Sisal Holding Istituto di Pagamento S.p.A. (with a sole shareholder)

Company subject to direction and coordination by Gaming Invest S.à.r.l.
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 EUR 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

AS OF DECEMBER 31, 2012

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SISAL HOLDING ISTITUTO DI PAGAMENTO GROUP

Board of Director's Report on Group Operations

Consolidated Financial Statements as of December 31, 2012

Dear Shareholders,

We hereby submit for your attention the consolidated financial statements for the year ended December 31, 2012 of the Sisal Holding Istituto di Pagamento Group which present a loss of EUR 39,808 thousand. Amortisation, depreciation and impairment losses and reversals amounting to EUR 106,200 thousand were reported for the year under review.

Key data

The key performance indicators of the Group's operations are summarised in the table below (figures in thousands of Euro):

	2012	2011	Change	
Total revenues and income	823,396	869,840	(46,444)	-5.3%
Gross operating profit	149,054	189,454	(40,400)	-21.3%
Net operating profit (EBIT)	31,824	56,373	(24,549)	-43.5%
Loss before income taxes	(37,140)	(12,668)	(24,471)	-193.2%

Gross operating profit measures the difference between revenues and monetary costs.
Net operating profit measures the difference between revenues and total operating costs (thus including amortisation, depreciation, provisions, and impairment losses and reversals).
Before analysing the main factors determining the result for the period, we describe below the developments in the Group's market.

Reference markets

The retail convenience market in Italy

TREND 2007 - 2012

The retail convenience market, in other words, the sum of gaming and services offered in retail outlets, has increased significantly over the last six years. In 2012 it reported overall receipts of EUR 105.4 billion with an average growth rate (CAGR-Compound Annual Growth Rate) of 17.2%.
Although both the gaming and services markets increased significantly and continued to show a positive trend, the Services Market (that is, the widely distributed market that enables users to pay bills for utilities, taxes, fines, mobile phone top-ups and so on) reported a much higher growth rate (+24.3%) than the gaming market (+15.9%).
One of the reasons for these differing growth patterns is the fact that the retail convenience market is still in the process of developing a range of products that will satisfy consumer demand, whereas the gaming market has reached a phase of maturity, thanks to a comprehensive product portfolio that already satisfies consumers (in the past, many of these products could only be accessed outside legal channels).
The figures in the following tables are expressed in millions of Euro, unless otherwise stated. The data referring to 2012 are based on the best estimates available to the Group.

	2007	2008	2009	2010	2011	2012	CAGR 2007/2012
Total Gaming Market Receipts	**41.425**	**47.555**	**54.402**	**60.984**	**79.597**	**86.669**	**15,9%**
Total Services Market	**6.290**	**8.748**	**10.411**	**13.524**	**16.819**	**18.685**	**24,3%**
Total Retail Convenience Market	**47.715**	**56.303**	**64.813**	**74.509**	**96.416**	**105.355**	**17,2%**

The figures relating to the gaming market can only be interpreted correctly by taking into account the "payout", namely, the part of the receipts which return to players in the form of winnings.
If we subtract this figure from the receipts collected we obtain the Net Expenditure, that is, the amount consumers pay into the gaming market. The following table, which shows the trend of consumers' net expenditure, highlights the fact that the gaming market reported an average growth rate of approximately 4.9% during the period and that, in 2007, the services market, which generated receipts of EUR 6.3 billion, represented 32.3% of the total retail convenience market. In

2012, the services market reported receipts of EUR 18.7 billion and accounts for 52.8% of the overall retail convenience market.

	2007	2008	2009	2010	2011	2012	CAGR 2007/2012
Total Gaming Market Net Expenditure	13.192	14.835	16.197	17.017	17.992	16.723	4,9%
Total Services Market	6.290	8.748	10.411	13.524	16.819	18.685	24,3%
Total Retail Convenience Market	19.481	23.583	26.608	30.542	34.811	35.408	12,7%

The gaming market in Italy: the scenario

TREND 2007 - 2012

Gross receipts in the gaming market increased with a CAGR of 15.9%.

If we examine the various components of the receipts from the segment, we can see that, during the year under examination, the payout increased from 68.2% in 2007 to 80.7% in 2012, when almost EUR 70 billion was returned to players in the form of winnings. This can be attributed to the introduction of games with increasingly higher payouts, and new online games where the payouts are around or even higher than 97%.

The real expenditure by the public increased by 4.9% but in 2012 was about EUR 1.3 billion less than in 2011, reflecting the contraction in consumption that has taken place in our country over the past year.

The real public expenditure can then be subdivided into other components, including, in 2012, the Treasury, which received the largest share of the receipts, equal to 51.7%, while the distribution chain (network operators and points of sale) received 34.1% and concessionaires 14.2%.

The network operators play a key role. In the period 2007-2012, their CAGR increased by 15.1%. This can be attributed to the fact that they are strictly linked to the world of AWP (Amusement With Prize) gaming machines, the segment which has developed most over the last six years, and, consequently, have benefited from the steady phase of legalisation and growth of the two segments into which the segment is divided, namely “New Slot” machines and “VLT” (Video Lottery Terminals).

	2007	2008	2009	2010	2011	2012	CAGR 2007/2012
Total Receipts	**41.425**	**47.555**	**54.402**	**60.984**	**79.597**	**86.669**	**15,9%**
Payout	**28.233**	**32.720**	**38.205**	**43.967**	**61.605**	**69.946**	**19,9%**
Real Public Expenditure	**13.192**	**14.835**	**16.197**	**17.017**	**17.992**	**16.723**	**4,9%**
Treasury	*7.704*	*8.491*	*9.315*	*9.336*	*9.422*	*8.650*	*2,3%*
Concessionaires	*1.917*	*2.268*	*2.397*	*2.548*	*2.846*	*2.368*	*4,3%*
Network	*858*	*1.030*	*1.212*	*1.469*	*1.716*	*1.734*	*15,1%*
Points of sale	*2.712*	*3.046*	*3.272*	*3.664*	*4.008*	*3.971*	*7,9%*

	2007	2008	2009	2010	2011	2012
Total Receipts	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**
Payout	**68,2%**	**68,8%**	**70,2%**	**72,1%**	**77,4%**	**80,7%**
Real Public Expenditure	**31,8%**	**31,2%**	**29,8%**	**27,9%**	**22,6%**	**19,3%**
Treasury	*58,4%*	*57,2%*	*57,5%*	*54,9%*	*52,4%*	*51,7%*
Concessionaires	*14,5%*	*15,3%*	*14,8%*	*15,0%*	*15,8%*	*14,2%*
Network	*6,5%*	*6,9%*	*7,5%*	*8,6%*	*9,5%*	*10,4%*
Points of sale	*20,6%*	*20,5%*	*20,2%*	*21,5%*	*22,3%*	*23,7%*

In general, we note that the different segments in the gaming market present a growth of 15.9% in gross receipts which is mainly attributable to AWP gaming machines (CAGR +21.8%) and new online games.

The betting segment reported negative growth mainly due to the crisis in Italy's horse racing sector, as described later.

Bingo, on the other hand, limited its contraction thanks to a rise in the payout which, since 2009, was increased from 58% to 67%.

	2007	2008	2009	2010	2011	2012	CAGR 2007/2012
Lotteries	**16.042**	**17.635**	**18.876**	**18.122**	**19.421**	**17.689**	**2,0%**
Betting and Pools	**5.558**	**6.357**	**6.142**	**6.228**	**5.294**	**5.007**	**-2,1%**
AWP Gaming Machines	**18.072**	**21.685**	**25.525**	**31.534**	**44.615**	**48.400**	**21,8%**
Bingo	**1.753**	**1.636**	**1.512**	**1.954**	**1.850**	**1.640**	**-1,3%**
Skill, Card & Casino Games	**-**	**242**	**2.348**	**3.146**	**8.418**	**13.933**	
Total Gaming Market	**41.425**	**47.555**	**54.402**	**60.984**	**79.597**	**86.669**	**15,9%**

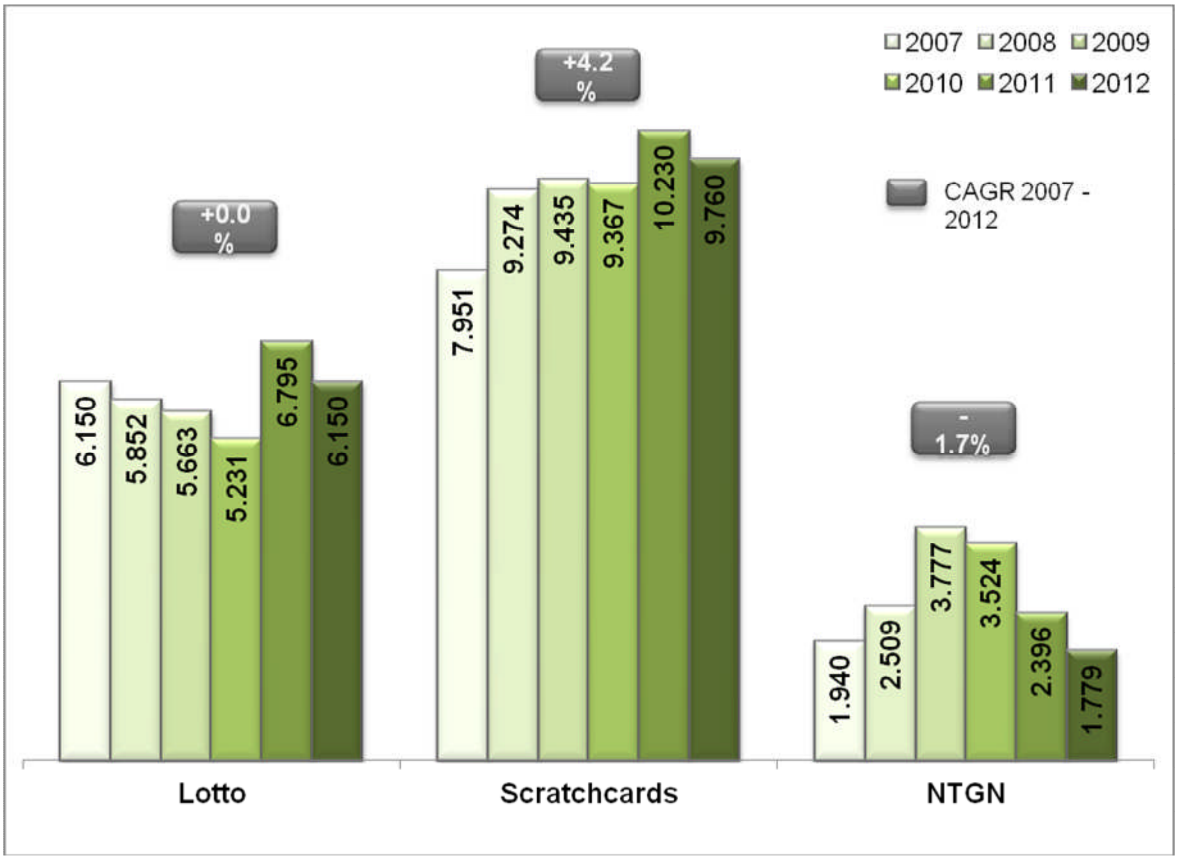
Segment analysis

Lottery

The Lottery segment has reported a modest growth rate over the years, with an overall CAGR of 2.0%, whereas, in 2012, the trend of receipts for the segment reflects the contraction of consumption in Italy which has mainly affected the most widespread and popular games.

In particular, the NTNG segment (National Totalisator Number Games including SuperEnalotto, Win for Life, Si vince Tutto and Euro jackpot), for which Sisal S.p.A. holds the concession, reported a negative CAGR of 1.7%, partly due to the level of payout which was much lower than the market average.

