdown of actual expenditure by the public	2014	2015	2016	2017	CAGR 2014/2017
Lottery	**5,453**	**5,319**	**6,169**	**5,384**	**-0.4%**
Betting and sports pools	**1,199**	**1,145**	**1,307**	**1,738**	**13.2%**
Gaming machines	**9,021**	**9,348**	**10,277**	**10,336**	**4.6%**
Bingo	**487**	**477**	**478**	**479**	**-0.6%**
Skill, Card & Casino Games	**444**	**483**	**580**	**723**	**17.6%**
Total Gaming Market	**16,605**	**16,772**	**18,811**	**18,660**	**4.0%**

Business and Product Analysis - Turnover

Lottery & Bingo

Lottery records a growth rate during the period of 1.6%. In 2017, the overall performance of turnover in this segment reflects a slight downturn, due to comparison with a 2016 rich in new products, above all the launch of the new SuperEnalotto.

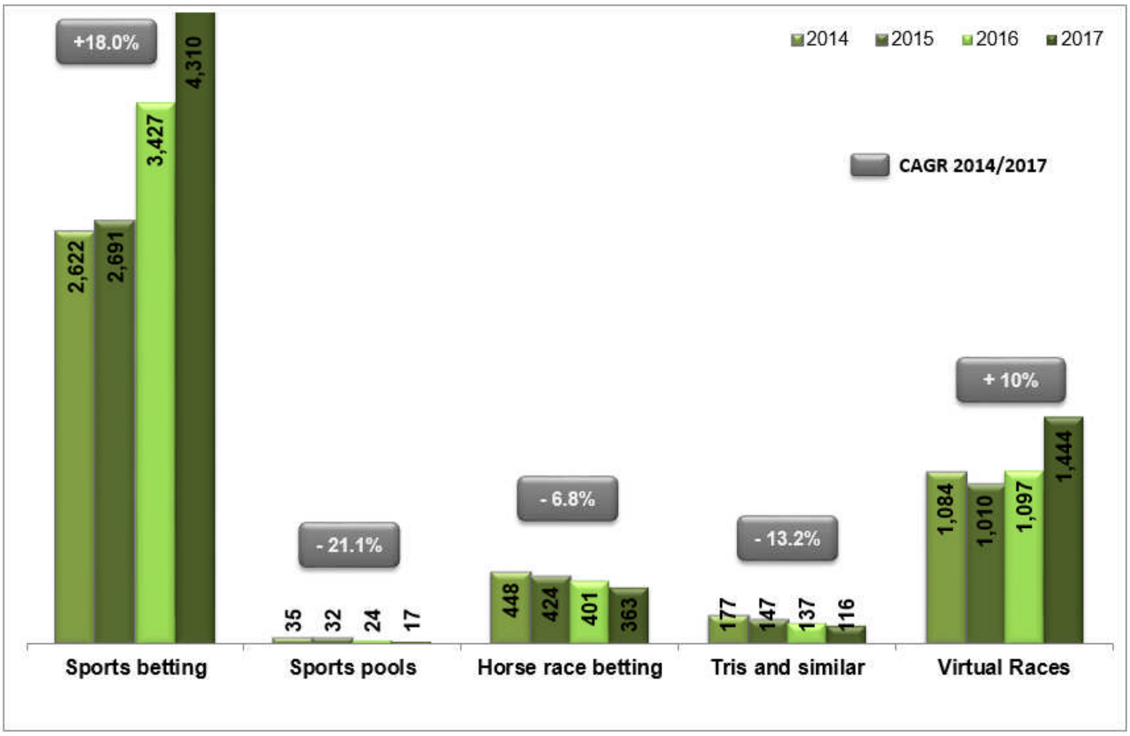
Bingo records a CAGR down slightly by - 0.1% for the period 2014-2017.



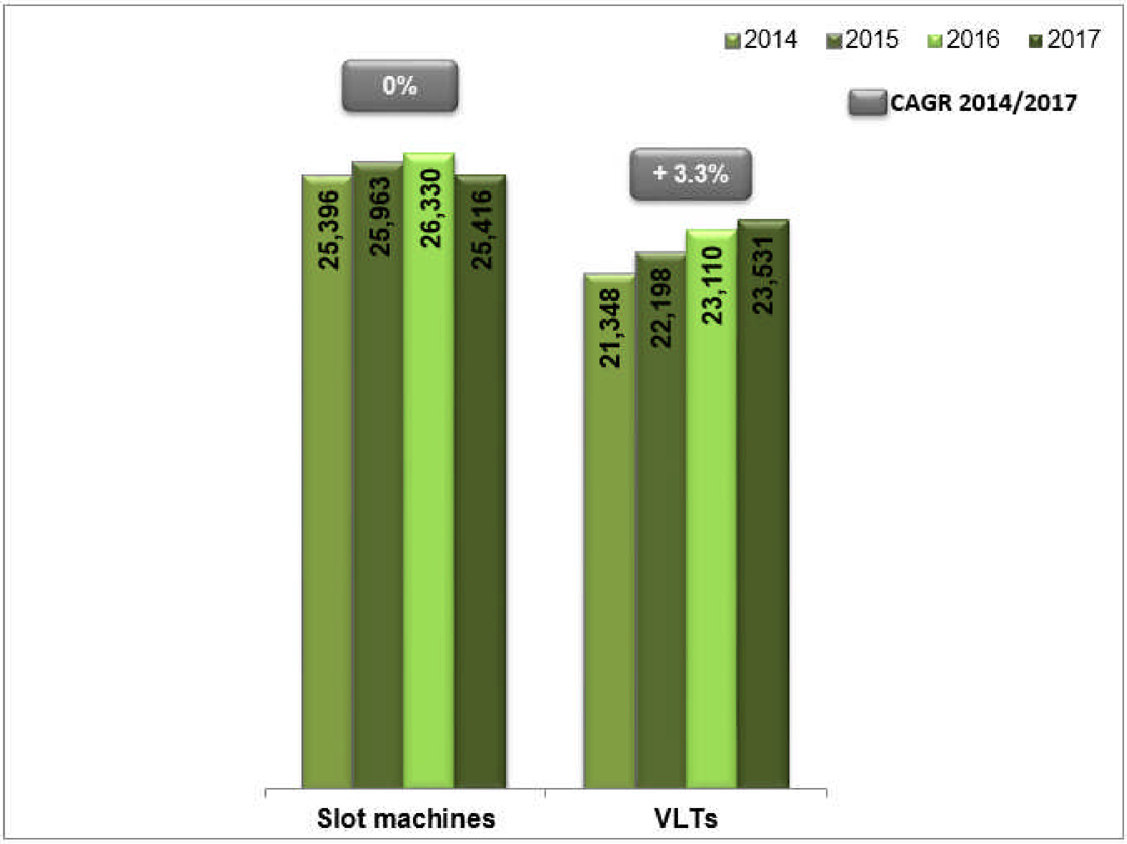
Betting market

The Sports betting market, retail channel, displays an average overall growth of 18.0% during the period 2014-2017. Turnover for the past year was in excess of Euros 4.3 billion, up 26.0% on 2016.

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.
The Virtual Races are another sector benefiting from expansion in the number of operators that characterized the betting segment. In 2017, in fact, this sector saw its market expand by almost 32.0%.



Gaming machines market (Slot machines and VLTs)
At the end of 2017, the gaming machines market accounts for 48.2% of the entire gaming market in Italy.
The segment gross turnover was around Euros 49 billion, with a CAGR up by 1.5% in the 2014-2017 period.
VLTs recorded a positive CAGR of 3.3%, whilst for slot machines the CAGR was zero, with a 2017 value down on 2016 (-3.5%).



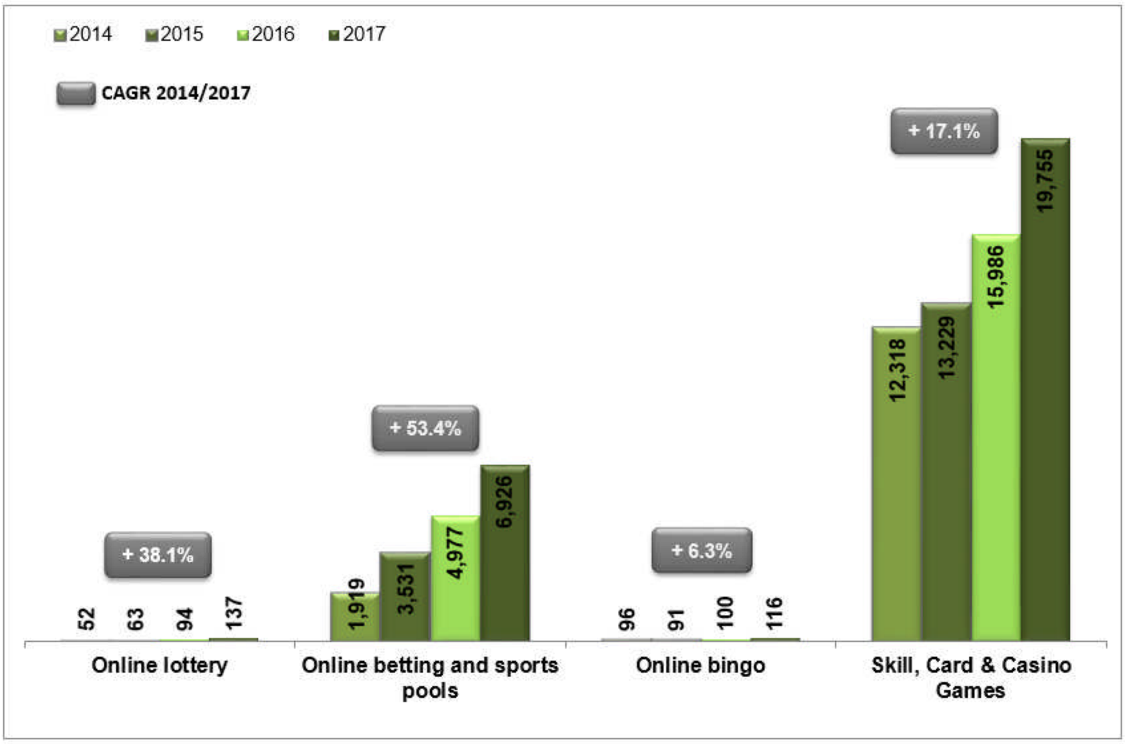
Online market

Online Gaming shows a positive trend, with a +23.3% overall CAGR.

The growth was driven by Sports betting, for the reasons already stated above, but also by the Cards & Casino segment due to the ability to adapt the product mix to that favored by players.

The CAGRs for these two segments were strongly positive, recorded as +53.4% for Betting and +17.1% for the Cards & Casino segment.

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

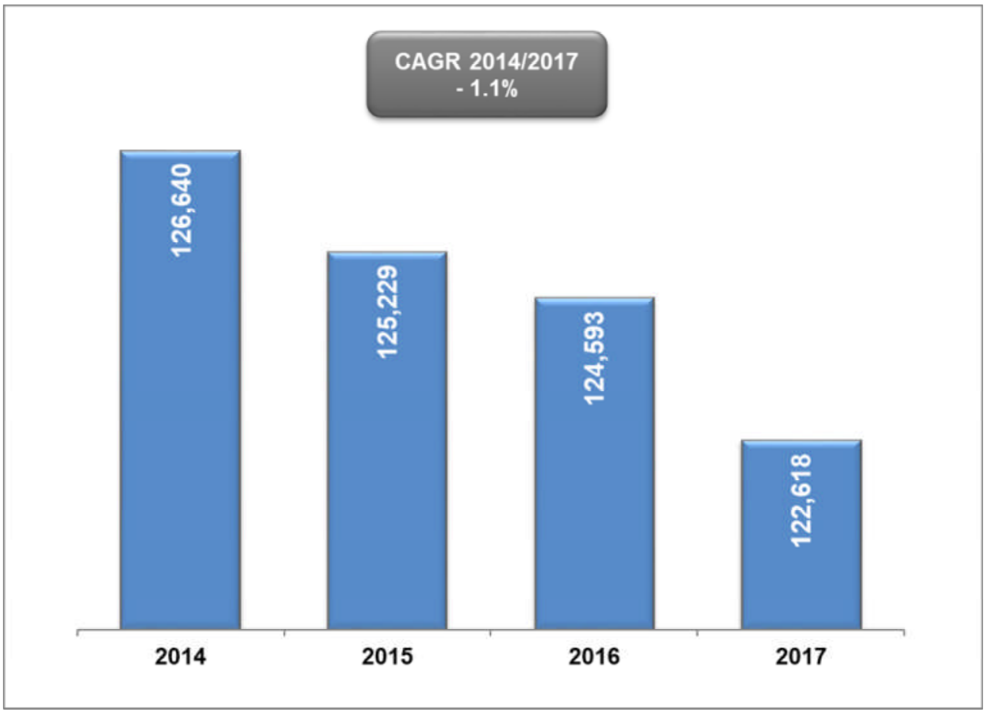


In an extremely dynamic market environment, once again with a steady growth trend, the Group's total turnover for all of 2017 in the segments described above (approximately Euros 8.3 million) resulted in a growth of just under 6% compared to last year.

This performance particularly reflects the excellent performances in the VLT and online games segments. As regards VLTs, the growth is the result of the combined effect of further input on the product, retail development and the commercial acquisition of sales from competitors, whilst online games saw highly significant growth rates in turnover on all the product lines, against growth of more than 30% in the average number of active clients on the Group's platforms compared to the 2016 figure.

Payment Services Market

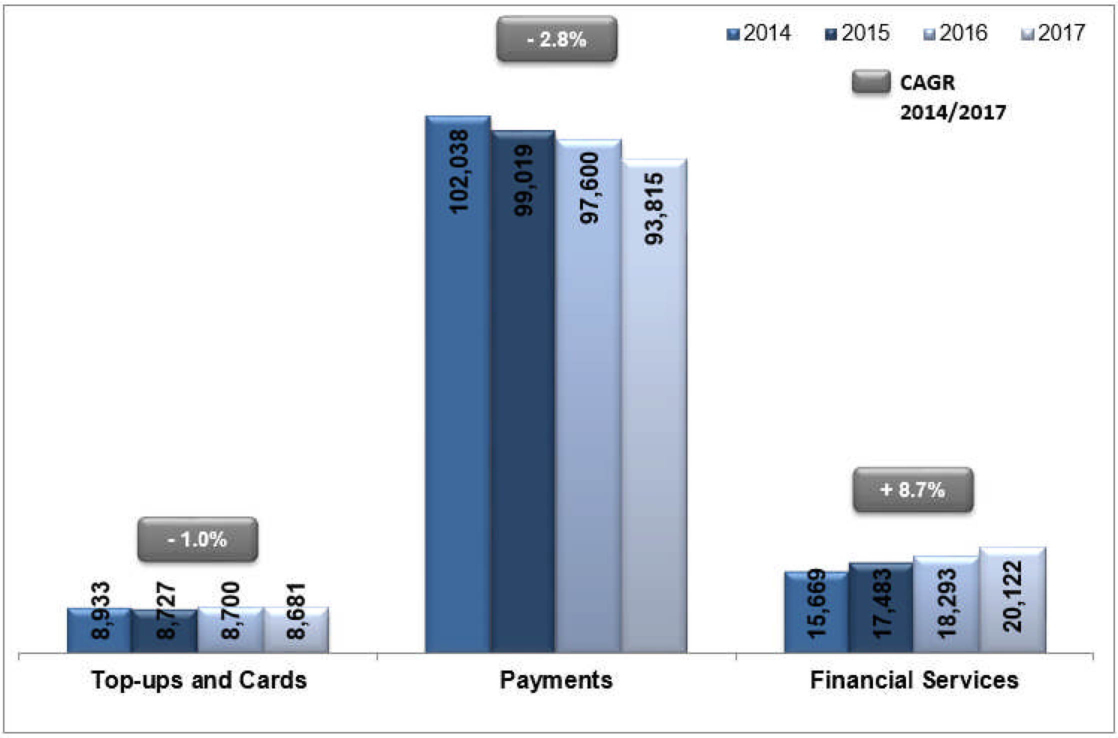
The addressable payment services market - the total paid by Italians net of direct debits - in 2017 reached turnover of more than Euros 122 billion, down by 1.6% compared to the 2016 figure.