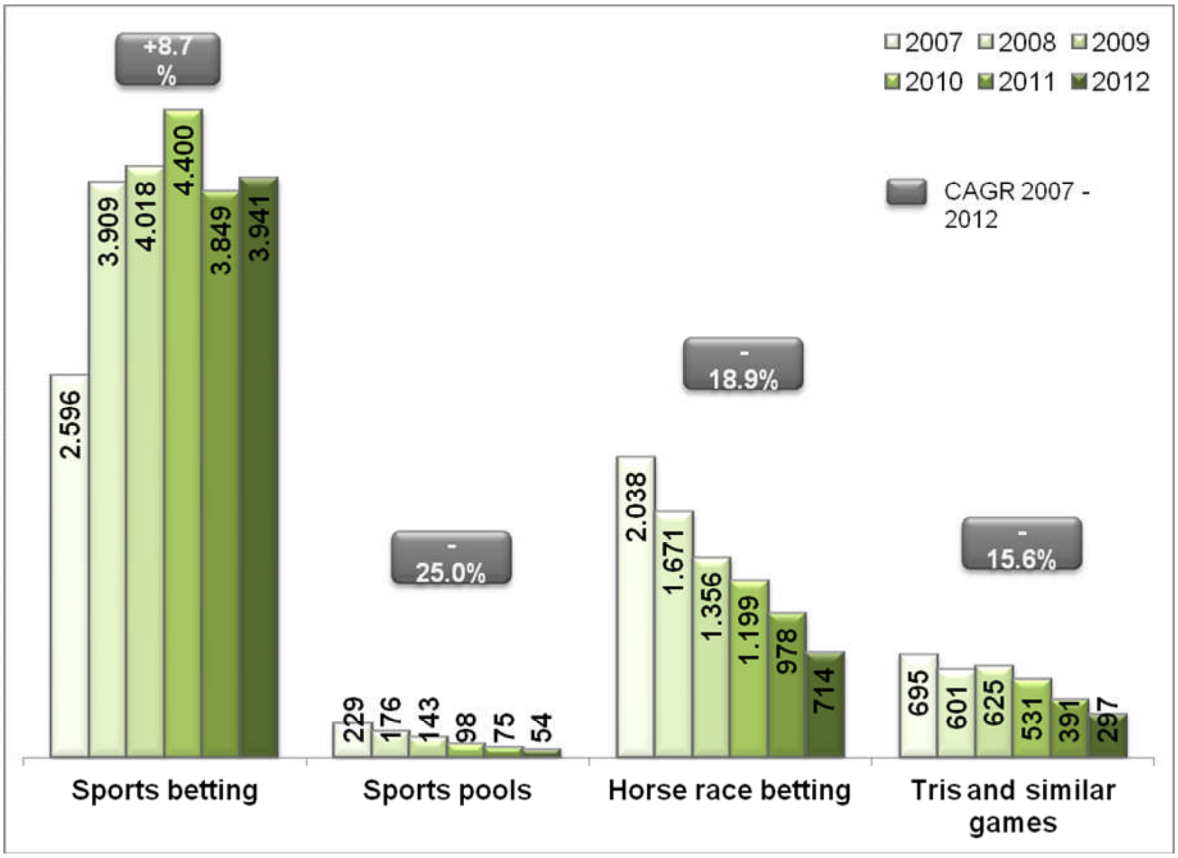
Lotto also includes the new game 10eLotto, a product with a very high, frequent payout, whereas the Gratta e Vinci Instant Lottery (Scratchcards) continuously refreshes its product range with a high frequency of new launches, together with various price options and chances of winning.



Betting

The Betting segment reported significant growth in the area of sports betting and in the period 2007 – 2012 increased by 8.7% to almost EUR 4 billion in receipts in 2012. This was partly due to the launch of “live” betting and continuous additions to the betting product range.

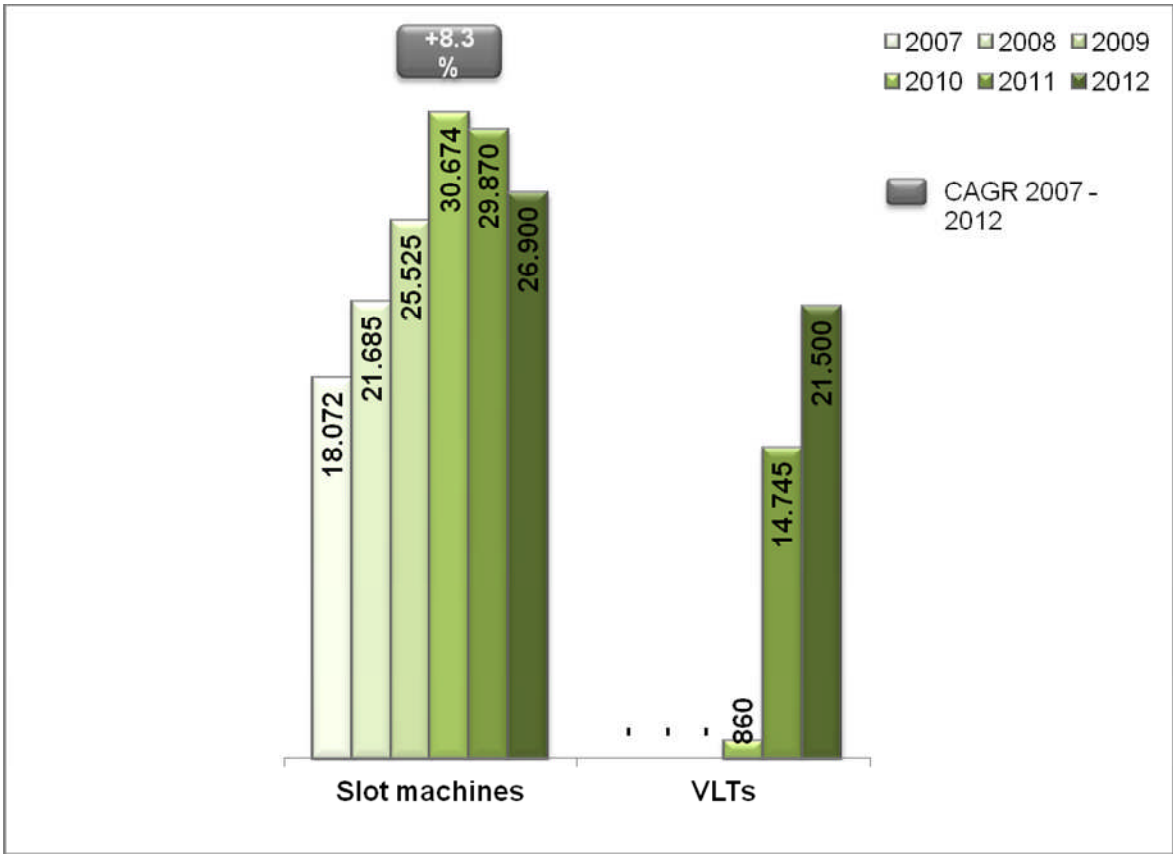
The horse racing segment and the traditional sector of Totocalcio (referred to here as pool games) have undergone a serious crisis which has prevailed for several years, recording marked declines over the five-year period.



AWP gaming machines (slot machines and VLTs)

At the end of 2012, gaming machines (slot machines and VLTs) represented about 56% of the overall gaming market in Italy. Overall receipts from this market amounted to EUR 48.4 billion with a CAGR of 21.8% over the last six years. Slot machines alone generated a CAGR of 8.3%. VLTs, in the second full year of operation (2012), exceeded EUR 21.5 billion, becoming the second most successful product in the market.

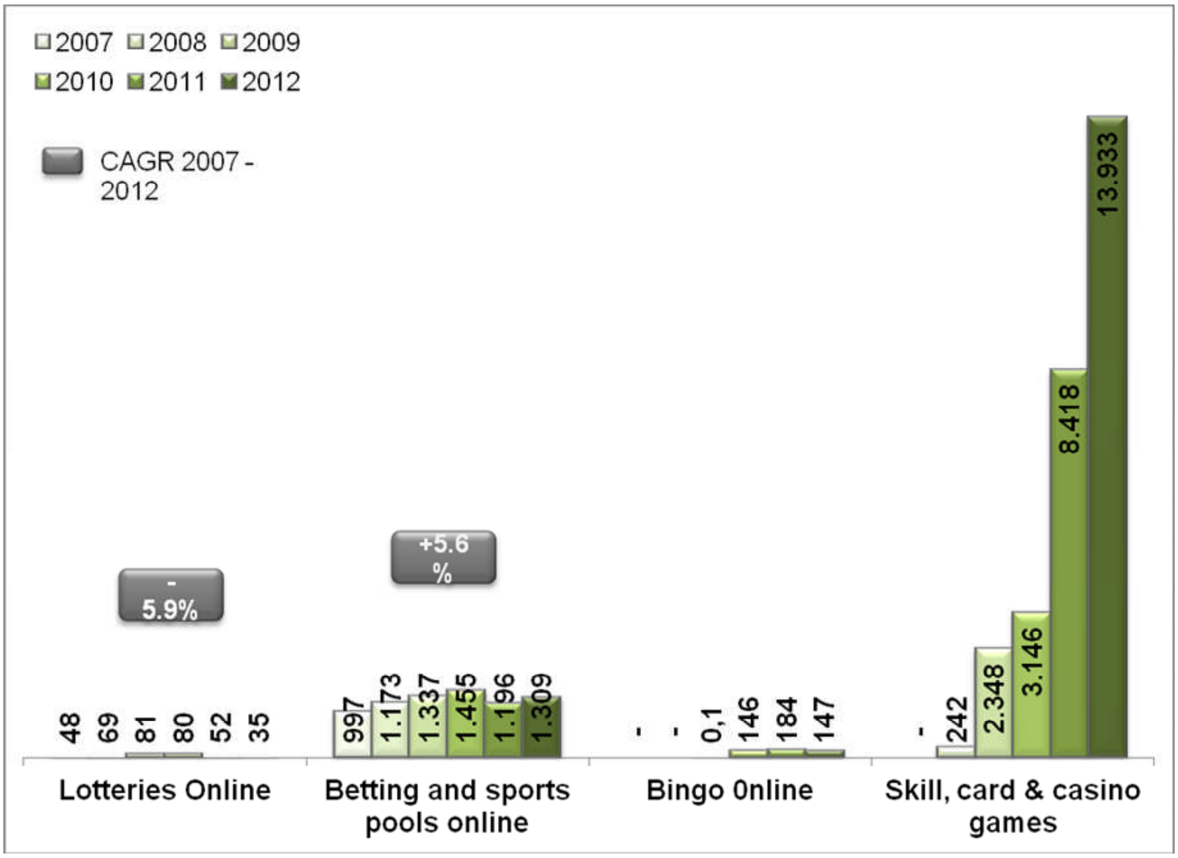
Total receipts generated by slot machines in 2012 were affected by the growth of VLTs, which now constitute the best range of games offered in this area, both in terms of player enjoyment and in terms of the chances of winning (a 75% chance in the case of slot machines compared with a 90% chance with VLTs).



Online gaming

The online gaming market reported the highest growth of the total gaming market with a CAGR of 71.3%. Growth was driven by the Skill, Card and Casino Games segment, which reported overall receipts of nearly EUR 14 billion in 2012, equivalent to 90.3% of total takings in the area. Its success can be attributed to several factors, including the extremely high payout (on average higher than 95%) and the frequent launch of new products. With regard to these, tournament poker was introduced in 2008, Cash poker and Casino games in 2011 and online Slot machines in December 2012. These innovations have made it possible to attract a large number of players from illegal gaming on foreign websites to legal, regulated gaming on ".it" websites.

Another important factor is the growth of online betting in 2012, thanks to the introduction of live betting for which websites provide an ideal format, and also thanks to the launch of new smartphone applications which have increased their user potential.



In the context of a market which, in terms of overall receipts, has continued to grow in 2012, the aggregate receipts by the Group's concessionaire companies (EUR 7.9 billion) were very similar to those of the previous year, with a slight contraction of about 2%.

The Group's market share shows growth in the betting market (14.7% compared with 13.9% in 2011), thanks to the expansion and updating of the distribution network, and in the slot machine area (8.9% compared with 8.6% in 2011). In addition, the market share in the VLT area (10.3%) settled at a level that was higher than the theoretical share, based on the number of concessions acquired, thanks to the completion of the roll over process for VLTs whose placement in 2011 and 2012 gained the Group a reputation as one of the most rapid and efficient operators in terms of activating installed terminals.

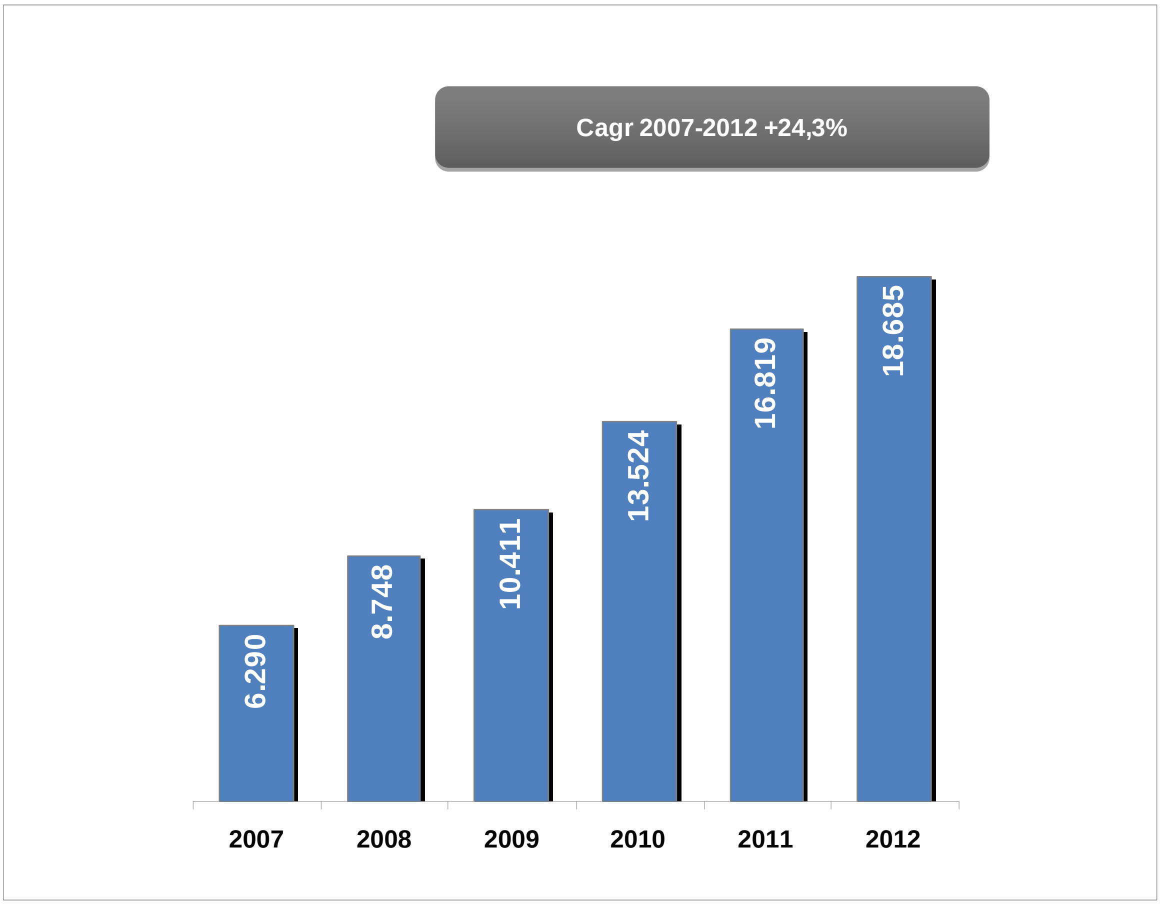
However, overall, the Group reported a contraction in market share (9.1% compared with 10.1% in 2011). This contraction was due principally to a slight decline in the trend of lotteries, as well as greater competition from the online market.

It should also be borne in mind that in the VLT market where the concessions that can be acquired are decided by AAMS (Italian State Monopolies Commission) based on the number of slot machines owned, Sisal Entertainment S.p.A. was the first mover, securing a competitive advantage in the first few years and obtaining a market share that was greater than the percentage that had been decided. Over the years, competitors have speeded up the process of installing machines, bringing Sisal's market share back to its natural level.

Services market

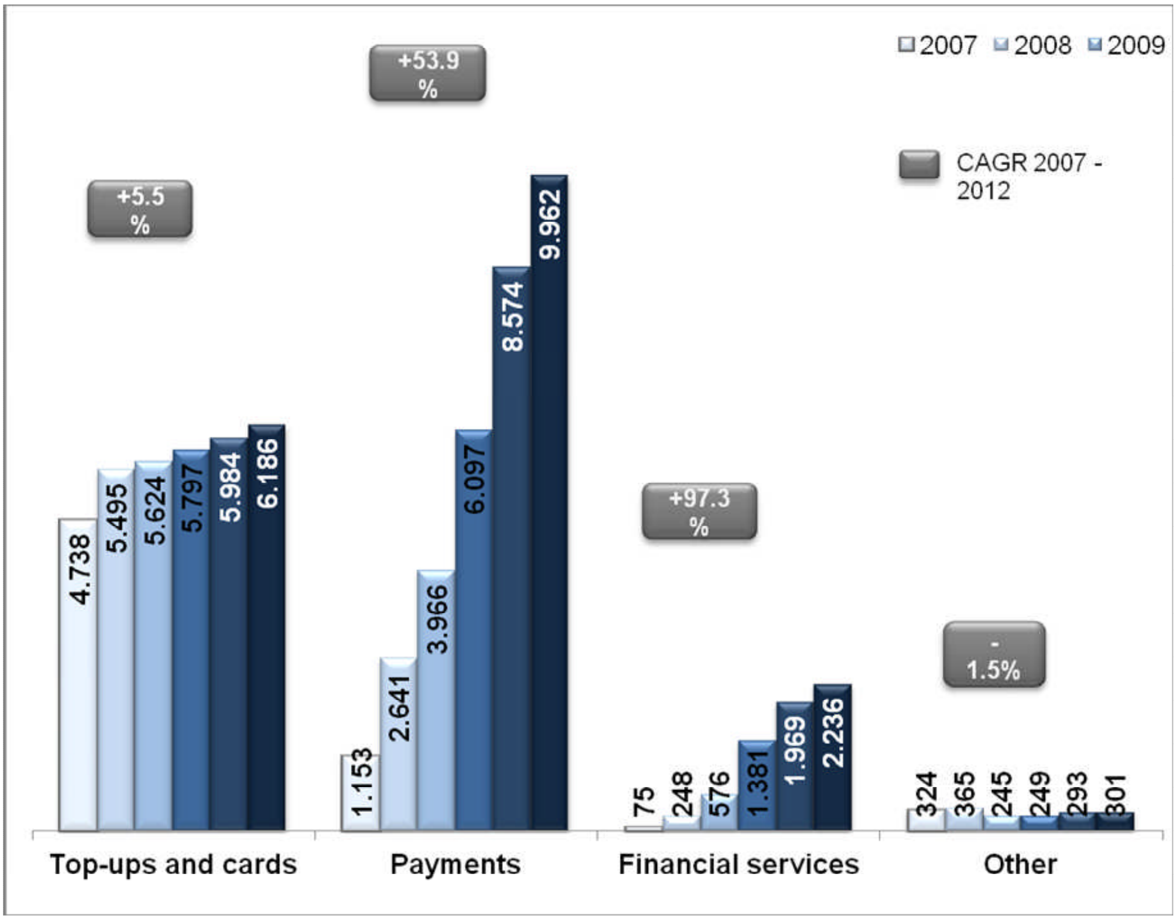
The market for services to the public, businesses and Public Administration again reported further growth in 2012, reaching receipts of almost EUR 19 billion.

The reason for this growth is the public's increasingly greater preference for this so-called retail convenience channel because of its widespread distribution throughout the country, and because it constitutes a simple, safe way of making payments. Furthermore, the services offered are constantly increasing and where it used to be regarded simply as a place for topping up mobile phones, the retail outlet channel has developed in such a way that it now constitutes a valid alternative to traditional means of payment (like post offices and banks).



If we analyse the different segments of the services market, it becomes obvious that the payment of utilities, bills, fines and other taxes is becoming increasingly important, reaching almost EUR 10 billion in receipts in 2012, with a CAGR in the period analysed of 53.9%, making it the top segment in terms of receipts. The top-up segment, on the other hand, appears to have reached maturity with receipts of more than EUR 6 billion and a CAGR of 5.5%.

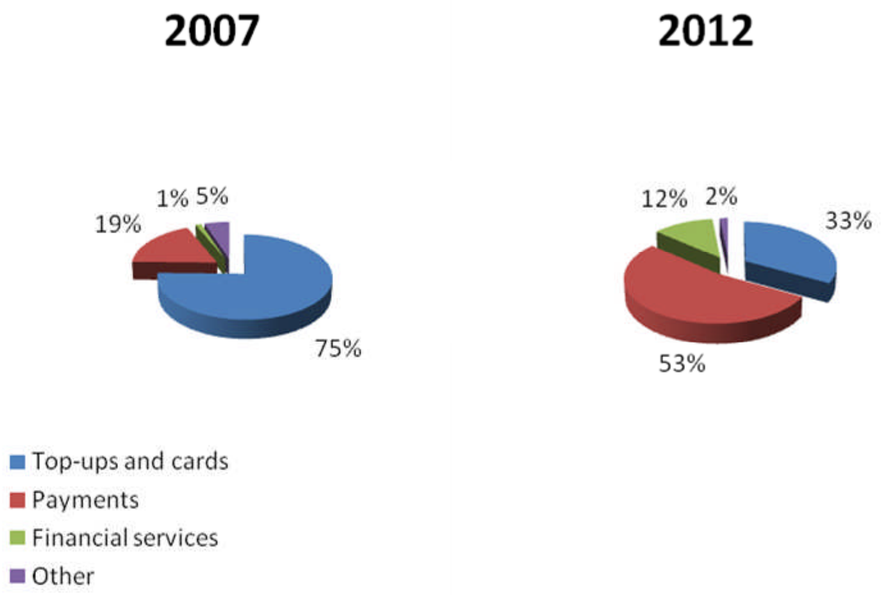
Another segment is financial services (typically top-ups made using a debit card) which reported the highest CAGR (+97.3%), although, in terms of volumes, receipts are only EUR 2.2 billion.



A comparison of the services market between 2007 and 2012 shows that consumers' purchasing behaviour throughout the country has changed radically.

Although in 2007 Italians spent 75% of the EUR 6 billion of receipts on mobile phone top-ups, today, only 33% is spent for this purpose, but, in the meantime, the total expenditure has increased to EUR 18.7 billion.

At the same time, payment of utilities, bills, fines and other taxes increased from 19% in 2007 to 53% in 2012, becoming the top driver of the services market in terms of receipts.



Within the Group, the above financial services and payments in 2012 strengthened their leading position in terms of receipts with growth of about 13% compared with 2011 (+13.4% for payments and +13% for financial services), followed by mobile top-ups and phone-cards, which also increased by 4.4% compared with 2011 and which accounted for about 26.4% of total Services turnover (receipts) in 2012.

Payments include the following services:

- Payment of bills issued by the main national and local utilities;
- Payment of telephone company bills;
- Payment of road fines;
- Payment of TV and radio licences and other taxes.

The growth of Payments, in a market in which the proportion of payments by direct debit is practically stable, was driven both by the expansion of the Group's distribution network and the broadening of the product range that took place during 2012.

Financial services, particularly prepaid card reloading, benefited from the growth in the prepaid card market, especially Postepay, which confirmed its position in 2012 as the leading reloadable payment card in Italy with more than 8 million cards issued, a market in which the Sisal network also confirmed its position as the leading channel for reloading transactions.

In both the Payments and Financial Services areas in which the Company operates directly, the market confirmed its interest in the collection alternatives to the traditional channels (post offices and banks), which respond better to users' requirements in terms of opening hours and accessibility to services.

Of the many reloading services that the Group distributes through Sisal S.p.A., the mobile top-up service stands out in particular, and represents more than 97% of total reloading services and reported an increase in turnover of 5.3% over 2011, largely as a result of the expansion of the distribution network. The trend is even more significant if consideration is given to the degree of maturity reached in at least the last 2/3 years by the mobile top-up market and the tendency of mobile operators to promote alternative ways to top up mobile phones (online, ATM bank machines, and auto top-ups by charging credit cards) to the detriment of the retail convenience distribution channels.