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 2017, in fact, turnover exceeds Euros 20 billion, with CAGR of around +8.7% in the period 2014-2017.

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 2017 was close to Euros 8.7 billion with a CAGR of -1.0%.

Payment Services also decreased (CAGR -2.8%) 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 company based on authorization granted previously by the Bank of Italy, whereas mobile phone top-ups and media are distributed through the subsidiary Sisal S.p.A.

Overall in 2017 the Group reported turnover across its own network throughout the territory and the "Sisal Pay" online platform of approximately Euros 9.5 billion, recording an increase of just under 10% compared to 2016 and improving its market share which, calculated in relation to the addressable services market, is around 8% at year-end 2017 compared to about 7% 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 in 2016 from December 2016 onwards.

If from a proforma stance we analyse the results of the Group over both years (for 2016 in particular as the algebraic sum of the consolidated income statements of the group acquired since 1 January 2016 and the acquiring parent, merged into the Company in 2017, from the date of incorporation), the main indicators of Group results would be as follows (amounts in thousands of Euros):

	2017	2016	Change	
Total revenues and income	831,983	780,844	51,139	6.5%
Purchases of materials, consumables and merchandise	14,418	12,826	1,592	12.4%
Costs for services	455,734	438,305	17,429	4.0%
Lease and rent expenses	22,273	22,598	(325)	-1.4%
Personnel costs	87,954	86,943	1,011	1.2%
Other operating costs	36,364	38,414	(2,050)	-5.3%
Allocations to provisions	1,963	2,993	(1,030)	34.4%
EBITDA	213,276	178,765	34,511	19.3%
Adjusted EBITDA	215,126	187,327	27,799	14.8%
Amortization, depreciation, impairment losses and reversals of the value of property, plant and equipment and intangible assets	112,848	101,924	10,924	10.7%
Operating profit (loss) - EBIT	100,428	76,841	23,587	30.7%
Adjusted operating profit (loss) EBIT	102,278	85,403	16,875	19.8%
Net finance expenses and similar	57,037	109,037	(52,000)	-47.7%
Profit (loss) before income taxes	43,391	(32,196)	75,587	234.8%
Profit (Loss) for the year	27,325	(38,369)	65,694	171.2%

With reference to the situation illustrated above, note that total revenues and income of the Group recorded an increase of 6.5% in 2017 compared to 2016. This reflects the trends in the various product and business segments of the Group as detailed in the following table (in thousands of Euros):

	2017	2016	Change	
NTNG revenues	56,219	58,336	-2,117	-3.6%
Gaming machines	358,731	332,650	26,081	7.8%
Betting and sports pools	107,581	98,839	8,742	8.8%
Online games	72,203	58,145	14,058	24.2%
Products and Services revenues	143,525	142,829	696	0.5%
Points of sale revenues	84,062	81,250	2,812	3.5%
Other revenues and income	9,662	8,795	867	9.9%
Total revenues and income	**831,983**	**780,844**	**51,139**	**6.5%**

Additional details on the main segment performances are as follows:

- in the "gaming segment", the result achieved by the NTNGs saw a decline in turnover of approximately 3.6%, confirming that the segment is essentially holding steady, particularly the SuperEnalotto after the launch of its new formula in the previous year and despite an average jackpot level being lower than that recorded in 2016.

  In 2017, in 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 - on gaming that is limited in terms of distance and times. Also consolidated over a full year was the reduction of the minimum payout for AWPs from 74% in force until December 31, 2015, to 70% with effect from 2016. The combined effects of these factors and the commercial and distribution initiatives of the Group companies resulted in a growth in related revenues of almost 8%.

  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), 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 765 million, recording a 2% increase on the 2016 figure, and the turnover trend was reflected in higher revenues of a little under 9%. This was also due to the reduced payouts during the year, particularly for fixed-odds sports betting.

  As for online games, (including online betting and bingo), while turnover grew by over 23%, revenues increased by around Euros 14 million, more than 24% higher than in 2016. The fixed odds online sports betting channel recorded a turnover increase of around 28%. 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, combined with the lower level of payouts, offered a final revenues figure up by around 34% on the 2016 result, equivalent to an increase in absolute values before promotions paid of around Euros 8.5 million. Also significant was the performance of the Slot games segment which recorded increases in turnover and gross revenues of approximately 27%, 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 13% compared to a decrease of 6.5% 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 (+12.5%), mainly due to the trends in the Financial Services segment (prepaid card and/or digital wallet top-ups), corresponding to revenues of approximately Euros 109 million (+7%). Overall this segment generated gross revenues for the Group of about Euros 143.5 million, essentially in line with the previous year, whereas the margin (revenues net of the fees paid to the retail network) contributed by this segment in 2017, further increased from the prior year to approximately Euros 70 million compared to approximately Euros 66 million in 2016, growing around 7%;
- other income relating to various contractual relationships with the retail network shows an increase of about Euros 2.9 million (+3.5% compared to 2016) as a result of the sales policies implemented during the year, as well as the further expansion of the NTNG distribution network and that dedicated to services only, whose numbers respectively reached 36,700 and 8,000 units at year end compared to about 34,200 and 7,100 units at year-end 2016;
- 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 0.9 million (around +10% compared to 2016).

The change in operating costs, including depreciation, amortization and provisions, led to an increase of just under 2% compared to the prior year. If non-recurring expenses are excluded, the increase is approximately 3%.

The main factors behind this increase (which was also clearly lower than that recorded for revenues) were costs for services, on the one hand, which rose by around Euros 23 million (+5.4%) of which around Euros 4.7 million relating to sales costs and approximately Euros 18.6 million to other services (mainly as a result of the higher costs of distribution chain remuneration, especially those operating in the gaming machines segment) and other expense for amortization and depreciation, provisions and impairment loss which were down overall by around Euros 4 million.

However, as regards non-recurring expenses and income, compared to the Euros 8.6 million in non-recurring expenses which affected the operating result in the prior year, mainly resulting from assets relating to the acquisition and subsequent financial restructuring of the Group and other reorganization-related expenses during 2016, 2017 recorded around Euros 1.8 million in net non-recurring costs, essentially referring to company and corporate reorganization processes.

The changes described above generated an increase in the gross profit margin, as previously defined, of over 19% whereas the operating profit posted an increase of approximately Euros 38 million. Excluding the non-recurring income and expenses mentioned earlier, the gross profit rose by around 15%, while operating profit records an increase of around Euros 31 million (about +36% compared to operating profit in the previous year).

As for the net financial position, particularly in performance terms, 2017 saw continuous structural developments define towards the end of the previous year, in parallel with the acquisition of Sisal Group business activities by Schumann S.p.A., which as previously mentioned was later merged into the Parent in 2017. This transaction helped to significantly reduce the Group's pre-existing debt position and at the same time extend the related due dates.

During the year the Group made total payments of interest and commissions to the lending banks, mainly in relation to the Super Senior Revolving Facility Agreement, and to noteholders an amount of interest and commissions of approximately Euros 55 million, down by around Euros 65 million (-54%) on 2016, as a result of the new and more streamlined financial structure in consideration of the fact that for a certain period in 2016, pending finalization of the Group acquisition, the new bonds co-existed alongside the previous debt structure.

Additional finance expense totaling around Euros 16 million was accrued during the year but was not paid, mainly 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):

	2017	2016	Change
Net Invested Capital (NIC)	920,379	1,013,926	(93,547)
Funding by Third Parties	629,386	750,147	(120,761)
Total Equity	290,993	263,779	27,214
Debt/Equity Ratio	2.16	2.84	
Normalized ROI (EBIT/NIC)	11%	8%	

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, other current and non-current 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 90 million (about Euros 84 million at year-end 2016). As a consequence, the Funding by third parties represents the sum of the financial liabilities of the Group (for a total of approximately Euros 750 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 for all of 2017, reflects the significantly positive results achieved by operating activities which, also in relation to more sustainable financial leverage, allowed the Group to promptly fulfill its obligations, including payments for investments for approximately Euros 32 million.

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)

- 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 S.p.A., 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.

By decision no. 11767/2017, published on November 22, 2017, the Court of Milan accepted there were partial grounds for the claim filed by Giovanni Baglivo, declared partial invalidity of the agreement contained in art. 8 of the Contract between the Concessionaire and the Point of Sale, particularly as regards certain services indicated in Annex 2 to the Contract.

In the opinion of the Court of Milan, in fact, provision of the aforementioned services should be considered included among those that Sisal is already expected to provide on the basis of commitments undertaken with AAMS when bidding for the tender and subsequent signing of the Agreement.

The challenged decision instead rejected the claim for partial invalidity of art. 8 of the Contract, in that it would qualify as a situation contrary to imperative regulations and unlawfulness of the proceedings due to violation of art. 3 of Italian Law 287/1990 and art. 102 of the TFEU on abuse of dominant position, alleging that the fact that Sisal holds a dominant position in the gaming and betting market could not be proved. Believing that the aforementioned decision is based on erroneous assessments in fact and in law, an appeal was filed with the Milan Court of Appeal.

- Art. 1, paragraph 576 of the 2017 Budget Law - Law no. 232 of December 11, 2016 - 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, as the related invitation to tender was not published by the ADM in 2017, it is expected that it will instead be published in 2018. 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. In the meantime, in March 2018 and in compliance with the terms of the current agreement, the ADM extended the duration of the concession (due to expire 26 June 2018) up to the effective date of the concession awarded under the new selection procedure and in any event not beyond 26 December 2018.

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

- By Ministerial Decree no. 25 of July 2017, implementing the provisions of art. 6-bis of Law Decree no. 50 of April 24, 2017, converted to Law no. 96 of June 21, 2017, the Ministry of Economy and Finance envisaged a decrease in the number of authorizations for gaming machines. In particular, it required that the number of authorizations pursuant to art. 110, paragraph 6a) of the TULPS cannot exceed:

a) 345,000 machines at December 31, 2017.

b) 265,000 machines at April 30, 2018.

Art. 2 of the Ministerial Decree also envisages that, in order to implement the above, each concessionaire should arrange the following:

a) in the period between the date of entry into force of this decree and December 31, 2017, the reduction by at least 15% in the number of authorizations held at December 31, 2016.

b) by April 30, 2018, a further reduction in the number of authorizations until a total decrease of 34.9% is reached from the number of authorizations held at December 31, 2016.

Sisal Entertainment S.p.A. has taken action to reduce its authorizations in implementation of the provisions of the aforementioned Ministerial Decree.

Horse-racing and sports betting concession

- In reference to betting concessions that ended on June 30, 2016, but later extended by the ADM by notices with protocol numbers 54917 of June 9, 2016 and 58554 of June 20, 2016, through Italian Law no. 205 of December 27, 2017, in order to comply with the principles according to which public concessions are awarded on the basis of competitive selection procedures with the need to achieve a correct distribution structure, in relation to betting concessions for sports events, including horse racing, and non-sporting events, including simulated events, also following the understanding reached at the unified Conference, the ADM was appointed to award the related concessions, by a tender to be launched by September 30, 2018, under the conditions already envisaged in art. 1, paragraph 932 of Italian Law no. 208 of December 28, 2015. To this end, the existing concessions were extended to December 31, 2018, against payment of the annual fee of Euros 6,000.00 relating to the points of sale whose core business is the marketing of public gaming products and Euros 3,500.00 covering all fees for points of sale whose accessory business is the marketing of public gaming products. In implementation of the aforementioned legal provision, Sisal Entertainment S.p.A. arranged the renewal at the beginning of 2018 of 467 points of sale whose core business is the marketing of public gaming products and 1,475 points of sale whose accessory business is the marketing of those same gaming products.

In reference to the horse-race betting concessions, by writ of summons dated August 3, 2017, Sisal Entertainment S.p.A. began dispute proceedings against the ADM claiming compensation for damages resulting from breach by the awarding authority of obligations arising from concession agreement relations, particularly regarding the failure to implement and in any event late implementation of all types of bets, the failure to issue and/or late issue of regulatory provisions for the acceptance of online bets by the concessionaire, failure to protect the betting market from illegal and online activities and in any even the failure of the awarding authority to consolidate and maintain the market conditions promised in the concession agreement. The initial hearing is still pending in these proceedings.

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 2017, as in 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 Tax 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 Tax 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, the company 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.

With reference to litigations, on the other hand, extensively covered in the financial statement disclosures of previous years, deriving from the access to the premises of Sisal S.p.A. in May 2010 by the Milan Tax Police Unit, Complex Audits Division 2, and the subsequent audit by the Tax Revenues Agency - Lombardy Regional Department, Large Taxpayers Office that began in September 2015 and mainly involving the claim of alleged non-deductibility of finance expenses deriving from leveraged buy-out transactions which affected the Group in the period 2005-2006, after various formal attempts to settle/define the aforementioned findings (issued for a total value of approximately Euro 45 million in taxes and penalties, plus interest) and following the opening of related disputes by filing appeals before the competent Tax Commissions, in July 2017 the representatives of the aforementioned company signed a settlement agreement with the Tax Revenues Agency for the year 2006 totaling approximately Euro 1.9 million (as taxes, penalties and interest), payable in 16 quarterly instalments. Likewise, the Office issued its cancellation of all notices of findings in the dispute on which settlement had been reached, also for the periods 2007-2011. The nature and merits of the settlement agreement reached in effect mean that years after 2011 up to the end of 2016 cannot be addressed (until now 2011 is the last subject of a formal audit), when the acquisition of indirect control of the company by Schumann S.p.A. controlled by funds managed by CvC Capitale Partners and the associated financial restructuring of the respective group redesigned the previous financial structure by means of a transaction with characteristics absolutely consistent with rules formalized by the Tax Revenues Agency in a historic circular of March 2016.