The Group collected about EUR 5.9 billion overall through its national networks in 2012, recording an approximate 11% increase over 2011 in Services and confirming a market share estimated at 31%, which is basically in line with the previous year.

Operating performance

In 2012 revenues and income decreased by approximately 5.3% compared with 2011. This performance reflects the trends of the Group's various businesses, as described below:

- in the "gaming" segment, the result achieved by the National Totalisator Number Games (NTNG) was about 26% below that of 2011, a figure similar to the reduction in the relative revenues, or approximately EUR 24 million lower compared with 2011. This trend reflects the overall economic situation and especially lower expenditures by gaming patrons thus affecting other gaming areas, in addition to lower jackpots and the maturity of the most important and recognized product of the NTNG family, SuperEnalotto, which currently gives the lowest payout.

- "Betting" segment revenues fell by more than 22% in horse race betting (which has been suffering a systemic crisis year after year which is eroding the consumer base for products that were once much appreciated by the betting community) and, as opposed to the previous year, sports betting also recorded a considerable decline in revenues (-13.5% in the offline channel alone for approximately EUR 8 million) mainly attributable to particularly high and anomalous payouts (historically the highest in the last ten years) on average exceeding over 80% with a peak in September of more than the 100% payout threshold. This phenomenon produced, even though the volume of betting receipts collected by the concessionaire company Sisal Match Point S.p.A. grew considerably compared with 2011 (+18% in the betting agency and corner channels), the above decrease in revenues (expressed on the basis of international accounting standards net of the payment of winnings), a situation that was shared by all network operators in the market.

- In the “online games” area, the consolidation of receipts from new Casino and Quick games products launched in the previous year limited the contraction in revenues of the entire segment (-9% or approximately EUR 3 million). Such contraction was due to the performance of online sports betting (-27%), for the same reasons commented above, and to lower revenues from online poker (-21.5% gross of promotional bonuses), largely caused by a less favourable aggregate mix of receipts between tournament and cash poker, which is more attractive to the gaming public, but less profitable for the Group’s concessionaire companies.

- In the “gaming machines” area in 2012 the Group further increased the number of installed and operative slot machines and video lottery terminals (VLTs) in the national network by 980 and 400 units, respectively. At the end of the year the total number of machines active throughout the country operated directly by the Group and/or third parties was about 41,000 (+3.5%), including about 4,700 VLTs. As a result, overall receipts from slot machines and VLTs operated by the Group further grew in 2012 by +5.3% compared with the prior year but VLTs (which brought in about 48% of total receipts against about 41% in the previous year), accounted for more of the mix. Revenues (expressed gross of the remuneration paid to the national network) thus decreased approximately 5.5%, or more than EUR 26 million compared with 2011, owing to a series of effects, the most important of which are: the aforementioned product mix, including more VLTs which, with receipts being equal, produces a lower gross turnover for the concessionaires than slot machines, owing to a higher payout guaranteed by this new type of machine, and higher taxes on VLTs which doubled from 2% in 2011 to 4% in 2012, which impact was only partly compensated by the reduction in the taxes on slot machines which fell to 11.8% from 12.15% in 2011. However, considering the margin, calculated by deducting from revenues the remuneration paid to the network, the figure for 2012 is basically in line with 2011, thanks above all to a higher turnover from slot machines particularly those owned and managed directly by the concessionaire company of the Group.

- The “retail convenience services” business area revenues increased in total about 2.5% thanks to an overall rise in collection flows of some 4% from contracts for the sale and/or distribution of telephone cards, telephone top ups and pay TV programmes through the SISAL outlets network. Instead, collection and payment services by the Parent company, as a qualified financial intermediary, recorded an additional significant increase in collection flows (+13%) from both areas of Payments and Financial Services for revenues of about EUR 51 million (+26%). Overall this business area generated gross revenues of approximately EUR 111 million, an increase of about 12% over 2011; similarly, the profit margin (reported net of the fees paid to the outlets network and the points of payment) in 2012 rose considerably over the previous year to approximately EUR 41.5 million from about EUR 36.1 million in 2011, increasing nearly 15%.

- Finally, income from contractual agreements with the retail network covering various areas increased about EUR 3.5 billion (+4% over 2011), principally regarding charges for insolvent situations, with the number of points of sale in 2012 remaining basically the same as in 2011 with 42,000 units.

Operating costs, including amortisation, depreciation and provisions, recorded a decrease of about 3%, basically aligned with the trend of the Group's revenues and income, mainly owing to the contraction in the costs of services (-4.8%), following the reduction during the year of promotional costs, distribution network fees (in line with revenue performance) and generally a vigilant management of company structure costs, provisions (-38%), partially as a result of amounts set aside in prior years and released to income on positions no longer considered at risk and charges for the amortization, depreciation and impairment of fixed assets (-8%); the latter in particular decreased almost EUR 9 million due to the impairment charge recorded in the previous year to adjust the value of the concession rights related to horse racing betting and pool games. Such cost reductions were countered only in part by an adjustment of about EUR 17 million recorded during the year on the goodwill allocated to the Digital Games Cash-Generating Unit (CGU) booked in the previous year. This impairment loss stems from the allocation rationale that was initially adopted for the enormous amount of goodwill that originated in previous years, particularly during the 2005-2006 period when two successive acquisitions of the then parent company Sisal S.p.A. were finalized (and which, in accordance with international accounting standards, may not normally be adjusted to account for the changing trends of business in its various forms) and, on the other hand, by a more updated assessment of the expected future cash flows from the area of online gaming products, still characterized by a growth trend although somewhat less brilliant than originally estimated due especially to competitive forces in this segment and the general macroeconomic situation.

Conversely, personnel costs increased by about 10% in 2012 attributable principally to the Group's higher headcount partially as a result of the expansion of business activities through the acquisition of other companies, the opening of new points of sale operated directly and the integration in the Group's structure of the businesses acquired at the end of the previous year, and about a 53% increase in other operating costs due essentially to the recognition of the EUR 16.5 million penalty imposed by the Authority for the Administration of the Monopolies of the State (AAMS) on Sisal S.p.A. because the minimum level of receipts on NTNG games were not reached in the last two months monitored out of the 18 two-month periods established by the relative regulations, namely May-June 2012. That period was highly impacted by an unfavourable economic situation and not promoted by sufficient advertising expenditures, partially on account of the restrictions placed on the company in the meantime by the granting agency. Additional details on this matter are provided later in the Report.

Consequently, the gross profit margin decreased about 21% and EBIT recorded a reduction of some EUR 24.5 million, with the EBIT margin down about 43.5%; without considering the effect of the NTNG penalty, the gross profit margin would show a decrease of about 13% and EBIT would record a reduction of about EUR 8 million (-14%). Such performance mainly reflects the difficulties reported during the year on the front of gaming revenues.

With regards to financing, the loan agreement denominated Senior Credit Agreement was signed in previous years by the Parent company together with Sisal S.p.A and other Group companies with a pool of banks, with The Royal Bank of Scotland plc as agent bank, for the purchase, at that time, of the indirect controlling interest in Sisal S.p.A. In 2012 Lehman Brothers withdrew from the pool of lenders and its total residual subscribed debt of about EUR 90 million was entirely taken up by The Royal Bank of Scotland plc – London Branch and JP Morgan Securities Ltd. Such change in the pool of lending banks had no effect on the amounts and the relative conditions of use of the credit lines extended to the Group.

During the year the Group paid the lending banks about EUR 36.7 million in interest and fees (down by about 16% from 2011 thanks to the reduction in interest rates and lower aggregate charges on the derivative instruments put in place to hedge the interest rate risk) and repaid principal for about EUR 21.5 million while the sole shareholder of the Parent company was paid interest of about EUR 15 million on the outstanding loan received at the time of the aforementioned purchase transaction and principal for about EUR 1.2 million; another approximate EUR 20 million was instead capitalised on the basis of the arrangement that had been entered into with the lending shareholder and about EUR 5.1 million of interest was accrued during the year but not paid on the zero coupon loan obtained from the sole shareholder during 2009.

The key performance indicators relating to the Net Invested Capital (NIC) are summarised in the table below (figures in thousands of Euro):

	2012	**2011**	**Change**
Net Invested Capital (NIC)	1,102,733	1,126,138	(23,405)
Funding by third parties	1,057,188	1,041,231	15,957
Total equity	45,545	84,907	(39,362)
Debt/equity ratio	23.21	12.26	
Normalised ROI (EBIT/NIC)	3%	5%	

Net invested capital is the sum of the statement of financial position items related to trade receivables and payables, inventories, fixed assets, employee severance indemnities, provisions for risks and charges and other assets and liabilities, neutralising the effect of the differences in timing in the settlement of the items relating to working capital for gaming and services (including cash and cash equivalents intended for the payment of winnings), totally amounting at about EUR 159 million.

Although operating cash flows were lower than in the previous year, constant attention to working capital flows and prudent management of investment projects, significant again in 2012, enabled the Group to generate cash flows during the year that were more than sufficient to meet its financial debt servicing obligations (scheduled repayments of principal included) and also maintain the overall level of net financial debt basically in line with that of the prior year.

As in previous years, the Group complied with the financial covenants established by the aforementioned loan agreement in each of the four quarterly monitoring periods.

Gaming concessions and related litigation

On the gaming concessions front, the following principal developments are reported and also discussed in depth, as regard the changing aspect of litigation, in the explanatory notes.

Concession for the operation and development of National Totalisator Number Games (NTNG)

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

- on June 26, 2009, after a process lasting approximately two years and the favourable outcome of the verification processes conducted by the State Monopoly Board (AAMS, now the Customs and Monopolies Agency), relating in particular to Sisal's bid, an agreement governing the concession was entered into between AAMS and Sisal;

- on the legal front, Sisal S.p.A. had to contend with some appeals to the administrative tribunal filed by the other two companies participating in the selection procedure (namely SNAI S.p.A. and Lottomatica S.p.A.) and by other companies (including Stanley International Betting Limited), mainly with a view to gaining access to all the documentation and having the provisional and final concession awards overturned. They include the appeals filed by SNAI S.p.A., which complained that the specific points contained in its proposals had not been sufficiently taken into consideration compared with the evaluation of the same points described in Sisal's proposals, and by Lottomatica S.p.A., objecting to the failure of the Examining Commission to carry out the verification procedure on an "anomalous" bid. With specific reference to this latter appeal, on March 25, 2009, AAMS announced its decision to instruct the Examining Commission to carry out a preliminary investigation to verify the suitability of the bid submitted by the company. The verification by the Examining Commission was completed on May 18, 2009, and established that the technical and economic bid submitted by Sisal was suitable and reliable, thus effectively removing the substance of the appeal made to the Regional Administrative Tribunal (TAR) by Lottomatica S.p.A. against the outcome of the selection procedure. As a result, with reference to the legal proceedings filed by Lottomatica S.p.A. and SNAI S.p.A. against the final award of the tender to the Group company, at the hearing on May 27, 2009, the Appellants asked for a period of time to examine the outcome of the verification procedure with the aim of filing additional objections if applicable, and such objections were subsequently filed. On June 25, 2009 and July 14, 2009, SNAI S.p.A. and Lottomatica S.p.A. filed an additional pleading setting out their objections to the Commission's ruling. The proceedings are still pending at the time of writing, since a date for the public hearing of the above-mentioned appeals has yet to be set. In Sisal S.p.A.'s opinion, the appeals are unfounded with reference to the claims regarding the alleged anomaly of the bid and, with specific reference to the appeals filed by SNAI S.p.A. and Stanley International Betting Limited, are inadmissible, since they were filed by parties which had no interest in appealing: in the case of SNAI S.p.A., because of its position in the final award classification, and in the case of Stanley International Betting Limited, because it did not participate in the tender procedure;

- again as regards the concession for the operation and development of national totalisator number games, art. 14.3 of the corresponding Agreement contains an undertaking by the Concessionaire to collect minimum gaming receipts of EUR 350 million in the first 18 two-month periods during which the concession is in force, failing which a penalty of EUR 500,000.00 will be imposed for every million euros or fraction thereof not collected. In the last two-month period in question, May-June 2012, the receipts collected amounted to EUR 317,326,174.00; AAMS then asked the company to pay a penalty calculated at EUR 16,500,000.00. The concessionaire filed formal defence arguments and appealed to the Lazio Regional Administrative Tribunal, substantially arguing that in the 18 two-month periods referred to in the agreement, taken as a whole, the receipts collected were actually 50% higher than the minimum guaranteed amount, and raised various crucial factors, falling outside the concessionaire's control, which led to its failure to reach the minimum receipts in the said two-month period; however, after the main hearing on December 19, 2012, the Regional Administrative Tribunal ruled, by judgment filed on February 13, 2013, that the penalty imposed by AAMS was lawful. The judgment appears to be substantiated, although various aspects are deserving of consideration by a higher court, and in any event leads to a substantially unfair result; Sisal S.p.A. is therefore considering whether to appeal against the judgment to the Council of State.

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

- Sisal Entertainment S.p.A., formerly Sisal Slot S.p.A., operates in the AWP gaming 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 AWP gaming machines, and of the associated activities and functions, signed on June 3, 2006.

- In the Director's Decree of August 6, 2009, AAMS laid down the regulations for the activation of the new gaming systems described in art. 110.6.b of the Consolidated Law Enforcement Act (TULPS) (Video Lottery Terminals or "VLTs"), stating that this activity is governed by the agreements already in force for the operation of the AWP gaming machines network, and can therefore be entrusted to operators which, like the above Group company, are already concessionaires. Next, in March 2010, a rider to the concession agreement was entered into between Sisal Entertainment S.p.A. and AAMS to make the terms of the agreement then in force, which mainly governed AWP gaming machines, compatible with gaming using the new VLT terminals; lastly, the current agreement was extended for nine years by a rider dated September 28, 2010, which provided for it to terminate on completion of the procedures required for a new award of the concession.

- 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 AWP 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 the said selection procedure, together with 12 other candidates, and was awarded the new concession. 12 of the 13 candidates, excluding BPlus S.p.A., signed the new agreement on March 20, 2013. As regards the AWP sector, AAMS instituted the list of authorised parties referred to in art. 1.533 of Law no. 266/2005, as replaced by art. 1.82 of Law no. 220 of December 13, 2010, by Director's Decree of September 9, 2011, commencing on January 1, 2011.

  Registration in that list authorises registered parties to perform activities relating to AWP machines. Sisal Entertainment S.p.A. is registered in the said list, and urged the other parties belonging to its AWP gaming network, in particular merchants and managers, to register in the said list by the deadline specified in the applicable legislation.

Pursuant to the said Director's Decree, in the first few months of 2012 Sisal Entertainment S.p.A. consequently terminated its legal relations regarding the AWP gaming concession with parties obliged to enrol in the said list which had not done so by the deadline.

By the Directors' Decrees of October 12, 2011 and December 16, 2011, AAMS identified public gaming measures useful to ensure the higher revenues specified by art. 2.3 of Decree Law no. 138 of August 13, 2011, converted with amendments to Law no. 148 of September 14, 2011, and introduced an additional fee for the AWP sector, amounting to 6% of the prizes exceeding the sum of EUR 500 on the machines referred to in art. 110.6.b of the Consolidated Law Enforcement Act (VLTs). In particular, in order to apply the said additional fee, concessionaires belonging to the online AWS network were required to ask AAMS, 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 the said decrees, which had already been granted following an *ex parte* application.

The said Fiscal Decree Law states that the taxation is 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 the 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. The application of the additional fee of 6% of prizes exceeding EUR 500 on the machines referred to in art. 110.6.b) of the TULPS (VLTs) is therefore suspended pending the judgment by the Constitutional Court.

- Despite the growth and dynamism of the sector, it has been fraught with disputes for several years which have created a general situation of serious difficulty and uncertainty. In particular, the question of the penalties or fines for loss to the Treasury which AAMS and the Prosecutor at the Court of Auditors believe can be imposed on concessionaires of gaming machines is under examination. A general overview of this situation may be helpful to understand this matter fully.

Firstly, in the event of breach of contractual obligations, a distinction must be made between penalties, which AAMS can impose on concessionaires on the basis of the terms of the concession agreements, and the loss to the Treasury caused by the said breach, for which the Court of Auditors can require concessionaires to pay damages.

The first case of breach of contractual obligations basically relates to the delay with which the online gaming machine management network was implemented at the start of the concession period. In this case, AAMS initially imposed penalties amounting to a total of EUR 2 million on the concessionaire company belonging to the Group; the Regional Administrative Tribunal then revoked the penalties, which were later reissued by AAMS against the company belonging to the Group in the total amount of EUR 200,000. This time, the Regional Administrative Tribunal ruled that the penalties, thus reduced, were justified, and the concessionaires appealed against its ruling to the Council of State.

The Council of State, in the month of May 2011, upheld the appeal, revoked the penalties and ordered AAMS to pay costs, on the basis of the following main arguments:

- despite the existence of a formal agreement, civil law provisions are fully applicable to the attribution of liability for breach of the agreement, proof of the loss caused, and whether the penalty is appropriate and proportionate;

- however, before a penalty can be imposed, some objective loss must have been suffered by AAMS;

- AAMS' lawyers failed to demonstrate that the breaches of contract complained of against the concessionaire were wholly or partly to blame for the general delay in the start of the public service; in fact: a) the creation of an online network without precedent in the world was a pre-requisite for the activation of the service and, that being so, the parties involved were fully aware that a period of testing would be inevitable; b) precisely during this phase, a series of unforeseen technical and administrative problems arose, leading to a widespread delay in the start-up of the service; c) a large number of the machines initially approved by AAMS proved to be sub-standard, so that AAMS had to issue new instructions to the concessionaires, which instituted an ongoing testing contract in progress; d) the concessionaires were in no way involved in the design of the machines; e) the delays in the start-up of the service were due to obstructiveness by the previous operators of the machines towards the signature of agreements with the concessionaires and the removal of the old machines, and the concessionaires could not be considered by AAMS to be solely responsible for solving these problems.

The Council of State's verdict therefore supported the arguments which had always been advocated by the concessionaires.

The Prosecutor of the Court of Auditors issued a summons applying for a parallel order for the concessionaires to pay compensation for lost fiscal revenues caused by the delay in the start-up of the network, quantified at the original amount estimated by AAMS. In its judgment and simultaneous order filed on November 11, 2010, the Court of Auditors ruled that in theory, damages for lost fiscal revenues can be claimed from the concessionaires, a principle already adopted by the Combined Sections of the Court of Cassation, before which the concessionaires had filed a preliminary request for a ruling on jurisdiction. In the present case, in view of the defences submitted by the concessionaires, including on the merits of the case, the Court of Auditors commissioned an expert's report from the non-profit public agency Digit P.A., to be delivered within six months, regarding the technical and behavioural reasons that may have caused the delay in starting up the network, such as (i): the intentional or unintentional delay with which the machine operating companies asked the concessionaires to sign the necessary agreements for connection of the machines to the online system; the scarcity of communication lines; the existence of machines which had been type-tested and approved despite having different communication ports; the suitability of the characteristics of the central system of AAMS and SOGEI; and (ii) compliance by the concessionaires with all the technical pre-requisites required for the network to be activated on schedule.

The Court therefore wished to clarify whether the delay in activating the network, possibly resulting in loss of fiscal revenues, was the fault of the concessionaires or other parties. Significantly, it ordered the joinder as a third party of SOGEI, the company which designed, implemented and operated the whole system for the management and control of the machines on behalf of AAMS. As regards the calculation of lost fiscal revenues, the Court ruled that the criteria proposed by the Prosecutor (namely the criteria specified in the agreement for quantifying penalties) could not be taken into consideration, postponed the calculation, and stated that in this respect, it would take into consideration the findings of the Technical Commission and the opinion of the Council of State, the main aspects of which are described below.

The second case of breach of the agreement involves failure to comply with the service level established in the agreement, relating to the response of the gateway system to interrogations by SOGEI's central system. In this respect, AAMS initially imposed a penalty of EUR 1 billion on the concessionaire subsidiary, but the Regional Administrative Tribunal revoked the said penalty. Subsequently, AAMS appointed a Technical Commission, within the terms of the agreement, which should have established in advance the criteria for recording and calculating breaches of contract and penalties; the Commission not only clarified and established the technical criteria for calculating and recording data but in its final report, partly based on agendas approved by Parliament, introduced the concept of setting a ceiling on penalties, to safeguard the principles of proportionality, reasonableness and balance of the contract. It suggested that the limit should be set at 10% of the net amount of the agreement, calculated (including all the legal relationships associated with the management of the concession) at 0.3% of the receipts.

AAMS, having acknowledged this report, also asked the Council of State, by way of consultation, for its opinion on the system of penalties laid down in the concession agreement; the said opinion confirmed the need to establish a maximum limit on such penalties, suggested as being 11% of the concessionaire's remuneration, leaving it up to AAMS to establish this last parameter, but suggesting that it should be between 0.25% and 1.2% of the takings.

AAMS then suggested that concessionaires should sign a rider to the agreement establishing the maximum ceiling of penalties as 11% of their remuneration, indicated as 3% of the takings, and the concessionaires signed this rider at the end of October 2010, specifying that the fact that they had signed did not mean that they admitted breach of contract, and that "remuneration" was defined as the net sum effectively remaining in the hands of the concessionaire and calculated in accordance with the principles of fairness and reasonableness indicated by the Council of State.

On February 18, 2011, AAMS sent the concessionaires a "notice of breach of service level agreement". The notice described the sequence of events to date, and stated that the penalty, calculated according to the terms of the current agreement, the parameters identified by the Technical Commission and the information contained in the AAMS and SOGEI databases, amounted to EUR 46,399,750.00 for the period July 15, 2005 to March 12, 2008, as far as the Group's concessionaire company is concerned. However, by applying the other principles of reasonableness and proportionality required by the Regional Administrative Tribunal and the Council of State and contained in the last rider to the concession agreement, on the basis of which the penalty for each year cannot exceed 11% of the average real remuneration received by the concessionaire, calculating this remuneration on the basis of certain criteria which, however, are open to question, and applying the said percentage to the result obtained, the disputed penalty amounts to EUR 8,995,332.98.

As regards this notice, which did not mention the imposition of a penalty, but only the alleged breach of contract with a reference to the possible consequences thereof, the concessionaires filed a defence, objecting to the contents of the AAMS notice in terms of both substance and form; in particular, the objection related to the fact that there was no delay in responses from the gateway system and, in any event, even if they existed, they were not the fault of the concessionaires; the fact that the criteria for recording and calculating penalties had not yet been established by AAMS in the period in question; the failure to consider the criticisms made by the Council of State in the judgments issued on the above-mentioned appeals by the concessionaires; with specific reference to Sisal Entertainment S.p.A., the inclusion in the concessionaire's average real remuneration of amounts which are entirely unrelated to its actual remuneration as concessionaire.

AAMS notified the said penalty in a document dated January 27, 2012, quantifying it at EUR 8,995,332.98 and rejecting all the detailed defence pleas filed by Sisal Entertainment S.p.A.; similar measures have apparently also been taken against all the other concessionaires, and the total amount of the penalties imposed is believed to amount to about EUR 70 million.

Sisal Entertainment S.p.A. appealed to the Regional Administrative Tribunal against this claim by AAMS, asking firstly for AAMS' claim to be suspended and, in the main suit, for a ruling that the alleged deficiencies do not exist and that the granting agency's calculations are incorrect.

In particular, the application of the percentage of 11%, which establishes the maximum ceiling on the penalties, to the entire turnover of Sisal Entertainment S.p.A., and not just the part relating to income obtained as concessionaire (the remaining part relating to the activity of manager) seems unacceptable and contrary to the opinions submitted to AAMS by the Council of State and the Technical Commission; if the calculations were performed correctly, the amount of the penalty would be halved on this ground alone.