With reference to the claim, raised by the aforementioned Tax Revenues Agency audit, of non-deductibility of VAT, which triggered notices of findings for the three-year period 2010-2012 for a total of approximately Euros 8.2 million in taxes and penalties, after unsuccessfully attempting to reach a settlement agreement, the company filed related appeals and the initial hearing, planned for April 2018 in relation to the years 2010-2011 is still pending. In the meantime, contact with the Tax Revenues Agency continues to assess possible closure solutions, with terms strongly downsized compared to the amount claimed, also in this dispute.

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 Tax Revenues Agency - Large Taxpayers' Office, extensively illustrated in the financial statements for the preceding years, which related 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 situation was finally defined by the company during the year through the "scrapping" of all findings for the audited years up to and including 2011. The total cost of this transaction was approximately Euros 3.6 million, equivalent to the value of taxes allegedly avoided, plus interest up to issue of the notice, and a number of payments already made provisionally by way of penalties, default interest and collection costs during the course of the proceedings (equal to around Euros 0.6 million) that cannot be repeated by law. Against this expense, the Group was able to obtain the partial release for around Euros 2.3 million of amounts held in escrow, also based on the outcome of the aforementioned disputes, relating to part of the price established for acquisition of the Group by Schumann S.p.A..

The above settlement, aimed solely at allowing the conclusion of a lengthy tax dispute that had developed in previous years with conflicting outcomes in the various levels of courts, but without arriving at a final decision for any of the years audited, was in any event considered convenient, also in the light of the option (confirmed in discussions with the Office of the Tax Revenues Agency) to arrange recovery of the taxes paid at the time of scrapping through supplementary tax returns and/or claims for reimbursement for the previous years, in consideration of the fact that the higher taxes claimed were the result of a downward calculation of the amortization rates which, consequently, must result in a reduction in the taxable amount for the years in which the lower amortization calculated on the scrapping basis is recovered.

Again in relation to the above cumulative dispute, during the year it was also claimed that 2012 could not be “scrapped”, and therefore in January 2018 arrangements were made to finalize a settlement agreement for a total of around Euros 970 thousand, of which Euros 307 thousand as penalties and interest. Also in reference to this settlement, already recognized in the 2017 financial statements figures, the tax recovery following the above “reversal” effect of the amortization involved in the dispute is equally reflected.

The effect of these recalculations was determined on an accrual basis at December 31, 2017 as approximately Euros 2.8 million, recognized in full during the year under the related item Income taxes for the year.

Always on the tax side, March 2017 saw the conclusion of the tax audit on the Parent begun in September 2015 by the Milan Tax Police for the years 2010 to 2013, limited to deductibility of the finance expenses pursuant to art. 96 of the Consolidated Income Tax Act, in effect to check that the Company’s behavior during the audited period was consistent with the agreement established for the previous period 2006-2009. The NoF prepared to conclude the aforementioned audit did not raise further findings, but did confirm 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.

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 Injunction Order served following the audit was appealed against before the competent Court with the aim of clarifying the fairness of the company's actions. The related proceedings before the Court of Milan are currently pending and 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, particularly in reference to the penalties.

Information regarding human resources and the environment

The Group has 1,872 employees at December 31, 2017. 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. In 2017, additional companies were selected whose disposal processes are particularly environment-friendly and in some cases these processes give rise to the production of new raw materials for other processing. Personnel training continued to be 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. 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 2017, the Group maintained high levels of investments in property, plant and equipment and intangible assets, for a total of around Euros 60 million, recording an increase of approximately Euros 15 million on the total for the entire previous year.

As for property, plant and equipment, approximately Euros 40 million was invested by the Group, of which approximately Euros 27 million relating to purchases or technological updates of gaming machines and terminals for gaming and services.

Another Euros 5 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 7.5 million were also made for central and peripheral hardware and for sundry equipment.

As regards investments in intangible assets and rights, on the other hand, the year saw a significant increase in investments in software applications and user licenses for over Euros 19 million (around Euros +5 million compared to the figure for 2016).

Transactions with parent companies

As regards transactions with the parent Schumann Investments S.A., which exercises management and coordination, 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 its budget for the current year.
At the start of the same month, Societé de Gestion de la Loterie National S.A. - a Moroccan private partnership - informed Sisal S.p.A. that the bid submitted by the latter for outsourcing of the service to implement and manage (from January 1, 2019) a new automated management system, via an electronic network, for public gaming collections in Morocco, was the most competitive. The activities to prepare the bid were completed in record time from October 2017 and the outcome is very important for the respective Group, both in economic terms and to the extent it allows diversification of the business at international level. It is expected that the concession agreement will have a ten-

year duration and could be signed in the near future. The Group is therefore taking action to launch all the organizational and structural initiatives so as to start up the new business activities by the planned deadline, including the setup of a newco under Moroccan law as a 100% subsidiary of Sisal S.p.A. and the presentation of bank guarantees for the equivalent of Euros 12 million.

Following publication in the Official Journal of Italian Legislative Decree no. 218 of December 15, 2017, implementing Directive (EU) 2015/2366 on payment services in the domestic market, which amends Directives 2002/65/EC, 2009/110/EC and 2013/36/EU as well as Regulation (EU) 1093/2010, and repeals Directive 2007/64/EC, the Bank of Italy has begun the authorization confirmation process for authorized intermediaries based on the new requirements. In particular, by communication of March 14, 2018, the Bank of Italy sent forms to Sisal Group Patrimonio Destinato for completion to confirm that the legal requirements are satisfied, which must be returned to the supervisory authority by April 13, 2018.
The Company has already arranged completion of the required documentation and the implementation of measures to comply with the new regulations. The current progress status of the work has not brought any critical issues to light.

Pending approval of the tender for renewal of the NTNG concession, there have been no further significant developments in the main concession and/or other relations.

Outlook

The total gaming market value is expected to stand at around Euros 98.7 billion in 2018, down by approximately 2.9% on the 2017 market forecast. In this respect, it should be emphasized that the decrease is due to the forecast decline in the gaming machines segment (-10.1%) as a result of laws and regulations approved by the local authorities, partly offset by the legalization of operators who previously operated in both the retail and online markets under concessions obtained from other European countries.
The turnover for betting and pools games is expected to decrease slightly (-2.6%), whilst turnover for lotteries is expected to remain stable with a total volume of approximately Euros 18 billion.
Lastly, 2018 is forecast overall to be one of growth in turnover achieved through the online channel (+8.1%), whereas in reference to the Payments market for the current year the total market value is likely to be essentially stable, standing at around Euros 120.2 billion.

In line with this overall trend for the reference markets, it is expected that in 2018 the Group’s turnover, revenues and operating profit will increase further compared to the already significant figures recorded in the year just ended, in particular due to the forecast positive trends in certain segments such as Online Gaming and the implementation of strategic initiatives and action plans to improve the efficiency of the Group's cost base. Along with the availability of credit facilities, cash generation from operations is also expected to be adequate to meet known outlay, also in terms of investments in tangible and intangible assets.

To conclude, note that in 2018 the business structures will again focus on projects relating to the launch of the new tender for NTNGs and on the aforementioned activities associated with start-up of the subsidiary in Morocco.

Milan, April 18, 2018

* * *

On behalf of the Board of Directors

The Chairman

Prof. Augusto Fantozzi

Sisal Group 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: Milan – Via A. di Tocqueville 13
Share capital: subscribed and paid-in for Euros 102,500,000
Milan Registry of Companies - Ordinary section no. 05425630968
R.E.A. of Milan No. 1820505
Tax Code and VAT no.: 05425630968

Consolidated Statement of Comprehensive Income

(in Euros thousands)	Note	Year ended December 31, 2017	2016
Revenues	8	724,622	67,620
Fixed-odds betting income	9	102,973	5,167
Other income	10	4,388	80
of which non-recurring	*44*	*205*	*-*
Total revenues and income		**831,983**	**72,868**
Purchases of materials, consumables and merchandise	11	14,418	1,672
Costs for services	12	455,734	55,288
of which related parties	*43*	*2,738*	*4,751*
of which non-recurring	*44*	*1,158*	*6,384*
Lease and rent expenses	13	22,273	1,891
Personnel costs	14	87,954	7,625
of which related parties	*43*	*4,118*	*355*
of which non-recurring	*44*	*729*	*90*
Other operating costs	15	36,364	4,573
of which non-recurring	*44*	*169*	*1,327*
Depreciation, amortization, provisions, impairment losses and reversals of the value of property, plant and equipment and intangible assets	16	114,812	9,024
Operating profit (loss) (EBIT)		**100,428**	**(7,205)**
Finance income and similar	17	198	13
Finance expenses and similar	18	57,185	30,699
Share of profit/(loss) of companies accounted for using the equity method	18a	50	122
Profit (loss) before income taxes		**43,391**	**(38,013)**
Income taxes	19	16,066	(1,224)
Profit (Loss) for the year		**27,325**	**(36,789)**
Profit (loss) attributable to non-controlling interests		76	(2)
Profit (Loss) attributable to owners of the parent		**27,249**	**(36,787)**
Other statement of comprehensive income items:			
Items that will not later be reclassified to the income statement:			
Actuarial gains (loss) on defined benefit plans		(146)	(20)
Tax effect		35	5
Comprehensive income for the year		**27,214**	**(36,804)**
Comprehensive income for the year attributable to non-controlling interests		76	(2)
Comprehensive income attributable to owners of the parent		27,138	(36,802)
Earnings per share - basic and diluted	20	0.27	(3.71)

Consolidated Statement of Financial Position

(in Euros thousands)	Note	Year ended December 31, 2017	2016
Non-current assets			
Property, plant and equipment	21	96,577	91,097
Goodwill	22	569,275	569,275
Intangible assets	23	521,550	566,779
Investments in associates		-	-
Deferred tax assets	24	13,596	20,529
Other assets	25	22,713	25,205
Total non-current assets		**1,223,711**	**1,272,885**
Current assets			
Inventories	26	10,024	9,171
Trade receivables	27	181,341	178,650
Current financial assets	28	-	-
Taxes receivable	29	268	546
Restricted bank deposits	30	155,478	297,630
Cash and cash equivalents	31	211,402	135,181
Other assets	32	45,683	40,456
Total current assets		**604,196**	**661,635**
Total assets		**1,827,907**	**1,934,520**
Equity			
Share capital		102,500	9,920
Legal reserve		200	-
Share premium reserve		94,484	289,580
Other reserves		66,443	-
Retained earnings		26,209	(36,802)
Total equity attributable to owners of the parent		**289,836**	**262,698**
Equity attributable to non-controlling interests		1,157	1,081
Total equity	**33**	**290,993**	**263,779**
Non-current liabilities			
Long-term debt	34	696,721	692,642
Provision for employee severance indemnities	36	8,757	9,486
Deferred tax liabilities	23	132,915	138,031
Provisions for risks and charges	37	13,409	15,692
Other non-current liabilities	38	1,182	-
Total non-current liabilities		**852,984**	**855,851**
Current liabilities			
Trade payables and other payables	39	330,481	281,305
Short-term debt	34	37,902	92,070
Current portion of long-term debt	34	15,916	17,052
Taxes payable	40	8,436	943
Other current liabilities	41	291,195	423,520
of which related parties	*43*	*1,842*	*1,880*
Total current liabilities		**683,930**	**814,890**
Total liabilities and equity		**1,827,907**	**1,934,520**

Consolidated Statement of Cash Flows

(in Euros thousands)	December 31, 2017	December 31, 2016
Profit (loss) before income taxes	**43,392**	**(38,013)**
Depreciation, amortization	99,296	8,457
Impairment losses on current receivables	13,395	797
Impairment losses on fixed assets	157	107
Gains (losses) on assets measured at equity	50	123
Allocations to provisions for personnel, other provisions and other non-monetary items	2,228	(314)
Financial (income) expenses	56,986	30,685
Cash flow from current operations	**215,504**	**1,842**
Change in trade receivables	(16,086)	(23,451)
Change in inventories	(853)	(323)
Change in trade payables	49,176	33,453
Change in other assets and liabilities	5,204	19,932
Income taxes paid	(6,675)	(9)
Cash flow generated from operating activities	**246,270**	**31,444**
Investments in intangible assets	(20,395)	(11,233)
Investments in property, plant and equipment	(39,309)	(5,588)
Investments in non-current financial assets	(50)	(123)
Changes in other non-current assets	0	0
Acquisitions net of cash and cash equivalents acquired	0	(264,435)
Cash flow generated from investing activities	**(59,754)**	**(281,379)**
New medium/long-term debt	0	725,000
Repayment of medium/long-term debt	(642)	(653,042)
Net change in lease payments	(524)	(84)
New short-term debt	14,671	92,000
Repayment of short-term debt	(69,000)	(34,286)
Share capital increases attributable to owners of the parent	0	299,500
Net interest paid	(54,800)	(43,972)
Cash flow generated from funding activities	**(110,295)**	**385,116**
Increase (decrease) in cash in hand and in banks	**76,221**	**135,181**
Cash and cash equivalents at the beginning of the period	**135,181**	**0**
Cash and cash equivalents at the end of the period	**211,402**	**135,181**

Any effects of the flows relating to non-recurring transactions are indicated in Note 44.

Consolidated Statement of Changes in Equity

(in Euros thousands)	**Notes**	***Share capital***	***Legal reserve***	***Share premium reserve***	***Other reserves***	***Retained earnings***	***Total equity attributable to owners of the parent***	***Non-controlling interests***	**Total equity**
Start-up March 2016		10	-	-	-		10	-	10
Share capital increase June 2016		40	-	-	-	-	40	-	40
Share capital increase December 2016		9,870	-	289,580	-	-	299,450	-	299,450
Actuarial gains (loss) on defined benefit plans		-	-	-	-	(15)	(15)	-	(15)
Profit (Loss) for the year		-	-	-	-	(36,787)	(36,787)	(2)	(36,789)
Comprehensive income (loss) for the year		**-**	**-**	**-**	**-**	**(36,802)**	**(36,802)**	**(2)**	**(36,804)**
Acquisition of the Sisal Group		-	-	-	-		-	1,083	1,083
Transactions with shareholders	**33**	**-**	**-**	**-**	**-**	**-**	**-**	**1,083**	**1,083**
Equity at December 31, 2016	**33**	**9,920**	**-**	**289,580**	**-**	**(36,802)**	**262,698**	**1,081**	**263,779**
Merger of Schumann S.p.A. into Sisal Group S.p.A.		92,580	200	(195,096)	66,443	35,873	-	-	-
Actuarial gains (loss) on defined benefit plans		-	-	-	-	(111)	(111)	-	(111)
Profit (Loss) for the year		-	-	-	-	27,249	27,249	76	27,325
Comprehensive income (loss) for the year		**-**	**-**	**-**	**-**	**27,138**	**27,138**	**76**	**27,214**
Transactions with shareholders	**33**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Equity at December 31, 2017	**33**	**102,500**	**200**	**94,484**	**66,443**	**26,209**	**289,836**	**1,157**	**290,993**

SISAL GROUP

Notes

to the Consolidated Financial Statements

at December 31, 2017

1. General information

Sisal Group S.p.A. (hereafter also "**Sisal Group**", the "**Company**" or the "**Parent**") is a company incorporated in Italy, with registered and administrative offices in Milan, in Via di Tocqueville 13, organized under the laws of the Republic of Italy. The current name and legal format of the Company was adopted in December 2013. The Company was formerly denominated Sisal Holding Istituto di Pagamento S.p.A.

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 race 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 Sisal Group S.p.A. on April 18, 2018.

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.

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.

With a legal effect on November 24, 2017, the subsidiary Schumann S.p.A. was merged into the present Parent, of which in December 2016 it had acquired 100% of the share capital. In parallel with completion of the merger procedure, as required by reference accounting standards, the identification and valuation of assets and liabilities acquired (the purchase price allocation) and the subsequent allocation of goodwill to the Group's cash generating units (CGUs) was finalized and are reflected in these consolidated financial statements.

These extraordinary transactions had significant consequences in relation to the presentation methods and breakdowns of the consolidated statement of financial position and consolidated income statement of Sisal Group S.p.A.

Pursuant to IFRS 3 - Business combinations, the merger qualifies as a transaction, as a result of which the acquiring and acquired companies are Schumann S.p.A. and Sisal Group S.p.A., respectively.

In fact, though in legal terms Sisal Group S.p.A. is the merging entity for accounting purposes, pursuant to IFRS 3, Schumann S.p.A. is considered the acquiring company in accordance with the definition of control in IFRS 10 - Consolidated Financial Statements and in line with that recorded in the consolidated financial statements of Schumann S.p.A. at December 31, 2016.

Consequently, the consolidated statement of financial position, statement of comprehensive income, statement of cash flows, statement of changes in equity and the balances indicated in the Notes to the Consolidated Financial Statements, reflect the consolidated balances of the merging entity Sisal Group S.p.A. for the year ended December 31, 2017.

The comparison data relating to 2016 is that for the consolidated income statement (including the economic values for the group acquired with effect from December 1, 2016), and the consolidated statement of financial position and the statement of cash flows of the acquiring entity, Schumann S.p.A.

2.2 Final purchase price allocation of the assets acquired and liabilities undertaken relating to acquisition of the Sisal Group

As previously mentioned, December 2016 saw the finalization of the acquisition by Schumann S.p.A. of 100% of the Company's share capital.

Considering that the acquisition was completed close to the end of the year, when preparing the consolidated financial statements at December 31, 2016, the fair value of assets and liabilities acquired was calculated provisionally as permitted by IFRS 3 - Business Combinations, consequently recording a provisional goodwill amounting to Euros 895 million.

During the year ended December 31, 2017, and in any event within 12 months of the acquisition date, the purchase price allocation process was completed and the subsequent redefinition of goodwill resulting from the business combination can be considered final.

In particular, the purchase price allocation process resulted in recognition of the following assets and liabilities at the acquisition date:

(in Euros thousands)	**Final fair value allocation**	**Provisional fair value allocation**	**Amount to be allocated**	**Deferred tax liabilities**
Sisal brand	135,000	19,588	115,412	(32,537)
NTNG concession	42,200	11,875	30,325	(8,549)
Gaming machines concession	112,300	0	112,300	(31,659)
Betting concession	15,100	0	15,100	(4,257)
Concessions and brands	**304,600**	**31,463**	**273,137**	**(77,002)**
NTNG contractual network	20,000	1,137	18,863	(5,318)
Services contractual network	25,700	0	25,700	(7,245)
POS retail network	33,000	1,881	31,119	(8,773)
Agencies retail network	6,600	0	6,600	(1,861)
Customer Relationship (Online)	99,500	0	99,500	(28,050)
Other intangible assets	**184,800**	**3,018**	**181,782**	**(51,247)**
Receivables on guarantees given	3,050	1,500	1,550	0
Other non-current assets	**3,050**	**1,500**	**1,550**	**0**
Total assets	**489,400**	**34,481**	**454,919**	**(128,249)**
Provision for risks and charges - tax disputes	(3,050)	(1,500)	(1,550)	0
Provisions for risks and charges	**(3,050)**	**(1,500)**	**(1,550)**	**0**
Total liabilities	**(3,050)**	**(1,500)**	**(1,550)**	**0**
Non-controlling interests	**(621)**	**0**	**(621)**	**0**

As a result of the final recalculation of the fair value of assets and liabilities acquired, the comparison data for the consolidated financial statements at December 31, 2016 was restated as indicated in the following summary table.

	At December 31, 2016		
(in Euros thousands)	**Provisional fair value allocation**	**Purchase Price Allocation**	**Final fair value allocation**
Assets			
Intangible assets	113,157	453,622	566,779
Goodwill	895,324	(326,049)	569,275
Other non-current assets	135,282	1,550	136,832
Current assets	661,365	0	661,365
Total assets	**1,805,397**	**129,123**	**1,934,520**
Liabilities and equity			
Deferred tax liabilities	(10,148)	(127,883)	(138,031)
Other non-current liabilities	(716,270)	(1,550)	(717,820)
Current liabilities	(814,890)	0	(814,890)
Total liabilities	**(1,541,307)**	**(129,433)**	**(1,670,741)**
Equity attributable to owners of the Parent	(263,627)	929	(262,698)
Non-controlling interests	(462)	(619)	(1,081)
Total equity	**(264,089)**	**311**	**(263,779)**
Income Statement			
Revenues and income	72,867	0	72,867
Operating costs	(71,049)	0	(71,049)
Depreciation, amortization and impairment losses	(7,727)	(1,297)	(9,024)
Operating profit (loss) (EBIT)	**(5,909)**	**(1,297)**	**(7,205)**
Finance income and expenses	(30,807)	0	(30,807)
Profit (loss) before income taxes	**(36,717)**	**(1,297)**	**(38,013)**
Income taxes	859	366	1,224
Profit (Loss) for the year	**(35,858)**	**(931)**	**(36,789)**
Non-controlling interests	0	(2)	(2)
Profit (Loss) attributable to owners of the Parent	**(35,858)**	**(929)**	**(36,802)**

The final purchase price allocation, as a result of the higher amortization of intangible assets being recorded, net of the tax effect, led to lower profit for the year of Euros 931 thousand (of which Euros 929 thousand pertaining to owners of the Parent) in the consolidated income statement at December 31, 2016.

2.3 Going concern

Also taking the above into account, 2017 closed with a profit of Euros 27,325 thousand, consolidated equity at December 31, 2017 was equal to Euros 290,993 thousand and net working capital at the same date is a negative Euros 237,318 thousand.

The 2017 result was affected by net non-recurring expenses of approximately Euros 1.8 million, mainly relating to the reverse merger of the former Parent Schumann S.p.A. into the Company for around Euros 0.9 million and the business reorganization processes for approximately Euros 1 million.

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, following the complex financial restructuring arranged in parallel with the Sisal Group acquisition at the end of 2016, as shown in detail in the following table the Group has a more balanced structure of capital resources and debt to third parties in continuity with the previous year.

The loans received, particularly the floating-rate and fixed-rate notes, will expire respectively in July 2022 and July 2023.

	At December 31,			
(in Euros thousands and as percentage of total debt and equity)	**2017**		**2016**	
Long-term debt	696,721		692,642	
Short-term debt and current portion of long-term debt	53,818		109,122	
Funding from third parties	**750,539**	**72.1%**	**801,764**	**75.2%**
Equity	290,993	**27.9%**	263,779	**24.8%**
Total debt and equity	**1,041,532**	**100.0%**	**1,065,543**	**100.0%**

With regard to the business performance, considering the 2016 results of the group acquired in reference to the entire year, despite a context of further partial deterioration of the reference regulatory conditions (particularly affecting the Gaming segment), 2017 recorded gross profit and operating profit levels (net of the impact of non-recurring expenses) that were a significant improvement on those of 2016, and an overall growth compared to forecasts made at the beginning of the year.

As illustrated in the Directors' Report, note in particular the 6.5% increase in Group revenues and income compared to 2016, mainly the result of a significant improvement in the online games, betting and gaming machines segment, and the respective 15% and 18% growths in EBITDA and EBIT, for both years after taking into account the impact of non-recurring expenses.

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, also taking into consideration - amongst other things - the activities associated with the tender for renewal of the NTNG concession.

With reference in particular to this tender procedure, for which Sisal S.p.A. is still awaiting publication of the related tender documentation, the corporate structures are already preparing for the submission of a competitive bid, strong in the many years' history of success in managing such products, for which the original design and launch, along with subsequent renewals, form part of the Group's long-standing wealth of know-how and expertise. It is based on this wealth and capacity that the Group believes it meets every requirement to be awarded the future concession. Moreover, in the unthinkable situation that this might not happen, the consolidated diversification of the Group's activities in the gaming sector and the more recent but now confirmed sector of community-led services is the guarantee of a capacity, also confirmed by the rising economic results of the last few years, to continue to be a leading player in the reference markets.

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, 2017 and 2016 are reported as follows:

Companies included in the scope of consolidation			
			% Direct and Indirect ownership at December 31,
Name	**Headquarters**	**Share capital**	**2017**
Sisal Group S.p.A. (Parent)	Milan	€ 102,500,000	-
Sisal S.p.A.	Milan	€ 125,822,467	99.81%
Sisal Point S.p.A.	Milan	€ 600,000	99.81%
Sisal Entertainment S.p.A.	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%

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 S.p.A.	Milan	€ 125,822,467	99.81%
Sisal Point S.p.A.	Milan	€ 600,000	99.81%
Sisal Entertainment S.p.A.	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%

The change in the consolidation area, as previously described, is due to the merger by incorporation of Schumann S.p.A. in Sisal Group S.p.A..

Below 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 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 all subsidiaries' financial statements coincides with that of the Parent. 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 attributable to owners of the Parent;

- 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. and Friulgames S.r.l., 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 Authority (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 NTNG and services contract network	11-20
Sisal brand	20
Customer Relationship (Online)	13 equal to the on line concession period

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 period of amortization of the concessions also includes a possible renewal period if considered in the evaluation of the assets, in accordance with the reference accounting principles.

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 play slips 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.

Food & beverage inventories are stated at the weighted average cost based on 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.

EMPLOYEE BENEFITS

Short-term benefits are represented by salaries and wages, social security contributions, 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 reporting date. 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 statement of comprehensive income items.

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. and Friulgames S.r.l., 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 associates 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”.

EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings (loss) per share is calculated by dividing the result for the year attributable to the owners of the parent by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings (loss) per share is calculated by dividing the result for the year attributable to the owners of the parent by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. For purposes of the calculation of diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming that the rights having potential dilutive effects are exercised by all the grantees of the rights, whereas the result attributable to the owners of the parent is adjusted to take into account the effects, if any, net of tax, of the exercise of those rights.

2.6 Recently issued accounting standards

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 issued on September 11, 2015, will enter into force from years beginning on or after January 1, 2018. Based on the results of preliminary assessments carried out thus far, the Company estimates that on first-time application the adoption of the new standard will not have a significant impact on the opening balances in equity at 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. Based on the results of preliminary assessments carried out thus far, the Company estimates that on first-time application the adoption of the new standard will not have a significant impact on the opening balances in equity at January 1, 2018.
- By Regulation (EC) 2018/289, issued by the European Commission on February 26, 2018, the regulatory provisions of the document Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2), issued by the IASB on June 20, 2016, were endorsed. These provisions will enter into force from years beginning on or after January 1,

2018. The impact deriving from entry into force of these provisions has not been assessed. By Regulation (EC) 2018/182, issued by the European Commission on February 7, 2018, the regulatory provisions of the Annual Improvements to IFRSs: 2014-2016 Cycle, issued by the IASB on December 8, 2016 which, amongst other things, made the following amendments: (i) to IFRS 1, eliminating the short-term exceptions envisaged in reference to IFRS 7, IAS 19 and IFRS 10 in reference to investment entities for first time adopters; (ii) to IAS 28, clarifying account options for investment entities, mutual funds, investment funds or similar. These provisions will enter into force from years beginning on or after January 1, 2018. The impact deriving from entry into force of these provisions has not been assessed.

- By Regulation (EC) 2017/1988, issued by the European Commission on November 3, 2017, the regulatory provisions of the document Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4), issued by the IASB on September 12, 2016 in relation to problems for insurance companies, were endorsed. These provisions will enter into force from years beginning on or after January 1, 2018. The impact deriving from entry into force of these provisions has not been assessed.
- By Regulation (EC) 2017/1986, issued by the European Commission on October 31, 2017, the regulatory provisions of IFRS 16 - Leases, issued by the IASB on January 13, 2016, were endorsed. The standard defines a lease as a contract attributing to an entity the right to use an asset for a specified period of time in exchange for payment, and for the leaseholder eliminates the distinction between finance lease and operating lease, introducing a single accounting model for recognizing leases. Applying this model, the entity recognizes: (i) in its own statement of financial position, an asset representing the related user right and a liability representing the obligation to make the payments envisaged in the contract, for all leases with a duration of more than twelve months, the value of which cannot be considered immaterial; (ii) in the income statement, amortization of the asset recognized and, separately, interest on the recognized debt. For the purpose of preparing the lessor's financial statements, the distinction between operating and finance leases remains. The provisions of IFRS 16, which replace those contained in IAS 17 - Leases and related interpretations, will enter into force from years beginning on or after January 1, 2019. The impact of the adoption of this standard 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:

- "Plan Amendment, Curtailment or settlement - Amendment to IAS 19"
- "Annual Improvements to IFRS Standards 2015 - 2017 Cycle",
- "Long-term Interests in Associates and Joint Ventures - Amendment to IAS 28"
- "Prepayment Features with Negative Compensation -Amendment to IFRS 9"

- IFRIC 23 “Uncertainty over Income Tax Treatments”
- IFRS 17 “Insurance Contracts”
- “Transfers of Investment property - Amendments to IAS 40”
- “IFRIC 22 Foreign Currency Transaction and Advance Consideration”,

The impact assessment of the standards mentioned, where applicable, is under review.

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 47% of the debt at December 31, 2017 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 included financial payables contracted at fixed rates, even though they do not generate interest rate risk, for Euros 398,835 thousand in 2017, and Euros 397,140 thousand in 2016, whilst no tax impact was considered.

		2017			
		Income Statement		**Equity**	
(in Euros thousands)	**At December 31, 2017**	**+1% profit / (loss)**	**-1% profit / (loss)**	**+1% profit / (loss)**	**-1% profit / (loss)**
Net financial debt	(539,137)	(5,346)	6	(5,346)	6
Total	**(539,137)**	**(5,346)**	**6**	**(5,346)**	**6**

		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	(666,583)	(3,526)	3,997	(3,526)	3,997
Total	**(666,583)**	**(3,526)**	**3,997**	**(3,526)**	**3,997**

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, 2017 credit facilities agreed but not used for approximately Euros 87 million were in place, attributable to a revolving credit facility for a total of Euros 125 million. The facility will expire in September 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, 2017 and 2016.