Equally dubious and untrue is AAMS' allegation that the Technical Commission belatedly appointed by AAMS only determined the criteria for calculating the penalties, not the criteria for determining what the breach of contract consists of in practice.

As stated, the ruling also dismisses (on the ground that they relate to different breaches of contract) the judgments whereby the Council of State recently revoked the first three penalties, relating to the delay with which the online network was started up by the concessionaires, and ignoring the much broader ground, involving the disputes now under discussion, provided by the Council of State (namely the fact that the overall system imposed by AAMS in 2004/5 clearly had an experimental nature, which was later reviewed and amended over time).

All the technical defences formulated in the defence pleas were also repeated in the appeal, together with those emerging from examination of the documents supplied by SOGEI to AAMS at the end of December.

At the hearing held on May 9, 2012, the Regional Administrative Tribunal heard the application for an interlocutory order, suspended the efficacy of AAMS' request and set down the case for hearing on February 20, 2013: at present, the filing of the judgment is awaited.

As regards the case brought before the Court of Auditors, again in relation to the gateway, the Prosecutor of the Court of Auditors asked, in the above-mentioned summons, for the concessionaires to be ordered to pay damages amounting to the original amount of the alleged loss of fiscal revenues, namely a total of EUR 98 billion for all concessionaires.

In the said judgment and order of November 11, 2010, the Court did not agree with the calculation criterion proposed by the Prosecutor, since specific proof would need to be provided that (i) the gateway did not function properly, due to the fault of the concessionaires, and (ii) this caused the loss of fiscal revenues (a hypothesis already rejected by the Technical Commission).

The concessionaires took part in the process conducted by Digit pursuant to Italian Law 241/90, and provided it with all the necessary documentation.

On September 30, 2011 Digit filed its technical report with the Court of Auditors. No liability directly attributable to the concessionaires emerged from the said report; in particular, no wilful misconduct or negligence was attributed directly to them, but it was suggested that they may have contributed to the determination of some critical factors that affected the start-up of the gaming system.

The concessionaires filed their comments on Digit's pleading in the Court of Auditors, and at the hearing held on November 24, 2011, the Court of Auditors set down the case for a full hearing.

On February 17, 2012 the Court filed the judgment at first instance, ordering the concessionaires to pay a total of about EUR 2.5 billion, and the former General Manager and the former Gaming Director of AAMS to pay the total amount of about EUR 7.4 million; Sisal Entertainment S.p.A., in particular, was ordered to pay EUR 245 million.

Sisal Entertainment S.p.A. appealed against the judgment, as did all the concessionaires and AAMS executives. The appeals automatically suspend the enforcement of the judgment, but the Prosecutor could ask the court, in an *inter partes* application, for a specific ruling that the judgment is enforceable.

On the basis of the developments in the proceedings described above, and in particular of the numerous rulings in favour of the concessionaires, the entire industry expected a favourable, or at any rate mild judgment.

However, the Court ruled that the concessionaires were responsible for a series of events which occurred at the time of start-up of the network, which Digit had concluded were not their fault, shifting the focus to the alleged failure to control the entire system and reviving the subject of the gateway in order to reach that conclusion.

Ruling that "control" was the main factor in the appointment granted to the concessionaires and that the concessionaires negligently failed in their duty to exercise control, and consequently ignoring the huge fiscal income received, which was well above the forecasts, it identified the loss caused to the State as the sums paid by the State to the concessionaires in terms of income received pursuant to the concession, including amounts which the concessionaire is obliged to pay to managers and merchants. The judgment seems unfair because in view of the penalties imposed by AAMS in parallel, the concessionaires are being punished twice for the same facts in the same way.

It also seems legally questionable, because the Court of Auditors appears to have overstepped the limits established by the Combined Sections of the Court of Cassation for its jurisdiction in such cases; the Combined Sections ruled that the Court of Auditors can only claim damages for loss additional to the contractual loss when imposing penalties.

The judgment would perhaps have been understandable if the Court had identified a loss to the Treasury consisting of loss of income, which is not punished as such by the agreement, but the Court admitted that it was impossible to identify such loss, and had to use the much vaguer concept that "the concessionaires did not fully perform their duties, and must consequently receive lower remuneration".

Moreover, where this aim is based on the merits, it is already dealt with by the penalty system, which AAMS brought into play and which is provided for by the agreement in order to achieve the same effect.

If the national Court of Auditors should confirm the judgment of the regional Court, possibly modifying the amounts, which can be disputed on various grounds, an appeal against the judgment could be made to the Combined Sections of the Court of Cassation for the reasons already illustrated, on the ground of conflict of jurisdiction.

In the case of Sisal Entertainment S.p.A., the amount of the penalty seems disputable, as it is higher than the mark-up received during the period in question, whereas on the basis of the same judgment, it should have been 80% of the mark-up, although even in that case, the judgment would have been groundless on the merits; moreover, the Court of first instance took no account of the objective evidence that identified Sisal Entertainment S.p.A. as the most virtuous concessionaire, or less guilty in the Prosecutor's view, in terms of commercial behaviour and the operational functionality of the system implemented.

As stated, Sisal Entertainment S.p.A. submitted a substantiated appeal and obtained a detailed independent opinion from an eminent expert, Prof. Morbidelli, Full Professor of Administrative Law at La Sapienza University, Rome, which confirms that the numerous arguments used in the appeal filed are all well founded; an independent opinion was also obtained from Prof. Guido Rossi, regarding the correctness of not including a provision for that risk in the financial statements, in view of the probable outcome of the proceedings.

For the sake of completeness, it should be mentioned that the Court's judgment names Sisal S.p.A. as the defendant company, probably due to a typographical error; the judgment was actually served on Sisal Entertainment S.p.A. Purely for safety's sake Sisal S.p.A. filed an appeal, pointing out the error, which undermines the validity of the entire judgment, and the fact that it had never been sued, and adopted all the other arguments submitted by Sisal Entertainment S.p.A.

Again for the sake of completeness, it should be mentioned that after Sisal Entertainment S.p.A. filed its appeal, it received the cross-appeal filed by the Prosecutor in the regional Court. In that document, the Prosecutor requested the Court to increase the amounts ordered in the judgment to be paid by the concessionaires, on the ground that they take no account of the loss to the Treasury resulting from higher costs due to "waste of personnel and of unused economic resources".
The Prosecutor therefore requested the Court to increase the orders issued at first instance on the basis of one of the following criteria: principally: 1% of the initial order requested; subordinately: an additional 50% of the order imposed at first instance.
For Sisal Entertainment S.p.A., this would mean an additional EUR 10 million in the first case, and EUR 122 million in the second.
The two proposed parameters lead to diametrically opposite consequences, including in terms of sharing the alleged loss between concessionaires: Sisal Entertainment S.p.A. would be affected to a lesser extent than the other concessionaires on the basis of the first parameter, and to a greater extent on the basis of the second. These applications will form the subject of further pleas and objections by Sisal Entertainment S.p.A.

As regards the said proceedings, the case has yet to be set down for a hearing of the main suit.

Again with regard to the AWP gaming machine sector, on November 17, 2010 the Court of Auditors issued a judgment which on the one hand recognised that one of the roles of concessionaires is to act as an accounting agent, and that they are therefore required to draw up an accounting statement, but on the other rejected the Prosecutor's request to order the concessionaires to pay large fines for the delay with which they submitted the accounting statement, ruling that there was no evidence of gross negligence by Sisal Entertainment S.p.A. in particular.

On March 14, 2011, the Regional Prosecutor of the Court of Auditors appealed against that judgment, without producing any new arguments or documents, insisting that the concessionaires must be ordered to pay heavy fines, in the case of the subsidiary Sisal Entertainment S.p.A. amounting to approximately EUR 111.6 million for the years 2004-2006, and an amount to be quantified for the subsequent years. The discussion hearing was set down for some concessionaires for March 13, 2013; and for others, including Sisal Entertainment S.p.A., for June 19, 2013.

Moreover, 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 fulfil 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 the said accounting statement", that "the accounting statements produced up to the 2009 financial year have not been checked by AAMS' Internal Control Office, which should have approved the Account", and that "in the 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 then adjourned to the hearing set down for May 16, 2013, when the said template will be examined.

Remote gaming concession

- Director's Decree no. 2011/190/CGV of February 8, 2011, published in the Official Gazette of the Italian Republic no. 56 of March 9, 2011, establishes the commencement date of the obligations referred to in arts. 24.11 to 24.25 of Law no. 88 of July 7, 2009, which constitute the general conditions for access to the concession for operation of remote gaming.

  The application forms for the Public Gaming Concession Procedure referred to in art. 24.11.A) to F) of Law no. 88 of July 7, 2009 (call for tenders published in the OJEU on March 10, 2011, S-48-079188) and the procedure for updating the concession agreement to include remote operation of public gaming pursuant to art. 24.22 of Law no. 88 of July 7, 2009, referred to in art. 2.2 of Director's Decree no. 2011-190-cgv of February 8, 2011 (commencement of obligations relating to the operation of remote gaming agencies) were published with the said Decree. Sisal S.p.A. took part in the procedure for updating the concession agreement to include remote operation of public gaming, and Sisal Match Point S.p.A took part in both the contract updating procedure and the procedure for the award of a public gaming concession, and both companies were awarded their respective concessions/updates to the agreement.

Horse racing and sports betting concession

As regards the betting sector, Fiscal Decree Law no. 16/2012, converted to Law no. 44/2012, required a new call for tenders, to be issued by AAMS not later than July 31, 2012, in compliance with the following criteria:

- participation open to all parties that carry on betting business in one of the Member States of the European Economic Area, on the basis of a valid authorisation issued by the State in which they operate, and comply with the respectability and economic/financial requirements indicated by AAMS;
- grant of concessions expiring on June 30, 2016, for physical outlets only, up to a maximum of 2000, whose sole activity is marketing of public games, without any obligatory minimum distance between them or from other outlets already conducting identical betting business;
- starting price EUR 11,000 per agency;
- signature of an agreement consistent with the principles laid down in the Costa/Cifoni judgment of the European Court of Justice, and with the compatible national provisions applicable to public gaming;
- absence of territorial limits and of privileged conditions for concessionaires already authorised to handle identical betting business;
- issue of bank guarantees by the parties appointed as concessionaires;
- extension of concessions expiring in June 2012 until the award of the concessions under the new tender procedure;
- revocation of territorial limits for horse racing and sports betting outlets previously awarded through the "Bersani" tender procedure.

On July 31, 2012, AAMS initiated the selection procedure for the award of the concessions in question, and Sisal Match Point S.p.A. presented a bid in the procedure. On November 6, 2012, the commission responsible for examining applications to participate in the said selection procedure began its examination of the documentation received, but the result is not yet known.

In the case of horse racing betting concessions awarded in 2000, on December 23, 2011 AAMS sent a request to the various concessionaires, including Sisal Match Point 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 no. 169 of April 8, 1998, destined for UNIRE, is less than the 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 no. 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 safeguards 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., appealed to the Lazio Regional Administrative Tribunal against that application by AAMS, and the Tribunal granted a suspension.

The above-mentioned Fiscal Decree Law no. 16/2012, now converted to Law no. 44/2012, cancelled the said provision relating to "safeguarding measures" for concessionaires, and provided that pending disputes could be settled by paying 95% of the amount requested by AAMS.

As a result of the appeals and additional documents filed by all concessionaires, including Sisal Match Point S.p.A., the Regional Administrative Tribunal referred the matter to the Constitutional Court.

Further information about gaming concessions

With reference to Decree Law no. 40, known as the "Incentives" Decree, published on March 26, 2010 and converted to a Law in May 2010, and in particular to the terms of art. 2.2 thereof, which prohibits State concessionaires from having any business dealings with third parties unless they are expressly contemplated in and governed by the concession and the corresponding call for tenders, and requires concessionaires to pay to the granting body any sums received by virtue of such dealings, Sisal S.p.A. obtained some legal opinions in 2010 which confirm that an in-depth examination of the provision indicates that it is not applicable to business dealings conducted by the company itself, in particular with outlets relating to the NTNG concession, and also appears to have some unconstitutional aspects, as the said provision limits freedom of private initiative for no discernible reason, and appears to be inconsistent with Community principles.