	2017				
		Financial Liabilities Disbursements Analysis			
(in Euros thousands)	**At December 31, 2017**	**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	**750,539**	53,635	183	325,030	400,000
Trade payables	**330,481**	264,872	63,436	2,436	-
Other payables	**287,829**	152,848	134,839	142	-
Total	**1,368,849**	**471,355**	**198,458**	**327,608**	**400,000**

	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 tables do 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, 2017 and 2016 are analyzed by macro class of homogeneous risk in the following table:

	At December 31,	
(in Euros thousands)	**2017**	**2016**
Receivables from Public Authorities	29,365	24,720
Receivables from points of sale (outlets) and shops	219,709	212,986
Receivables from Betting Agencies	6,110	9,488
Receivables from Network	19,849	18,338
Other receivables	18,705	21,909
Provision for impairment of receivables	(68,731)	(69,493)
Total	**225,007**	**217,948**

- *Receivables from Public Authorities* mainly include receivables from Customs and Monopolies Authority for games managed according to the regulations of the specific concessions 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 uncollectability 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.

Risk exposure

Exposure to credit risk at December 31, 2017 and 2016, analyzed by reference to the ageing of receivables, is as follows:

		Ageing of Receivables			
(in Euros thousands)	**At December 31, 2017**	**current**	**past due up to 90 days**	**past due 90-180 days**	**past due more than 180 days**
Trade receivables	249,971	163,487	7,141	4,024	75,319
Provision for impairment of receivables	(68,630)	(9,553)	(2,450)	(2,016)	(54,611)
Net book value	**181,341**	**153,934**	**4,691**	**2,008**	**20,708**
Other receivables	43,768	43,497	-	-	271
Provision for impairment of receivables	(102)	(50)	-	-	(52)
Net book value	**43,666**	**43,447**	**-**	**-**	**219**
Total	**225,007**	**197,381**	**4,691**	**2,008**	**20,927**

(in Euros thousands)	At December 31, 2016	Ageing of Receivables current	past due up to 90 days	past due 90-180 days	past due 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	39,137	-	-	260
Provision for impairment of receivables	(99)	(68)	-	-	(31)
Net book value	**39,298**	**39,069**	**-**	**-**	**229**
Total	**217,948**	**180,976**	**8,827**	**3,942**	**24,203**

Overdue trade receivables not covered by provisions represent balances on which the Group believes an insignificant risk of uncollectability 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, 2017 and 2016 are presented in the following table:

	At December 31, 2017					
(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	181,341			181,341		181,341
Other assets (current and non-current)	66,380			66,380	2,016	68,396
Restricted bank deposits	155,478			155,478		155,478
Cash and cash equivalents	211,402			211,402		211,402
Total assets	**614,601**			**614,601**	**2,016**	**616,617**
Debt (current and non-current)	750,539			750,539		750,539
Trade payables and other payables	330,481			330,481		330,481
Other liabilities (current and non-current)	287,829			287,829	4,548	292,377
Total liabilities	**1,368,849**			**1,368,849**	**4,548**	**1,373,397**

	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)	64,503			64,503	1,158	65,661
Restricted bank deposits	297,630			297,630		297,630
Cash and cash equivalents	135,181			135,181		135,181
Total assets	**675,964**			**675,964**	**1,158**	**677,122**
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)	415,785			415,785	7,735	423,520
Total liabilities	**1,498,854**			**1,498,854**	**7,735**	**1,506,589**

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, 2017, the market price of the senior secured notes (level 1 in the *fair value* hierarchy) was a total of approximately Euros 740.3 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 that are measured using the fair value method at December 31, 2017 and 2016.

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

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)

- 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.

- By decision no. 11767/2017, published on November 22, 2017, the Court of Milan accepted there were partial grounds for the claim filed by Giovanni Baglivo, declared partial invalidity of the agreement contained in art. 8 of the Contract between the Concessionaire and the Point of Sale, particularly as regards certain services indicated in Annex 2 to the Contract.

- In the opinion of the Court of Milan, in fact, provision of the aforementioned services should be considered included among those that Sisal is already expected to provide on the basis of commitments undertaken with AAMS when bidding for the tender and subsequent signing of the Agreement.

- The challenged decision instead rejected the claim for partial invalidity of art. 8 of the Contract, in that it would qualify as a situation contrary to imperative regulations and unlawfulness of the proceedings due to violation of art. 3 of Italian Law 287/1990 and art. 102 of the TFEU on abuse of dominant position, alleging that the fact that Sisal holds a dominant position in the gaming and betting market could not be proved.

- Believing that the aforementioned decision is based on erroneous assessments in fact and in law, an appeal was filed with the Milan Court of Appeal.

- Art. 1, paragraph 576 of the 2017 Budget Law - Law no. 232 of December 11, 2016 - 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, as the related invitation to tender was not published by the ADM in 2017, it is expected that it will instead be published in 2018. 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. In the meantime, in March 2018 and in compliance with the terms of the current agreement, the ADM extended the duration of the concession (due to expire 26 June 2018) up to the effective date of the concession awarded under the new selection procedure and in any event not beyond 26 December 2018.

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.
Again in the gaming machine sector, by Directors' Decrees of October 12, 2011 and December 16, 2011, the ADM identified public gaming measures useful to ensure the higher revenues specified by art. 2.3 of Decree Law 138 of August 13, 2011, converted with amendments to Law 148 of September 14, 2011, and introduced an additional fee for the gaming machine sector, amounting to 6% of the winnings exceeding the sum of Euros 500 on the machines referred to in art. 110.6.b of the Consolidated Law Enforcement Act (TULPS) (Video Lottery Terminals or VLTs). In particular, in order to apply said additional fee, concessionaires belonging to the online gaming network were required to ask the ADM, by January 20, 2012, to commence the compliance check necessary to upgrade the gaming systems, and should have delivered all the necessary documentation and hardware and software components.
As it is objectively impossible to implement the terms of the said Directors' Decrees without prior modification of the gaming systems software, all concessionaires have appealed to the Lazio Regional Administrative Tribunal against the said decrees, requesting their suspension. On January 25, 2012 the Lazio Regional Administrative Tribunal confirmed the suspension of said decrees, which had already been granted following an ex parte application.
Said Fiscal Decree Law stated that the taxation was postponed until September 1, 2012.
The Lazio Regional Administrative Tribunal, to which the concessionaires also appealed against the terms of the Fiscal Decree Law, ruled in its Order of July 26, 2012 that the issue of constitutional legitimacy raised by the concessionaires regarding said Fiscal Decree Law was relevant and not manifestly groundless, and ordered the corresponding proceedings to be suspended and the file sent to the Constitutional Court. At the hearing held on June 10, 2014, the Court ruled that the issue of constitutionality of the Law was groundless; consequently, and also on the basis of new instructions issued by the ADM by decree dated June 6, 2014, but taking effect on the 15th day after the date on which the Constitutional Court's judgment was filed, the concessionaires are now able to charge the

additional fee in dispute. By Italian Law Decree no. 50 of April 24, 2017, converted with amendments and additions to Law no. 96 of June 21, 2017, the taxes on part of the winnings exceeding Euros 500.00 have increased from 6% to 12%.

- 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 the Customs and Monopolies Authority 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 bound to what is due from its network operators under the 2015 Stability Law and is paying to the related amounts ADM 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 (either in terms of receivables from operators or of payables to Administration) are not reported in the financial statements.

- By Ministerial Decree no. 25 of July 2017, implementing the provisions of art. 6-bis of Law Decree no. 50 of April 24, 2017, converted to Law no. 96 of June 21, 2017, the Ministry of Economy and Finance envisaged a decrease in the number of authorizations for gaming machines. In particular, it required that the number of authorizations pursuant to art. 110, paragraph 6a) of the TULPS cannot exceed:

a) 345,000 machines at December 31, 2017.

b) 265,000 machines at April 30, 2018.

Art. 2 of the Ministerial Decree also envisages that, in order to implement the above, each concessionaire should arrange the following:

a) in the period between the date of entry into force of this decree and December 31, 2017, the reduction by at least 15% in the number of authorizations held at December 31, 2016.

b) by April 30, 2018, a further reduction in the number of authorizations until a total decrease of 34.9% is reached from the number of authorizations held at December 31, 2016.

In the event of a redundancy, the ADM will proceed to revoke the excess NOE, referable to each concession holder, according to proportionality criteria in relation to the regional territorial distribution, on the basis of the profitability of the machines registered in each Region in the previous 12 months; in case of violation of the obligation to dispose of the machines referred to the NOE subject to revocation, the administrative fine of Euro 10,000 will be applied for each machine.

Sisal Entertainment S.p.A. has taken action to reduce its authorizations in implementation of the provisions of the aforementioned Ministerial Decree.

Horse-racing and sports betting concession

In reference to betting concessions that ended on June 30, 2016, but later extended by the ADM by notices with protocol numbers 54917 of June 9, 2016 and 58554 of June 20, 2016, through Italian Law no. 205 of December 27, 2017, in order to comply with the principles according to which public concessions are awarded on the basis of competitive selection procedures with the need to achieve a correct distribution structure, in relation to betting concessions for sports events, including horse racing, and non-sporting events, including simulated events, also following the understanding reached at the unified Conference, the Customs and Monopolies Authority was appointed to award the related concessions, by a tender to be launched by September 30, 2018, under the conditions already envisaged in art. 1, paragraph 932 of Italian Law no. 208 of December 28, 2015. To this end, the existing concessions were extended to December 31, 2018, against payment of the annual fee of Euros 6,000.00 relating to the points of sale whose core business is the marketing of public gaming products and Euros 3,500.00 covering all fees for points of sale whose accessory business is the marketing of public gaming products. In implementation of the aforementioned legal provision, Sisal Entertainment S.p.A. arranged the renewal of 467 points of sale whose core business is the marketing of public gaming products and 1,475 points of sale whose accessory business is the marketing of public gaming products.

Again 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 the ADM.

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 income statement.

Again in reference to the horse-race betting concessions, by writ of summons dated August 3, 2017, Sisal Entertainment S.p.A. began dispute proceedings against the ADM claiming compensation for damages resulting from breach by the awarding authority of obligations arising from concession agreement relations, particularly regarding the failure to implement and in any event late implementation of all types of bets, the failure to issue and/or late issue of regulatory provisions for the acceptance of online bets by the concessionaire, failure to protect the betting market from illegal and online activities and in any even the failure of the awarding authority to consolidate and maintain the market conditions promised in the concession agreement. The initial hearing is still pending in these proceedings.

National agreement on instant-win scratch cards

In December 2017 the ADM extended the scratch cards concession to September 30, 2028, solely in favor of the current concessionaire.

Sisal S.p.A. considers that the aforementioned extension was granted in violation of European standards and domestic laws on awarding concessions: these standards, in fact, require that concession awards must be made via public tender. Furthermore, granting the extension solely in favor of the current concessionaire is another violation of the legal provision which, for this type of concession, requires a multi-concession award.

In view of the above, opposing the aforementioned extension, Sisal S.p.A. filed a specific appeal with the Lazio Regional Administrative Court, for which the merits hearing is pending. In addition to Sisal, Stanley also filed a similar appeal.

Other disputes 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.

With reference to litigation, on the other hand, extensively covered in the financial statement disclosures of previous years, deriving from the access to the premises of Sisal S.p.A. in May 2010 by the Milan Tax Police Unit, Complex Audits Division 2, and the subsequent audit by the Tax Revenues Agency - Lombardy Regional Department, Large Taxpayers Office that began in September 2015 and mainly involving the claim of alleged non-deductibility of finance expenses deriving from leveraged buy-out transactions which affected the Group in the period 2005-2006, after various formal attempts to settle/define the aforementioned findings (issued for a total value of approximately Euro 45 million in taxes and penalties, plus interest) and following the opening of related disputes by filing appeals before the competent Tax Commissions, in July 2017 the representatives of Sisal S.p.A. signed a settlement agreement with the Tax Revenues Agency for the year 2006 totaling approximately Euro 1.9 million (as taxes, penalties and interest), payable in 16 quarterly instalments. Likewise, the Office issued its cancellation of all notices of findings in the dispute on which settlement had been reached, also for the periods 2007-2011. The nature and merits of the settlement agreement reached in effect mean that years after 2011 up to the end of 2016 cannot be addressed (until now 2011 is the last subject of a formal audit), when the acquisition of indirect control of the company by Schumann S.p.A. controlled by funds managed by CvC Capital Partners and the associated financial restructuring of the respective group redesigned the previous financial structure by means of a transaction with characteristics absolutely consistent with rules formalized by the Tax Revenues Agency in a historic circular of March 2016.

With reference to the claim, raised by the aforementioned Tax Revenues Agency audit, of non-deductibility of VAT, which triggered notices of findings for the three-year period 2010-2012 for a total of approximately Euros 8.2 million in taxes and penalties, after unsuccessfully attempting to reach a settlement agreement, Sisal S.p.A. filed related appeals and the initial hearing, planned for April 2018 in relation to the years 2010-2011 is still pending. In the meantime, contact with the Tax Revenues Agency continues to assess possible closure solutions, with terms strongly downsized compared to the amount claimed, also in this dispute.

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 Tax Revenues Agency - Large Taxpayers' Office, extensively illustrated in the financial statements for the preceding years, which related 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 situation was finally defined by the company during the year through the "scrapping" of all findings for the years up to and including 2011. The total cost of this transaction was approximately Euros 3.6 million, equivalent to the value of taxes allegedly avoided, plus interest up to issue of the notice, and a number of payments already made provisionally by way of penalties, default interest and collection costs during the course of the proceedings (equal to around Euros 0.6 million) that cannot be repeated by law.
Against this expense, the Group was able to obtain the partial release for around Euros 2.3 million of amounts held in escrow, also based on the outcome of the aforementioned disputes, relating to part of the price established for acquisition of the Group by Schumann S.p.A.
The above settlement, aimed solely at allowing the conclusion of a lengthy tax dispute that had developed in previous years with conflicting outcomes in the various levels of courts, but without arriving at a final decision for any of the years audited, was in any event considered convenient, also in the light of the option (confirmed in discussions with the Office of the Tax Revenues Agency) to arrange recovery of the taxes paid at the time of scrapping through supplementary tax returns and/or claims for reimbursement for the previous years, in consideration of the fact that the higher taxes claimed were the result of a downward calculation of the amortization rates which, consequently, must result in a reduction in the taxable amount for the years in which the lower amortization calculated on the scrapping basis is recovered.
Again in relation to the above cumulative dispute, during the year it was also claimed that 2012 could not be "scrapped", and therefore in January 2018 arrangements were made to finalize a settlement agreement for a total of around Euros 970 thousand, of which Euros 307 thousand as penalties and

interest. Also in reference to this settlement, already recognized in the 2017 financial statements figures, it is equally reflected in the recovery of taxes following the above “reversal” effect of the amortization involved in the dispute.
The effect of these recalculations was determined on an accrual basis at December 31, 2017 as approximately Euros 2.8 million, recognized in full during the year under the related item Income taxes for the year.

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 Injunction Order served following the audit was appealed against before the competent Court with the aim of clarifying the fairness of the company’s actions. The related proceedings before the Court of Milan are currently pending and 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, particularly in reference to the penalties.