In this context, the subsidiary formally notified AAMS that it considered the said provision to be inapplicable to the business dealings conducted by it, and a similar reply, with a request to convene a round-table discussion with all concessionaires, was later sent to AAMS by Sisal Match Point S.p.A. In the meantime, Sisal S.p.A. continued to invoice and receive the specified fees without any particular problems (and still does so), while AAMS requested a general opinion from the Council of State, which was obtained in spring 2011. The reason for the request for an opinion was that on the one hand, the express purpose of the provision is to "guarantee full compliance with the Community competition principles" and on the other hand, gaming concessions "constitute a species of service concessions and as such, are not governed by Directive 2004/18/EC" and contain the "provision, which is very frequent in gaming tender procedures, regarding outsourcing of the management and organisation of the business to which the concession relates".

In the said opinion, the Council of State held that the said statutory provision is "undeniably" applicable to gaming concessions, as it is to all concessions that generate revenues for the Treasury, having regard to the literal terms of the provision; it also confirmed "the exception to the prohibition" on dealings between concessionaires and third parties if, as stated in the Act, those dealings were expressly contemplated in and governed by the tender documents, and emphasised that the rationale for the provision is to ensure "effective control by parties that operate gaming businesses".

On February 20, 2012, AAMS formulated requests to Sisal S.p.A. based on the alleged applicability of the prohibition on business dealings between concessionaires and third parties, unless such dealings are contemplated in and governed by the tender documents regarding the award of the corresponding concessions, laid down by art. 2.2 of Decree Law no. 40/2010. The said requests related to details of the amounts paid by outlets (Sisal has replied to that request); the payment to AAMS, subject to adjustment, of the total amount of about EUR 147 million, estimated to have been received by the company in the period between the start of the NTNG concession and December 31, 2011; and reiteration of the request for payment within sixty days, failing which the guarantees issued in the ambit of the NTNG concession would be called in. On the strength of the independent opinions obtained, especially from Prof. Pietro Rescigno, which state that the prohibition contained in the provision in question is inapplicable to the said dealings because the NTNG tender documents contemplated and governed them, so that the request by AAMS was unfounded, the company appealed to the Lazio Regional Administrative Tribunal against the granting agency's claims, and obtained a suspension order on April 18, the Court having ruled that the appeal showed a *prima facie* case, and set down the case for a full hearing on July 11, 2012.

In the meantime, when Fiscal Decree Law no. 16 of February 2, 2012 was converted, it was held that the said provision of art. 2.2 of Decree Law no. 40/2010, converted to Law no. 73/2010, "should be interpreted as stating that it is applicable to public State concessions whose tender procedures are published after the date of entry into force of the said Law no. 73 of 2010 and, in the case of concessions already in existence on the date of entry into force of the Law converting this Decree, provided that the files or the said transactions with third parties take the form expressed in the bid documents". The Chamber of Deputies then voted on a Government-approved agenda which, "having regard to the fact that since the formulation of the said provision, a misalignment seems to be emerging between the terms of the said sub-section, because, while the first part limits its applicability to the period after the entry into force of Law no. 73 of 2010, the last part of the sub-section could be incorrectly interpreted as retrospectively anticipating its effects, for concessions already existing on the said date", and "being aware of the need to operate on the basis of authentic interpretation, in order to discover the legislator's exact intention", requires the Government to clarify in a forthcoming legislative provision that the said terms are to be interpreted in any event as meaning that the terms of Decree Law no. 40/2010 "shall only apply to concessions where the call for tenders was published after the date of entry into force of Law no. 73 of 2010".

As we know, the tenders for the award of the NTNG concession, in the framework of which the commercial relations referred to above between the concessionaire Sisal S.p.A. and the outlets took place, was published on July 6, 2007, about three years before the entry into force of Law no. 73 of 2010; thus the prohibition contained in Decree Law no. 40 of 2010 is clearly inapplicable to the company's dealings with third parties. An identical conclusion is also reached on the basis of the letter of the provision in its current formulation, since the said business dealings were not contemplated in the tender documents submitted by Sisal at the time of the tender procedure.

This is confirmed by the judgment filed on September 25, 2012, in which the Regional Administrative Tribunal revoked the request by AAMS, ruling that the remuneration in dispute was specified in the call for tenders and does not constitute a practice in restraint of competition, and that in any event, according to the terms of Decree Law no. 16/2012, the prohibition issued by Decree Law no. 40/2010 is not applicable to it. As the time limit for appealing against the judgment of the Regional Administrative Tribunal expired on December 15, 2012, it now has the force of law.

Principal risks and uncertainties to which the Group is exposed

The Group operates in a complex regulatory environment which is subject to continuous evolution; this complexity is emphasised by the nature of the gaming industry which in recent years has experienced rates of growth not easily found in other sectors.

The strong presence of the State's 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 authorisations 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 the ever fiercer pressure 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 contestations 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 captions.

Group management monitors constantly the evolution of these factors in the light of the companies' many years of experience in the industry, undertaking where necessary legal action 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 explanatory notes dedicated to financial instruments to which reference is made for further details.

Other disclosures

As of the year-end reporting date, certain Group companies are involved in court cases and/or tax investigations.

During the course of the years 2008 and 2009, in particular, two tax investigations of Sisal S.p.A. were conducted by the Lombardy Regional Office of the Revenues Agency, respectively, 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 examining 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 issue of a Note of Findings ("NoF") mainly containing objections to the pertinence of some expenses connected with the loan secured for the foregoing merger operation which in turn can be traced to the extraordinary operation 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 for about EUR 8.2 million incurred in 2006 and denied the deductibility of VAT for about EUR 0.5 million in 2005 and about EUR 0.1 million in 2006.

Following this NoF, on December 17, 2009, the Milano 2 Local Office notified the Group company of an assessment for the unlawful deduction of VAT for EUR 530,000 in 2005, plus interest, and imposed fines for the same amount. During 2010, the company promptly appealed the assessment before the Milan Provincial Tax Commission and the first hearing, also in relation to the comments below, was postponed to the end of October 2012. Following the discussion, the Tax Commission accepted on its merits the appeal by the company which is now awaiting the counterpart's considerations about the proposition of an appeal, if any.

On May 10, 2010, the Milan Tax Police Nucleus, Second Complex Inspection Section, entered Sisal S.p.A. with a service order to perform a tax inspection for purposes of direct income taxes for the tax years 2008 and 2009. Later, on June 7, 2010, the officers charged with the inspection presented the company a supplementary order extending the inspection to cover the tax years from 2005 to 2007 only with regard to the effects of the same above-mentioned extraordinary operation mentioned for the acquisition of control of the Sisal Group which took place during 2005. The inspection activities were concluded on September 23, 2010 with the issue of a NoF in which the inspectors sustained that the extraordinary operations put in place for the above acquisition fall under the scope of the anti-evasion law of art. 37-bis of DPR 600 of September 29, 1973. According to the thesis of the inspectors, the deeds and juristic acts realized as part of these operations would have been lacking in valid economic reasons and would have generated an unlawful tax advantage represented by the company's deduction of finance expenses for IRES tax purposes. In particular, the finance expenses which would be unlawfully deducted, in the inspectors' opinion, amount to a total of approximately EUR 37 million between the years 2005 and 2008 in addition to, on the basis of the indication to the competent office contained in the NoF, expenses relating to the year 2009, for which – at the date of the NoF – the deadline for filing the tax return had not yet expired, estimated in the NoF at about EUR 9.5 million.

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

During the early months of 2012, the company, advised by its consultants, nevertheless considered it opportune to file a tax settlement proposal regarding the above findings in order to start a formal procedure for discussions over the possible reduction in the demands noted in the findings issued, however without any binding obligation to accept any proposals from the Office. Currently, the above proceedings are still pending.

At the same time the above inspection activities of Sisal S.p.A. ended, the same officers of the Milan Tax Police Nucleus began a further tax inspection of the company for purposes of direct income taxes for the tax year 2008. Later, on January 24, 2011, the officers advised the company of the extension of the inspection activities to the tax years 2006, 2007 and 2009 only with regard to the substantive control in progress on the finance expenses deriving from the transaction for the acquisition of Sisal Group's controlling investments, finalized in the month of October 2006.

On February 28, 2011, the inspectors illustrated the critical areas found during the investigation which are summarized in a document that was delivered for viewing to the company. The document shows, to their way of the thinking, that the sum of the corporate and financial transactions put in place in 2006 at the behest of the private equity funds, Apax Partners and Permira, which indirectly control the Group, are to be considered lacking in valid economic reasons and preordained to generate exclusive and huge tax advantages only for the shareholder investors. Such circumstances would constitute conditions necessary and sufficient to form an assumption of the "abuse of right" as defined by the doctrine of law of the Court of Cassation and to recover for tax purposes the non-deductible interest expenses, unlawfully recorded by the Company.

Subsequently, the Company, advised by its professional consultants, held numerous informal discussions with the Guardia di Finanza in reference to the tax inspection and developed defensive arguments both in order to reduce the significant amount of interest expenses, and above all, to convince the inspectors that their positions were unfounded, bringing evidence to sustain the valid economic reasons for the acquisition and the absence of an unlawful tax advantage.

During the course of these meetings, the Guardia di Finanza gradually displayed its readiness to substantially review its findings reducing the scope and relative fines; therefore, on November 16, 2011, the Guardia di Finanza issued a NoF in which the findings were reviewed in their entirety in order to take into account the correct calculation of the interest (which initially had been erroneously computed), the circumstance that certain of the interest expenses had not and are not relative to the acquisition process but to different and/or subsequent investments and a subordinated hypothesis which, at the most, could sustain that the assumption of the debt could be the subject of some dispute to the extent that it refers to the portion reinvested by the outgoing shareholders (the Molo family and the Clessidra Fund).

On December 6, 2011, the NOF was concluded and delivered to the company. The NoF states that the operation for the acquisition of the controlling investments of the Sisal Group by leveraged buyout (LBO) was confirmed as substantially legitimate and the attention of the inspectors is limited to the measurement of the fairness of the total debt assumed by the Parent, SHIP, for purposes of the acquisition of the Sisal Group and, given the characteristics of the dispute founded on the

“abuse of right”, the question thus surrounds the case in point (and not the LBO operations considered indiscriminately) and however only for the portion of the debt contracted and the relative expenses ideally referring to the reinvestment by the outgoing shareholders (equal to 9.6%).
Since the NoF substantially confirmed the full civil and tax legitimacy of the operations put in place and the actual costs incurred for interest and expenses, limiting itself to taking exception to an alleged excessive margin on the loan contract from which the inspectors deduced the above alleged violation of the principle of the “abuse of right”, the company, taking also into account the significant reduction in the fines as a result of the settlement procedure and only for the purpose of avoiding a long and costly possible dispute, presented a settlement proposal at the same time according to art. 5-bis of Legislative Decree 218/97, declaring however at the bottom of the NoF that this should not be interpreted in any way as being accepted or even that the observations made by the inspectors are shared. As a result, during the month of December 2011, the competent Office, that is, the Milan Provincial Office II – Controls Office notified the Company with the deeds for the settlement of the relative taxes, fines and interest for a total of EUR 7.1 million to be paid in 12 quarterly instalments, the first of which was duly paid at the end of the year. The economic and financial effects of this proposal have been recorded in the financial statements of the company as of December 31, 2011 and, for what applicable, in the run of financial year 2012 when each due instalment and related interests have been timely settled.