6. Business combinations

2017

There were no business combinations during the 2017 financial year.

In December 2017, Sisal Point S.p.A. signed an agreement, with a payment on account made for Euros 100 thousand, to purchase the business unit of Gionet S.r.l., based in Turin, which produces and markets treasury management software. With effectiveness from January 1, 2018, this acquisition will allow the business expansion of Sisal Point S.p.A. and its direct and indirect controlling entities, Sisal S.p.A. and Sisal Group S.p.A., in that it offers integration into the new SisalPay terminals of cash register functions, in line with the expansion strategy for the range of services provided by the Group.

2016

As reported in Note 2.2 "*Final purchase price allocation of the assets acquired and liabilities undertaken relating to acquisition of the Sisal Group*", to which reference should be made for further details, in 2016 Schumann S.p.A. acquired 100% of the share capital of Sisal Group S.p.A., the holding company for the group of the same name.

Year on year, in 2016 the acquired group achieved revenues and income for a total of Euros 780.8 million and a net loss of Euros 8.3 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 flows from the 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

The management monitors and manages its business by identifying four operating segments.

The operating segments are monitored on the basis of: *i)* revenues and income, *ii)* revenues and income net of revenues paid back to the revenue chain and *iii)* EBITDA. The latter is defined as the profit for the year, adjusted for the following items: *i)* depreciation, amortization, impairment losses and reversals of property, plant and equipment and intangible assets; *ii)* financial income and similar; *iii)* finance expenses and similar; *iv)* share of profit/(loss) of companies accounted for using the equity method; and *v)* taxes.

Operating segment EBITDA does not include financing activities results (finance income and expense) since they are not under the direct control of each segment. Likewise, impairment losses, amortization, depreciation or other significant non-cash items other than provisions, amortization and depreciation, portions of profit or loss of associates, income taxes and taxes receivable are not included as these have to be indicated separately in accordance with IFRS 8.

For information purposes only and without this different criterion affecting the valuation of the financial statements item, the portion of revenues recognized back to the distribution network in the Retail Gaming and Payments and Services segments are illustrated in the report on operations, with netting of the related costs. Likewise, certain revenue-adjusting cost categories reported in the consolidated financial statements exist that in the report on operations are instead included under operating costs.

From a financial position perspective, segment activities and results are not currently reviewed by Group management.

The four operating segments are described as follows:

- ***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 portals and 14 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 the 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***, responsible for managing the following activities: (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 8,010 Service Only points of sale as at December 31, 2017 - through the web portal sisalpay.it.

The following tables illustrate: i) Revenues and income; ii) Revenues and income net of revenues paid back to the revenue chain; and iii) EBITDA of the operating segments identified according to the change in the management and monitoring of the Group's business for the years ended December 31, 2017 and 2016 (considering the result of the group acquired as pro forma over the entire previous year):

	Year ended December 31,			
	2017		**2016**	
(in Euros thousands)	**Revenues and income**	**EBITDA**	**Revenues and income**	**EBITDA**
Retail Gaming				
Revenues	282,695		267,314	
Supply chain/other revenues	196,133		177,874	
Total	**478,828**	**74,834**	**445,188**	**61,945**
Lottery				
Revenues	95,536		95,746	
Supply chain/other revenues	436		50	
Total	**95,972**	**42,292**	**95,796**	**39,522**
Online Gaming				
Revenues	88,970		69,537	
Supply chain/other revenues	(16,539)		(11,446)	
Total	**72,431**	**31,164**	**58,091**	**23,425**
Payments and Services				
Revenues	109,799		103,294	
Supply chain/other revenues	73,283		76,790	
Total	**183,082**	**68,750**	**180,084**	**65,366**
Other revenues	**1,669**		**1,686**	
Total Revenues/adj. EBITDA of the operating segments	**831,983**	**217,040**	**780,844**	**190,258**

Total Revenues by segment are entirely related to income from third parties since there are no intersegment revenues.

Other revenues include the result of business and activities which do not represent an operating segment under IFRS 8 and are mainly related to contingent assets, capital gains on fixed asset disposals and other residual items.

The reconciliation between the EBITDA of the operating segments and EBIT, or Operating profit (loss), is presented in the following table:

(in Euros thousands)	**2017**	**2016**
Total operating segments	**217,040**	**190,258**
Net non-recurring expenses	(1,850)	(8,562)
Items with different classification	(1,914)	(2,931)
Amortization of intangible assets	(65,624)	(49,640)
Depreciation of property, plant and equipment	(33,672)	(37,593)
Other impairment losses on fixed assets	(157)	(107)
Impairment losses on current receivables	(13,395)	(14,584)
Operating profit (loss), EBIT	**100,428**	**76,841**

Items with different classification are related to income and charges, different from depreciation, amortization and impairment losses, included in EBIT in the separate financial statements, but not included in the operating profit definition by operating segment.

Given the type of services and products sold by the Group there are no significant concentrations of revenues with individual customers.

The Group currently operates almost exclusively in Italy; therefore, no information is reported by geographical area.

8. Revenues

This item is composed as follows:

	Year ended December 31,	
(in Euros thousands)	**2017**	**2016**
Gaming and betting revenues	491,781	46,568
Payments and other services revenues	143,525	13,046
Points of sale revenues	84,062	7,245
Other revenues from third parties	5,254	761
Total	**724,622**	**67,620**

Gaming and betting revenues are analyzed as follows:

	Year ended December 31,	
(in Euros thousands)	**2017**	**2016**
NTNG revenues	58,454	5,383
Gaming machines revenues	358,731	34,764
Horse race betting revenues	7,131	777
Big bets revenues	14	2
Virtual races revenues	27,093	2,444
Sports pools revenues	385	39
Online game revenues	39,973	3,159
Total	**491,781**	**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”.

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)	**2017**	**2016**
Fixed-odds sports betting income	100,894	5,011
Fixed-odds horse race betting income	1,751	143
Reference horse race betting income	328	13
Total	**102,973**	**5,167**

10. Other income

This item is composed as follows:

	Year ended December 31,	
(in Euros thousands)	**2017**	**2016**
Income arising from changes in estimates	3,976	-
Other sundry income	412	80
Total	**4,388**	**80**

11. Purchases of materials, consumables and merchandise

This item is composed as follows:

	Year ended December 31,	
(in Euros thousands)	**2017**	**2016**
Gaming materials purchases	5,828	709
Spare parts purchases	4,592	666
Sundry materials purchases	3,309	357
Warehousing	152	20
Change in inventories	537	(80)
Total	**14,418**	**1,672**

12. Costs for services

This item is composed as follows:

	Year ended December 31,	
(in Euros thousands)	**2017**	**2016**
Marketing and commercial expenses	26,013	2,549
Other commercial initiatives	5,557	474
Other commercial services	1,799	277
Commercial services	**33,369**	**3,300**
Sales channel - Gaming	248,650	23,676
Sales channel – Payment services	73,313	6,933
Consulting	12,646	7,484
Other	87,756	13,895
Other services	**422,365**	**51,988**
Total	**455,734**	**55,288**

The fees paid to the audit firm for audit of the annual financial statements of the Parent (included in these consolidated financial statements and some non-recurring activities) amount to (net of VAT) approximately Euros 559 thousand (Euros 111 thousand in 2016). In addition, fees paid to the audit firm for auditing procedures of a recurring nature carried out principally in connection with the various obligations required for the NTNG concession amount to Euros 72 thousand.

The compensation due to the statutory auditors of the Parent for carrying out their functions, also in other consolidated companies, amounts to a total of Euros 249 thousand.

13. Lease and rent expenses

This item is composed as follows:

	Year ended December 31,	
(in Euros thousands)	**2017**	**2016**
Building leases	18,269	1,574
Other rentals and operating leases	4,004	317
Total	**22,273**	**1,891**

14. Personnel costs

This item is composed as follows:

	Year ended December 31,	
(in Euros thousands)	**2017**	**2016**
Salaries and wages	62,136	5,243
Social security contributions	19,807	1,362
Employee severance indemnities	4,806	369
Other personnel costs	1,205	651
Total	**87,954**	**7,625**

The following table presents the average number of employees by category for the years under review:

	Year ended December 31,	
Number of employees	**2017**	**2016**
Executives	42	44
Management staff	136	127
White-collar	1,553	1,549
Blue-collar	65	64
Total	**1,796**	**1,784**

15. Other operating costs

This item is composed as follows:

	Year ended December 31,	
(in Euros thousands)	**2017**	**2016**
Other taxes and duties	2,767	1,105
Gifts and donations	945	561
Gaming concession fees	20,488	1,852
Sundry operating costs	12,164	1,055
Total	**36,364**	**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, 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)	**2017**	**2016**
Amortization of intangible assets	65,624	5,492
Depreciation of property, plant and equipment	33,672	2,967
Other impairment losses on fixed assets	157	107
Impairment losses on current receivables	13,395	797
Allocations to provisions for risks and charges	1,964	(339)
Total	**114,812**	**9,024**

Amortization of intangible assets includes Euros 15,410 thousand as the higher amortization deriving from the purchase price allocation procedure mentioned previously.

17. Finance income and similar

This item is composed as follows:

	Year ended December 31,	
(in Euros thousands)	**2017**	**2016**
Finance income bank accounts	11	5
Finance income guarantee deposits	81	7
Other finance income	106	1
Total	**198**	**13**

18. Finance expenses and similar

This item is composed as follows:

	Year ended December 31,	
(in Euros thousands)	**2017**	**2016**
Interest and other finance expenses - related parties	-	749
Interest and other finance expenses - third parties	57,212	29,953
Exchange (gains) losses realized	(26)	1
Exchange (gains) losses unrealized	(1)	(4)
Total	**57,185**	**30,699**

Interest and other finance expenses – third parties refer mainly to interest and the fee and commission component of new credit facilities deriving from the Group's financial restructuring carried out in December 2016.

18a. Share of profit/(loss) of companies accounted for using the equity method

At December 31, 2017 the Parent has an indirect interest in the associate Sistema S.r.l. through the subsidiary Sisal Entertainment S.p.A. which, given the results and difficulties encountered in recent years, has recorded an impairment loss for the residual value of the investment in the company in question.

19. Income taxes

Income taxes comprise the following:

	Year ended December 31,	
(in Euros thousands)	**2017**	**2016**
Current income taxes	25,093	(550)
Current income tax relating to prior years	(1,343)	32
Deferred tax assets and liabilities	(7,015)	(723)
Deferred tax assets related to prior years	(669)	17
Total	**16,066**	**(1,224)**

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

	Year ended December 31,	
(in Euros thousands)	**2017**	**2016**
Profit (loss) before income taxes	43,392	(36,717)
Nominal tax rate	24%	27.5%
Theoretical tax using the nominal tax rate	10,414	(10,097)
Non-deductible interest expense		8,443
40% super-amortization of property, plant and equipment	(885)	
Prepaid taxes not recorded on tax losses	3,389	
Other changes	872	344
IRES tax	**13,790**	**(1,310)**
IRAP tax	**4,288**	**86**
Current and deferred income tax related to prior year	(2,012)	
Total effective tax expense (benefit)	**16,066**	**(1,224)**

20. Earnings per share

The calculation of earnings per share is presented in the table below, comparing the Sisal Group at December 31, 2017, with the Schumann Group at December 31, 2016:

	Year ended December 31,	
(in Euros thousands)	**2017**	**2016**
Number of shares outstanding (in thousands)	102,500	9,920
Loss attributable to owners of the parent	27,249	(36,787)
Basic gain (loss) per share (in Euro)	0.27	(3.71)
Diluted gain (loss) per share (in Euro)	0.27	(3.71)

The shares which form share capital are ordinary shares and there are no obligations for the payment of preferred dividends or other privileges to which the Group's result must be allocated. There are no instruments with a potential dilutive effect on the loss per share of the Group.

21. Property, plant and equipment

The composition and changes in this item are as follows:

(in Euros thousands)	January 1, 2017	Investments	Depreciation, amortization and impairment losses	Disinvestments	Reclassifications	December 31, 2017
Land and buildings:						
Original cost	49,312	857	-	(17)	-	50,152
Accumulated depreciation	(24,635)	-	(3,404)	9	-	(28,030)
Impairment losses	-	-	-	-	-	-
Net book value	**24,677**	**857**	**(3,404)**	**(8)**	**-**	**22,122**
Plant and equipment:						
Original cost	33,075	2,707	-	(164)	-	35,618
Accumulated depreciation	(25,550)	-	(2,534)	149	-	(27,935)
Impairment losses	(1)	-	-	-	-	(1)
Net book value	**7,524**	**2,707**	**(2,534)**	**(15)**	**-**	**7,683**
Industrial equipment:						
Original cost	386,999	34,384	-	(61,666)	-	359,717
Accumulated depreciation	(335,828)	-	(25,367)	60,761	-	(300,434)
Impairment losses	(2,202)	-	(157)	615	-	(1,744)
Net book value	**48,969**	**34,384**	**(25,524)**	**(290)**	**-**	**57,539**
Other assets:						
Original cost	36,835	1,720	-	(4,974)	-	33,581
Accumulated depreciation	(26,723)	-	(2,366)	4,893	-	(24,196)
Impairment losses	(186)	-	-	34	-	(152)
Net book value	**9,926**	**1,720**	**(2,366)**	**(47)**	**-**	**9,233**
Property, plant and equipment under construction:						
Original cost	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Net book value	**-**	**-**	**-**	**-**	**-**	**-**
Total:						
Original cost	506,221	39,668	-	(66,820)	-	479,069
Accumulated depreciation	(412,735)	-	(33,672)	65,813	-	(380,594)
Impairment losses	(2,389)	-	(157)	649	-	(1,898)
Net book value	**91,097**	**39,668**	**(33,829)**	**(359)**	**-**	**96,577**

(in Euros thousands)	Beginning of 2016 December 1, 2016	Change in scope	Investments	Depreciation, amortization and impairment losses	Disinvestments	Reclassifications	December 31, 2016
Land and buildings:							
Original cost	-	49,124	229	-	(41)	-	49,312
Accumulated depreciation	-	(24,348)	-	(315)	28	-	(24,635)
Impairment losses	-	-	-	-	-	-	-
Net book value	**-**	**24,776**	**229**	**(315)**	**(12)**	**-**	**24,677**
Plant and equipment:							
Original cost	-	32,574	572	-	(72)	-	33,075
Accumulated depreciation	-	(25,353)	-	(250)	53	-	(25,550)
Impairment losses	-	(1)	-	-	-	-	(1)
Net book value	**-**	**7,221**	**572**	**(250)**	**(19)**	**-**	**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)
Impairment losses	-	(2,096)	-	(107)	1	-	(2,202)
Net book value	**-**	**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)
Impairment losses	-	(186)	-	-	-	-	(186)
Net book value	**-**	**9,648**	**526**	**(224)**	**(24)**	**-**	**9,926**
Property, plant and equipment under construction:							
Original cost	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-
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)
Impairment losses	-	(2,283)	-	(107)	1	-	(2,389)
Net book value	**-**	**88,582**	**5,901**	**(3,074)**	**(310)**	**(2)**	**91,097**

"Industrial and commercial equipment" includes assets under finance leases whose net value was Euros 1,762 thousand (Euros 2,933 thousand at December 31, 2016).

2017

Investments made in 2017 totaled approximately Euros 39.7 million and regard mainly:

- investments in gaming and services equipment for approximately Euros 16.6 million;
- investments in hardware for the management of business operations for approximately Euros 6.6 million;
- investments in plant, furniture and restructuring work of offices and points of sale of around Euros 5.2 million;
- investments in gaming machines for Euros 10.3 million.

The decreases recorded during the year are essentially attributable to the recognition of scrap sales and differences in inventories of fully depreciated assets.

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;
- investments in 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 at December 31, 2017 and 2016 is reported in the following table:

(in Euros thousands)	**Net book value at December 31, 2017**	**Leasing installments 2017**	**Residual Debt at December 31, 2017**	**Residual leasing installments at December 31, 2017**
Big Touch G.T. (industrial equipment)	72	-	-	-
POS G.T. (industrial equipment)	899	254	-	-
HW (industrial equipment)	134	104	128	134
POS G.T. (industrial equipment)	635	184	-	-
Slot machines Series 6A (industrial equipment)	22	-	-	-
Total	**1,762**	**542**	**128**	**134**

(in Euros thousands)	**Net book value at December 31, 2016**	**Leasing installments 2016**	**Residual Debt at December 31, 2016**	**Residual leasing installments at December 31, 2016**
Big Touch G.T. (industrial equipment)	217	183	-	-
POS G.T. (industrial equipment)	1,499	672	252	254
HW (industrial equipment)	224	104	219	238
POS G.T. (industrial equipment)	936	338	182	184
Slot machines Series 6A (industrial equipment)	57	22	-	-
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.

22. Goodwill

At December 31, 2017, goodwill amounted to Euros 569,275 thousand, calculated following 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 Group is currently organized into four operating segments: Retail Gaming, Lottery, Online Gaming and Payments and Services.

The operating segments are composed of the following cash-generating units (CGUs).

In particular:

- in the “Retail Gaming” operating segment, the following CGUs were identified:

  “**Retail**”, which include all the cash flows from activities of providing and managing gaming machines (New Slots and VLTs) through the Sisal Match Point agencies and Sisal WinCity network of points of sale, as well as the flows deriving from gaming halls and betting through the “Bersani” concessions;

  “**Network**”, which comprises the flows from activities of providing and managing the New Slot machines owned by the Group and the VLTs placed at businesses owned by third parties;

  “**Providing**” which includes all the flows from interconnected gaming machines only;

- the “Lottery” operating segment coincides with the CGU of the same name which primarily refers to cash flows from National Tote Number Games (NTNGs, including SuperEnalotto);

- the “Online Gaming” operating segment coincides with the CGU of the same name which comprises all the games distributed online;

- the “Payments and Services” operating segment coincides with the CGU of the same name which includes activities channeled through the Sisal network of services rendered to the public such as mobile phone top-ups and payments of bills, etc.

As mentioned previously, 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, was completed during the year.

Goodwill at December 31, 2017 is allocated to the different operating segments as follows:

	At December 31,
(in Euros thousands)	**2017**
Retail Gaming	120,256
o/w: Retail	*74,281*
Network	*39,963*
Providing	*6,012*
Lottery	50,138
Online Gaming	90,502
Payments and Services	308,379
Total	**569,275**

The value of Goodwill, in line with the requirements of the relevant accounting standards, was subjected to an impairment test. The cash flows were measured to determine the recoverable value, equal to the value in use of the CGUs identified by applying the discounted cash flows method.
For the purpose of impairment testing, the Group uses five-year cash flow projections approved by management on the basis of growth rates differentiated according to the historical trends of the various products and related 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 Company management according to reasonable projections of estimated sector growth in the long term and is equal to 0% in line with last year financial statements.

The rate used to discount cash flows to present value is equal to a WACC of 7.7% (8,3% at December 31, 2016), derived from the weighted average cost of capital of 10.5% (inclusive of a Market Risk Premium of 7.3%) and the after-tax cost of debt of 5.1%. These assumptions were applied indiscriminately to each CGU.

The excess of the recoverable amount of the operating segments at December 31, 2017, compared with the relative carrying amount, is as follows:

	At December 31,
(in Euros thousands)	**2017**
Retail Gaming	125,870
o/w: Retail	*34,355*
Network	*75,371*
Providing	*16,144*
Lottery	94,995
Online Gaming	232,399
Payments and Services	235,622
Total	**688,886**

The values of Terminal Growth rate and WACC, considered individually and without changes in other assumptions, required to render the recoverable amount of the operating segments equal to their carrying amount are indicated in the following table:

	WACC	Growth rate
Base value		
Retail Gaming	10.30%	(3.80%)
o/w: Retail	*8.64%*	*(1.16%)*
Network	*11.73%*	*(5.30%)*
Providing	*15.56%*	*(23.20%)*
Lottery	11.00%	(4.53%)
Online Gaming	18.10%	(37.21%)
Payments and Services	11.90%	(7.70%)

23. Intangible assets

The composition and changes in this item are as follows:

(in Euros thousands)	January 1, 2017	Investments	Depreciation, amortization and impairment losses	Disinvestments	Reclassifications	December 31, 2017
Industrial patent and intellectual property user rights:						
Original cost	88,748	17,297	-	(11,756)	-	94,289
Accumulated amortization	(76,042)	-	(12,607)	11,673	-	(76,977)
Impairment losses	(6)	-	-	-	-	(6)
Net book value	**12,700**	**17,297**	**(12,607)**	**(84)**	**-**	**17,306**
Concessions, licenses, trademarks and similar rights:						
Original cost	881,434	2,926	-	(5,014)	-	879,346
Accumulated amortization	(464,422)	-	(39,664)	5,014	-	(499,072)
Impairment losses	(47,667)	-	-	-	-	(47,667)
Net book value	**369,345**	**2,926**	**(39,664)**	**0**	**-**	**332,607**
Other intangible assets:						
Original cost	224,974	66	-	-	-	225,039
Accumulated amortization	(40,571)	-	(13,353)	-	-	(53,924)
Impairment losses	-	-	-	-	-	-
Net book value	**184,403**	**66**	**(13,353)**	**-**	**-**	**171,115**
Assets under development and advances:						
Original cost	331	206	-	(15)	-	522
Accumulated amortization	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Net book value	**331**	**206**	**-**	**(15)**	**-**	**522**
Total:						
Original cost	1,195,487	20,495	-	(16,786)	-	1,199,196
Accumulated amortization	(581,035)	-	(65,624)	16,686	-	(629,973)
Impairment losses	(47,673)	-	-	-	-	(47,673)
Net book value	**566,779**	**20,495**	**(65,624)**	**(99)**	**-**	**521,550**

(in Euros thousands)	Beginning of 2016 December 1, 2016	Change in scope	Investments	Depreciation, amortization and impairment losses	Disinvestments	Purchase Price Allocation	December 31, 2016
Industrial patent and intellectual property user rights:							
Original cost	-	84,912	3,985	-	(149)	-	88,748
Accumulated amortization	-	(75,028)	-	(1,160)	147	-	(76,042)
Impairment losses	-	(6)	-	-	-	-	(6)
Net book value	-	**9,878**	**3,985**	**(1,160)**	**(2)**	-	**12,700**
Concessions, licenses, trademarks and similar rights:							
Original cost	-	601,360	6,940	-	(3)	273,137	881,434
Accumulated amortization	-	(461,198)	-	(2,722)	2	(504)	(464,422)
Impairment losses	-	(47,667)	-	-	-	-	(47,667)
Net book value	-	**92,495**	**6,940**	**(2,722)**	**- 0**	**272,633**	**369,345**
Other intangible assets:							
Original cost	-	42,904	288	-	-	181,782	224,974
Accumulated amortization	-	(39,466)	-	(312)	-	(793)	(40,571)
Impairment losses	-	-	-	-	-	-	-
Net book value	-	**3,438**	**288**	**(312)**	-	**180,989**	**184,403**
Assets under development and advances:							
Original cost	-	307	24	-	-	-	331
Accumulated amortization	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-
Net book value	**-**	**307**	**24**	**-**	**-**	-	**331**
Total:							
Original cost	-	729,484	11,236	-	(151)	454,919	1,195,487
Accumulated amortization	-	(575,692)	-	(4,195)	149	(1,297)	(581,035)
Impairment losses	-	(47,673)	-	-	-	-	(47,673)
Net book value	-	**106,118**	**11,236**	**(4,195)**	**(2)**	**453,622**	**566,779**

2017:

In 2017, investments in intangible assets amount to approximately Euros 20.5 million, composed mainly as follows:

- Purchase and development of software for the management of business operations for approximately Euros 13.1 million;
- Purchase of software user licenses for approximately Euros 2 million;
- new VLT concessions for approximately Euros 1 million;
- internal capitalization of new software applications for around Euros 4.2 million.

2016:

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.

24. Deferred tax assets and liabilities

This item can be broken down as follows:

	At December 31,	
(in Euros thousands)	**2017**	**2016**
Deferred tax assets	**13,596**	**20,529**
Deferred tax liabilities	**(132,915)**	**(138,031)**
Net amount	**(119,319)**	**(117,502)**

Net changes in this item are as follows:

	Deferred tax assets and liabilities
(in Euros thousands)	
At 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	(119,533)
At December 31, 2016	**(117,502)**
Charge/release to income statement	7,684
Charge/release to statement of comprehensive income	35
Use of losses for tax consolidation	(9,536)
At December 31, 2017	**(119,319)**

Deferred tax assets are summarized in the following table:

	At December 31,			
(in Euros thousands)	**2017**		**2016**	
	Temporary differences (Amount)	Tax effect	Temporary differences (Amount)	Tax effect
Allocation to provision for impairment of receivables	49,378	11,851	46,546	11,171
Allocation to provision for risks and charges	13,843	3,776	11,751	3,213
Severance indemnity discounted and deducted out of books	1,917	460	1,017	244
Other temporary differences	16,528	4,220	19,961	5,210
Losses from tax consolidation	-	-	37,936	9,105
Total deferred tax assets	**81,666**	**20,307**	**117,210**	**28,943**
Amount offset against deferred tax liabilities	(26,217)	(6,711)	(30,246)	(8,413)
Total deferred tax assets	**55,449**	**13,596**	**86,964**	**20,529**
Tax losses for which deferred tax assets have not been recorded	38,674	9,282	24,374	5,850

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

Tax losses excluded from deferred tax asset computation refer mainly to the tax losses recorded by the former Parent, Schumann S.p.A. In particular, note that in 2016 Schumann S.p.A. recorded tax losses for a total of approximately Euros 22.4 million. Added to the losses relating to the 2016 tax year is the negative result generated in the period between the start of the 2017 tax year (January 1, 2017) and the day before the effective date of the merger (November 23, 2017). This negative result is estimated at approximately Euros 14.3 million.

Consequently, the total tax losses recorded by Schumann S.p.A. in the period between the date of incorporation and the effective date of the merger was approximately Euros 36.7 million.

Following the merger between Schumann S.p.A. and the Parent, the latter applied for a ruling from the relevant Central Division of the Tax Revenues Agency to obtain recognition of all the losses. Pending the response, the Company made the prudential decision to not recognize deferred tax assets.

Deferred tax liabilities are summarized in the following table:

	At December 31,			
(in Euros thousands)	**2017**		**2016**	
	Temporary differences (Amount)	Tax effect	Temporary differences (Amount)	Tax effect
Amortization/depreciation deducted out of books	33,650	9,489	34,416	9,710
Business combinations	461,250	130,073	476,226	134,296
Other temporary differences	265	64	8,969	2,439
Total deferred tax liabilities	**495,165**	**139,626**	**519,611**	**146,444**
Reversal of quota of non-current deferred taxes	(26,217)	(6,711)	(30,246)	(8,413)
Total deferred tax liabilities	**468,948**	**132,915**	**489,365**	**138,031**

25. Other non-current assets

Other non-current assets amount to Euros 22,713 thousand at December 31, 2017 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.

The item also includes Euros 2,280 thousand related to the valorization of certain guarantees provided by previous shareholders in the acquisition process.

26. Inventories

This item is composed as follows:

	At December 31,	
(in Euros thousands)	**2017**	**2016**
Play slips	315	217
Rolls of paper for gaming terminals	681	581
VLT tickets	9	32
Spare parts (repairs)	3,116	3,887
Spare parts (consumables)	1,343	1,676
Food & Beverage	42	-
Materials, auxiliaries and consumables	**5,506**	**6,393**
Top-up and scratch cards	315	220
Virtual top-ups	4,197	2,545
Mini-toys	5	8
Finished gaming machines inventory	1	6
Finished gaming machines and merchandise	**4,518**	**2,779**
Total	**10,024**	**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**
Net provisions	(749)
Usage	732
December 31, 2017	**3,580**

27. Trade receivables

This item is composed as follows:

	At December 31,	
(in Euros thousands)	**2017**	**2016**
Receivables from points of sale	148,529	137,387
Trade receivables from gaming machines network	18,150	14,813
Trade receivables from betting agencies	6,110	9,488
Trade receivables from third parties	3,830	3,704
Other trade receivables from third parties	473	3,529
Doubtful receivables	72,879	79,123
Provision for impairment of trade receivables	(68,630)	(69,394)
Total	**181,341**	**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 gaming machines 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 01, 2016	**-**	**-**	**-**
Net provisions	(797)	-	(797)
Usage	760	172	932
Change in scope of consolidation	(69,357)	(172)	(69,529)
December 31, 2016	**(69,394)**	**-**	**(69,394)**
Net provisions	(13,324)	-	(13,324)
Usage	14,088	-	14,088
December 31, 2017	**(68,630)**	**-**	**(68,630)**

The increases recorded in 2017 and 2016 reflect the trend in debtor insolvency (particularly with reference to the outlet points of sale). The decrease in the periods under review refers mainly to the write-off of doubtful positions no longer considered recoverable.

28. Current financial assets

There is no balance for this item in either 2017 or 2016.

29. Taxes receivable

This item is composed as follows:

	At December 31,	
(in Euros thousands)	**2017**	**2016**
Receivables for IRES tax from tax authorities	113	310
Receivables for IRAP tax from tax authorities	155	220
Other receivables from tax authorities	-	16
Total	**268**	**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 mainly of the tax consolidation for IRES and of Sisal Entertainment S.p.A. for IRAP.

30. 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.

31. Cash and cash equivalents

This item is composed as follows:

	At December 31,	
(in Euros thousands)	**2017**	**2016**
Bank and postal accounts	203,768	129,225
Cash and cash equivalents in hand	7,634	5,956
Total	**211,402**	**135,181**

The significant increase in cash and cash equivalents is a direct consequence of the excellent performance (also in financial terms) of operations which allowed the Group to more than cover its financial needs associated with investments, technological upgrades and debt servicing.

32. Other current assets

	At December 31,	
(in Euros thousands)	**2017**	**2016**
Receivables from the Public Administration	29,365	24,720
Other receivables from tax authorities	2,016	1,159
Prepaid expenses	2,717	2,885
Other receivables from third parties	11,238	11,356
Other receivables from employees	449	435
Provision for impairment of other receivables	(102)	(99)
Total	**45,683**	**40,456**

Other receivables from third parties, equal to Euros 11,238 thousand (Euros 11,356 thousand at December 31, 2016) are mainly related to the short term component, equal to Euros 1,227 thousand, of the policy activated by Sisal S.p.A. as guarantee of the payment timing of the NTNG penalty charged to the company in 2012 and to the insurance policy, equal to Euros 7,518 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 20,744 thousand (Euros 20,085 thousand at December 31, 2016).

Other receivables from tax authorities mainly refer to receivables for VAT totaling Euros 1,620 thousand (Euros 732 thousand at December 31, 2016).

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.

33. Equity

Share capital

The share capital of the Company at December 31, 2017, fully subscribed and paid-in, is composed of 102,500,000 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 inclusion in the Sisal Group of Sisal S.p.A., whose share capital is 0.19% held by third parties outside the Group.

34. Long-term debt

Long-term debt of the Group at December 31, 2017 and 2016, shown net of transaction charges in accordance with IFRS, is presented as follows:

	At December 31,	
(in Euros thousands)	**2017**	**2016**
Super Senior Revolving Facility	**35,272**	**88,882**
Senior Secured Notes	**714,867**	**711,210**
Loans from other banks	273	915
Payables to other lenders - leasing contracts	127	757
Other loans from third parties	**400**	**1,672**
Total	**750,539**	**801,764**
of which current	*53,818*	*109,122*
of which non-current	*696,721*	*692,642*

Existing debt at December 31, 2017, including the current portion, totals around Euros 751 million (Euros 802 million at December 31, 2016).

The net debt is essentially divided equally between fixed rate and floating rate. The fixed-rate debt amounts to around Euros 399 million (Euros 397 million at December 31, 2016) and refers entirely to the SSN. The floating-rate debt totals around Euros 352 million (Euros 405 million at December 31, 2016), of which approximately Euros 316 million (Euros 314 million at December 31, 2016) relating to the FRN bond issue and Euros 36 million (Euros 90 million at December 31, 2016) 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 2017, the Sisal 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.

In reference to that ssRCF, in January 2017 Sisal Group S.p.A. agreed a break-off arrangement with one of the lenders (Unicredit S.p.A.) in the form of a current account overdraft of Euros 25 million.

At year end 2017 the ssRCF facility was used for a total of Euros 23 million, of which Euros 8 million by the parent Sisal Group S.p.A. and Euros 15 million by Sisal S.p.A. Euros 15 million of the overdraft had been used at year end.

At year end, the available credit facility amounted to approximately Euros 87 million (of which: Euros 77 million in reference to the ssRCF and around Euros 10 million relating to the residual current account facility).

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

		Residual Debt at December 31,			
(in Euros thousands)	**Type**	**2017**	**2016**	**Due**	**Repayments**
SSN (fixed rate)	Bullet	400,000	400,000	July 31, 2023	when due
FRN (floating rate)	Bullet	325,000	325,000	July 31, 2022	when due
Senior Secured Revolving Credit Facility	Revolving facility	23,000	92,000	January 2018	when due
Senior Secured Revolving Credit Facility	Overdraft	14,671	-	n.a.	when due
Total gross of transaction charges		**762,671**	**817,000**		
Matured interest		**15,777**	**15,851**		
Transaction charges connected to loans		**(28,309)**	**(32,759)**		
Total		**750,139**	**800,092**		

The loan agreements in place do not envisage maintenance covenants, but in any event require compliance with a series of financial covenants on the ssRCF facility such as the guarantor coverage test and quarterly calculation of the leverage ratio, which also determines the applicable margin on the facility. In reference to the loan agreements, the Group is in any event required to satisfy a series of restrictions which, amongst others, place limits on: *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 has 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 has 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 (unexercised option) 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. Considering 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)	**2017**	**2016**
Mortgages and other loans from third parties	273	1,019
Payables to leasing companies	127	653
Other loans from third parties	**400**	**1,672**

"Mortgages and other loans from third parties" refer mainly to the short-term portion of a pre-existing medium-/long-term loan recorded by Friulgames S.r.l.

"Payables to leasing companies" refer to the contract signed in 2013 by Sisal S.p.A. to purchase hardware, for a total debt at December 31, 2017 of Euros 127 thousand. The contracts signed in previous years by Sisal S.p.A., for the purchase of industrial and commercial equipment (Big Touch and POS terminals), reached their natural due date in 2017 with related surrender of the assets.

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

	At December 31,	
(in Euros thousands)	**2017**	**2016**
Minimum lease payments due		
Within 12 months	104	542
Between 1 and 5 years	30	134
After 5 years	-	-
Future financial expenses	(7)	(23)
Present value of payables to leasing companies	**127**	**653**

35. Net financial debt

The net financial debt of the Group at December 31, 2017 and 2016, 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)	**2017**	**2016**
A	Cash	7,634	5,956
B	Other liquid assets	203,768	129,225
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**211,402**	**135,181**
E	**Current financial receivables**	**-**	**-**
F	Current financial payables	23,007	92,070
G	Current portion of medium-/long-term debt	15,916	17,052
H	Other current financial payables	14,895	-
I	**Current financial debt (F+G+H)**	**53,818**	**109,122**
J	**Net current financial debt (I-E-D)**	**(157,584)**	**(26,059)**
K	Medium/long-term debt	-	-
L	Notes issued	696,691	692,242
M	Other non-current financial payables	30	400
N	**Non-current financial debt (K+L+M)**	**696,721**	**692,642**
O	**Net financial debt (J+N)**	**539,137**	**666,583**

36. Provision for employee severance indemnities

The changes in this item are the following:

	Year	
(in Euros thousands)	**2017**	**2016**
Beginning balance	**9,486**	**-**
Current service costs	126	8
Finance expenses	138	16
Actuarial (gains) losses	146	19
Contributions made - Benefits paid	(1,140)	-
Change in scope of consolidation	-	9,442
December 31,	**8,756**	**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	ISTAT 2014 table reduced by 80%
Estimated disability rate	table CNR reduced by 70%
Probability of resignation/retirement (annual)	3%/1%

There are no plan assets servicing the defined benefit plans.

37. Provisions for risks and charges

The changes in this item are the following:

(in Euros thousands)	Sundry risks and charges provisions	Technological updating provision	Losses on investments provisions	Total
December 1, 2016	-	-	-	-
Change in scope of consolidation	15,288	946	-	16,234
Net provisions	480	(820)	-	(340)
Usage	(202)	-	-	(202)
December 31, 2016	**15,566**	**126**	**-**	**15,692**
Net provisions	1,863	(100)	200	1,963
Usage	(4,246)	-	-	(4,246)
December 31, 2017	**13,183**	**26**	**200**	**13,409**

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 2017 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.

38. Other non-current liabilities

This item, totaling Euros 1,182 thousand at December 31, 2017, refers to the long-term component of the debt deriving from the settlement agreement between Sisal S.p.A. and the Tax Revenues Agency in relation to the non-deductibility for IRES tax purposes of finance expenses in 2006.

39. Trade payables and other payables

This item is composed as follows:

	At December 31,	
(in Euros thousands)	**2017**	**2016**
Payables to suppliers	94,221	78,351
Payables to partners for services	234,290	201,966
Payables to gaming machines and POS operators	1,071	319
Trade payables to concessionaires	596	296
Other trade payables	303	373
Total	**330,481**	**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 and points of sale mostly include the amount due to operators based on turnover.

40. Taxes payable

This item is composed as follows:

	At December 31,	
(in Euros thousands)	**2017**	**2016**
Payables for IRAP tax	1,163	943
Payables for IRES tax on income tax consolidation	7,273	-
Total	**8,436**	**943**

At December 31, 2017 the Group recorded a net payable for IRES based on the national tax consolidation, in reference to the tax consolidation headed by Sisal Group S.p.A.

41. Other current liabilities

This item is composed as follows:

	At December 31,	
(in Euros thousands)	**2017**	**2016**
Payables on games	89,985	72,166
Payables for winnings	166,616	313,310
Payables to employees	13,414	13,631
Other current liabilities	6,635	6,158
Payables to social security agencies	8,321	8,571
Other taxes payable	4,548	7,735
Payables to collaborators	1,676	1,949
Total	**291,195**	**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)	**2017**	**2016**
Payables to tax authorities on games	68,905	54,456
NTNG subscribers	2,861	1,317
Payables for online games	10,858	8,211
Payables for guaranteed minimum	3,905	3,905
Payables for betting management	3,456	4,277
Payables on games	**89,985**	**72,166**

The amounts payable to tax authorities on games mainly include: *i)* tax claimed on NTNG games relating to the last two weeks of 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.

NTNG subscribers include the payable for subscriptions to SuperEnalotto and the additional SuperStar game, SiViceTutto SuperEnalotto, 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)	**2017**	**2016**
Payables for SuperEnalotto-SuperStar winnings	143,230	293,347
Payables for Win for Life winnings	17,976	11,519
Payables for Si Vince Tutto-SuperEnalotto winnings	318	1,329
Payables for Tris games and horse betting winnings	182	182
Payables for CONI games	155	31
Payables for VLT winnings	3,961	5,859
Payables for Eurojackpot winnings	725	996
Payables for Play Six winnings	37	33
Payables for bet winnings	32	14
Total payables for winnings	**166,616**	**313,310**

The fluctuations between reporting periods depend mainly on the levels of the winnings for each game, related to the turnover of the period as well as winnings awarded but not yet paid at year end.

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)	**2017**	**2016**
Payables for IRPEF payroll tax	2,674	7,179
Payables for loan withholding tax	-	19
Payables for equalization tax	29	17
Payables for VAT	76	520
Sundry taxes payable	1,769	-
Total	**4,548**	**7,735**

Other taxes payables mainly refer to the short-term component deriving from the settlement agreements signed by Sisal S.p.A. and Sisal Entertainment S.p.A. in 2017 to finalize a number of disputes with the Tax Revenues Agency.

Other current liabilities

Other current liabilities principally include payables for guarantee deposits received from the network and for non-deductible VAT on invoices to be received.

42. Commitments

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

	At December 31,	
(in Euros thousands)	**2017**	**2016**
Customs and Monopolies Authority	211,501	208,688
Payments and services	165,882	167,102
Other guarantees provided	2,925	3,340
Tax revenues agency	581	1,792
Total	**380,889**	**380,922**

The Customs and Monopolies Authority (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 Parent 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 as part of the acquisition in 2016 by the shareholder CvC 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 lenders.

43. Related party transactions

The Group's 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, 2017 and 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, 2017	-	1,842	1,842	291,195	**0.6%**
At December 31, 2016	-	1,880	1,880	423,520	**0.4%**

The effects of related party transactions on the income statement for the years ended December 31, 2017 and 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, 2017	-	2,738	2,738	455,734	**0.6%**
Year ended December 31, 2016	-	4,751	4,751	55,288	**8.6%**
Personnel costs					
Year ended December 31, 2017	-	4,118	4,118	87,954	**4.7%**
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)	**2017**	**2016**
Salaries and wages	3,837	331
Employee severance indemnities	281	24
Total	**4,118**	**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.

44. 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 2017 and 2016 are as follows:

		At December 31, 2017			
(in Euros thousands)		**Equity**	**Profit (Loss) for the year**	**Carrying amount of net financial debt**	**Cash flows**
Book value	***(a)***	**290,993**	**27,325**	**539,137**	**211,402**
Costs for acquisitions		23	23		18
Costs for mergers		(881)	(881)		(360)
Costs for company reorganizations		(992)	(992)		(1,121)
Total effects	***(b)***	**(1,850)**	**(1,850)**	**-**	**(1,463)**
Notional book value	***(a-b)***	**292,843**	**29,175**	**539,137**	**212,865**

		At December 31, 2016			
(in Euros thousands)		**Equity**	**Profit (Loss) for the year**	**Carrying amount of net financial debt**	**Cash flows**
Book value	***(a)***	**263,779**	**(36,789)**	**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)***	**271,580**	**(28,988)**	**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)	**2017**	**2016**
Other income	**205**	**-**
Costs for acquisitions	205	-
Costs for services	**(1,157)**	**(6,384)**
Costs for acquisitions	(171)	(6,155)
Refinancing costs	-	(99)
Costs for mergers	(729)	-
Costs associated with company reorganization projects	(257)	(130)
Personnel costs	**(729)**	**(90)**
Costs associated with company reorganization projects	(729)	(90)
Other operating costs	**(169)**	**(1,327)**
Costs for acquisitions	(12)	(918)
Refinancing costs	-	(409)
Costs for mergers	(152)	-
Costs associated with company reorganization projects	(5)	-
Impact on Operating profit (loss) (EBIT)	**(1,850)**	**(7,801)**
Profit (loss) before income taxes	**(1,850)**	**(7,801)**
Impact on profit (loss) for the year	**(1,850)**	**(7,801)**

45. Significant events occurring after the end of the year

In line with consolidated procedure, in February the Group approved its budget for the current year. At the start of the month, Societé de Gestion de la Loterie National S.A. - a Moroccan private partnership - informed Sisal S.p.A. that the bid submitted by the latter for outsourcing of the service to implement and manage (from January 1, 2019) a new automated management system, via an electronic network, for public gaming collections in Morocco, was the most competitive. The activities to prepare the bid were completed in record time from October 2017 and the outcome is very important for the respective Group, both in economic terms and to the extent it allows diversification of the business at international level. It is expected that the concession agreement will have a ten-year duration and could be signed in the near future. The Group is therefore taking action to launch all the organizational and structural initiatives so as to start up the new business activities by the planned deadline, including the setup of a newco under Moroccan law as a 100% subsidiary of Sisal S.p.A. and the presentation of bank guarantees for the equivalent of Euros 12 million.

Following publication in the Official Journal of Italian Legislative Decree no. 218 of December 15, 2017, implementing Directive (EU) 2015/2366 on payment services in the domestic market, which amends Directives 2002/65/EC, 2009/110/EC and 2013/36/EU as well as Regulation (EU) 1093/2010, and repeals Directive 2007/64/EC, the Bank of Italy has begun the authorization confirmation process for authorized intermediaries based on the new requirements. In particular, by communication of March 14, 2018, the Bank of Italy sent forms to Sisal Group Patrimonio Destinato for completion to confirm that the legal requirements are satisfied, which must be returned to the supervisory authority by April 13, 2018.

The Company has already arranged completion of the required documentation and the implementation of measures to comply with the new regulations. The current progress status of the work has not brought any critical issues to light.

Pending approval of the tender for renewal of the NTNG concession, there have been no further significant developments in the main concession and/or other relationships.

Milan, April 18, 2018

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On behalf of the Board of Directors

The Chairman

Prof. Augusto Fantozzi