Again in 2010, the company Sisal Slot S.p.A. also became the subject of a tax inspection on the part of the Lombardy Regional Office of the Revenues Agency – Large Taxpayers Office, aimed at income taxes and VAT on the subject of the extraordinary transactions in the tax year 2007 regarding “property, plant and equipment” and “provisions for risks and charges” in the financial statements of the same year. On December 22, 2010, the inspection activities ended with the issue of a NoF containing, for the most part, the objection to the allegedly unlawful deduction in the period under question of higher depreciation charges relating to the type “comma 6” slot machines for about EUR 1.5 million, due to the Group company’s adoption of a tax depreciation rate (20%) not considered fair by the inspectors. Later, during the early months of 2011, the Group company, advised by its consultants, filed by the deadline its formal observations with the Office in which it described the reasons for which the company deemed that the observations made by the inspectors cannot be shared and is distorted by elements of error, whereas at the end of the year, the Milan Provincial Office II, after having requested accounting information from the company in the previous months, issued an assessment for the tax period 2006 containing the same observations in terms of the alleged unlawful deduction of higher depreciation for about EUR 0.3 million. In March 2012, the Group company also received the executive assessment regarding the year 2007. The company appealed both assessments with the Provincial Tax Commission and accompanied the appeal with a solid expert opinion from Politecnico di Milano which amply documents and supports the reasons, also technological, deriving from the specific characteristics of the gaming machines in question, which justify the depreciation rate applied to these assets contested by the Office. In the ruling filed in December 2012, the Milan Provincial Tax Commission, section 42, in which the question relating to the year 2007 was discussed in the previous month of July, rejected the appeal presented, with grounds believed by the company to be rather superficial; later, the Milan Provincial Tax Commission, section 1, in the February 2013 ruling, fully accepted the appeal presented by the company for the year 2006 and demonstrated that it perfectly understood the reasons for the recurring and highly regarded and even considerable documentation proposed in support thereof. Also in light of these recent developments it is believed that in the next higher courts both proceedings will see the recognition of Sisal Entertainment S.p.A.'s grounds and that in any case, at this time, the conditions do not exist whereby it would be probable that there will be expenses in terms of higher taxes, interest or fines by law.

In December 2011, a general tax inspection began of the company Sisal Match Point S.p.A. by the Lazio Regional Office of the Revenues Agency in reference to the year 2009; the inspection was concluded in May 2012 with the issue of a NoF containing some observations for a total amount, in terms of the alleged evasion of taxable income, of about EUR 4 million for IRES tax purposes and EUR 2.7 million for IRAP tax purposes.
Since the NoF notified by the Revenues Agency constitutes solely a communication evidencing potential problem areas at the conclusion of the inspection, in the absence of a formal assessment, this document does not constitute an act that can be automatically contested on the bases of the analyses subsequently conducted and the relative evaluations formalised by the company during the year to the competent Agency as observations under the laws contained in the taxpayers statute, it is believed that there are valid reasons to consider the position assumed by the inspectors, principally in reference to two types of observations, one relating to expenses for operations with so-called "black list" parties and the other for alleged unlawful use of the provision for risks and charges, as being without grounds, and that significant consequences for the Group company involved cannot result from these proceedings.

Moreover, in 2011 the Milan Public Prosecutor's Office commenced an investigation into Banca Popolare di Milano (BPM), especially its then Chairman, and Sisal S.p.A. was marginally involved in the investigation for allegedly aiding and abetting the said bank director's breach of trust, as defined by s. 2.635 of the Italian Civil Code.
The Defendant's Rights Notice received relates to an advantage allegedly given to the company by the bank as a result of benefits promised to the bank's director.
Sisal S.p.A. has cooperated fully and spontaneously with the investigation, in particular by providing all the documents relating to its dealings with BPM, which demonstrate that those dealings were absolutely correct and transparent and fully consistent with market conditions; this is also confirmed

by an expert's report commissioned by the company from an authoritative independent expert, Professor Paolo Gualtieri.
Sisal S.p.A. considers that even in the unlikely event that the investigation against it continues, it will have no repercussions on the company's accounts or financial statements.

Information regarding human resources and the environment

The Group had 1,574 employees as of December 31, 2012. 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.

Development and investment activities

In 2012, the Group continued to invest heavily in the renewal, modernisation and upgrading of the Group's systems and technological infrastructure which are strategic to the Group's future development. In particular, the Group invested in property, plant and equipment for a total of about EUR 45 million, of which about EUR 23 million was for the purchase or technological updating of slot machines and terminals for gaming and services. During the year, the Group purchased about 5,100 gaming terminals denominated "Microlot" and about 500 terminals denominated "Wave betting terminals" manufactured, respectively, by the Greek group Intralot and the American company Scientific Games with which agreements had been reached in previous years for the multi-year supply of such machines. In addition, about 2,000 new slot machines were purchased and about 5,500 electronic game cards were purchased/updated.
During the year, other investments were made for about EUR 8 million in equipment, refurbishings and furnishings in the Group's main operating centres, in several betting agencies and in the new gaming halls denominated "Wincity", some of which were opened during the year, such as the new Sisal Wincity in Florence, located in a prominent central area of the city, which commenced operations in December and is one of the largest opened by the Group during the last two years. About EUR 12 million was also invested in hardware, network systems and broadband connections.

With regard to investments in intangible assets, in 2012, the Group continued to develop new product applications for corporate operations and user licences were purchased for a total value of about EUR 14 million.

A significant organizational and technological effort was made during the year to integrate in the Group, in the best possible way, the companies and businesses acquired during and at the end of year 2011 operating in the running and receipts of public and sports games and in the sector for the operation, maintenance and logistics of slot machines. In the second part of the year a project was begun in the Entertainment Business Unit to identify new important opportunities for growth through acquisitions. In this area, after an in depth analysis and closer examination (including due diligence), the acquisition of a 60% interest in Friulgames S.r.l. by Sisal Entertainment S.p.A. was arranged in December 2012 and concluded in January 2013 for about EUR 5.7 million. Friulgames S.r.l. is an important company operating over 2,000 slot machines and VLTs mainly in the Friuli Venezia Giulia region and one that was already a commercial partner of the Group's concessionaire company.

Transactions with Parent companies

With regard to transactions with the shareholders of the Parent company, Gaming Invest S.à r.l., we draw your attention, as previously mentioned, to two loans outstanding at the end of the year from this company to SHIP for total principal of EUR 403.5 million in addition to unpaid accrued interest of EUR 16.5 million.

Transactions with related parties

There were no particular financial and commercial transactions with related parties. The pre-existing transactions with S.P.A.T.I. S.p.A., under liquidation, whose shareholders hold indirect interests in the ultimate parent company, had already been extinguished in the previous year.

Number and nominal value of treasury shares

Neither the Parent nor the other Group companies hold treasury shares and they do not hold shares or quotas in parent companies, even 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 addition to the events already mentioned above, no other latest developments in the sphere of the main concession activities are to be reported.

On the business front, in addition to the already mentioned acquisition of a majority interest in Friulgames S.r.l., some new NTNG products were launched. In particular, after a thorough study and the receipt of all the approvals from AAMS, the new Win for Life Classico product was launched last February and joined the other games in the Win for Life family with the aim of completing and relaunching all at once the offering and attractiveness of these games on the market; appreciable results were immediate, in line with estimates

At the same time, urgent activities aimed at the technological and commercial development and the definition of the relative regulatory aspects are underway to arrive in the shortest time possible at the launch of new online SuperEnalotto products. These are products in the NTNG family but designed specifically for the online channel and intended as an important complement to the Company's offer in this market and especially in the online market which is one of the most vibrant in the entire gaming sector in Italy.

Finally, an important company project was completed in February 2013 aimed at exploiting the corporate brand, that is, the Sisal Brand. This is considered one of the major assets of the Group and a distinctive trademark for customers and a source of renewal for Sisal's image as a group specialized in entertainment and services offered to the public. The project aims to revise the logos of the corporate brand, channel and product into a new visual identity to create a modern and innovative language to match the company's new position. Analogously, the Group defined a new vision and new mission to render "people's lives more simple and enjoyable" and to offer the best entertainment proposal and services" in a responsible and sustainable way.

Outlook

On a macroeconomic level it is foreseeable that the recession phase in Italy will continue into 2013 and only beginning from 2014 will a modest increase be recorded in a context of low, or possibly even decreasing inflation, but with a moderate rise in interest rates. Added to this scenario is the risk of political instability following the recent election results that could cause developments in the economic climate that are not entirely predictable.

As for the Group's markets, the gaming sector's receipts should still continue to grow, driven by high payout products and the launch of new products (in particular, Virtual Races and Online Slot Machines); for services offered to the public, expectations are for the continuing positive trend of the last few years, with a particular highlight on payment services and also a benefit from the possibility of partnering the new digital platforms with the widely distributed traditional channels represented by the payment and/or marketing network points in the country.

In light of these scenarios, the company's strategy will focus on pursuing the multiple emerging opportunities in the various competitive environs in which the Group operates by paying careful attention to investments in its systemic and technological infrastructures and in the development of its distribution networks. At the same time, activities and projects will continue with the aim of optimizing structure costs while the focus will remain high on all the initiatives geared to social responsibility which the Group has consistently pursued in recent years.

Having said this, the Group entertains positive expectations on the prospects for 2013 with overall anticipated economic results slightly higher than the year just ended.

Milan, April 11, 2013

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On behalf of the Board of Directors

The Chairman

Prof. Augusto Fantozzi

SISAL HOLDING ISTITUTO DI PAGAMENTO S.p.A. (with a sole shareholder)
Company subject to direction and coordination by Gaming Invest S.à r.l.
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
Tax code and VAT No. : 05425630968

Consolidated Financial Statements at December 31, 2012

STATEMENT OF FINANCIAL POSITION - ASSETS
(in Euro)

	Notes	12/31/2012	12/31/2011
A) NON-CURRENT ASSETS			
Property, plant and equipment	1)	126.606.135	120.290.083
Goodwill	2)	869.563.727	886.519.665
Intangible assets	3)	249.108.475	285.824.912
Investments accounted for using the equity method	4)	25.970	22.267
Deferred tax assets	5)	16.799.742	18.997.531
Other non-current assets	6)	14.924.890	11.883.007
Assets held for sale or discontinued operations	7)	0	0
Total non-current assets		**1.277.028.939**	**1.323.537.465**
B) CURRENT ASSETS			
Inventories	8)	9.881.492	14.506.910
Trade receivables	9)	151.314.937	183.982.923
Current financial assets	10)	1.549	1.004.098
Other current assets	11)	42.484.565	49.473.271
Taxes receivable	12)	6.285.100	2.573.569
Cash and cash equivalents	13)	242.120.067	283.691.629
Total current assets		**452.087.710**	**535.232.400**
TOTAL ASSETS		**1.729.116.649**	**1.858.769.865**

STATEMENT OF FINANCIAL POSITION - EQUITY AND LIABILITIES
(in thousands of Euro)

	Notes	12/31/2012	12/31/2011
A) EQUITY	14)		
Share capital		102.500.000	102.500.000
Legal reserve		200.000	200.000
Share premium reserve		94.484.316	94.484.316
Other reserves		(112.165.384)	(83.558.385)
Total comprehensive loss for the year		(39.808.380)	(29.357.861)
Total equity attributable to owners of the Parent		**45.210.552**	**84.268.070**
Equity attributable to non-controlling interests		**334.536**	**638.980**
Total equity		**45.545.088**	**84.907.050**
B) NON-CURRENT LIABILITIES			
Long-term debt	15)	1.010.168.287	1.082.269.643
Provision for employee severance indemnities	16)	9.095.582	7.876.214
Deferred tax liabilities	17)	28.166.129	33.648.455
Provisions for risks and charges	18)	8.863.252	15.222.577
Other non-current liabilities	19)	3.244.631	6.319.908
Liabilities relating to assets held for sale or discontinued operations	20)	0	0
Total non-current liabilities		**1.059.537.881**	**1.145.336.797**
C) CURRENT LIABILITIES			
Trade and other payables	21)	284.306.010	259.159.082
Short-term debt	22)	34.406.438	40.894.021
Current portion of long-term debt	23)	94.157.547	22.077.672
Other current liabilities	24)	210.942.847	296.401.867
Taxation payable	25)	220.838	9.993.376
Provisions for risks and charges	26)	0	0
Total current liabilities		**624.033.680**	**628.526.018**
TOTAL LIABILITIES AND EQUITY		**1.729.116.649**	**1.858.769.865**

STATEMENT OF COMPREHENSIVE INCOME

(in thousands of Euro)

	Notes	12/31/2012	12/31/2011
Revenues	27)	754.134.220	792.621.289
Fixed odds betting income	28)	62.283.444	74.456.053
Other revenues and income	29)	6.978.487	2.762.614
Total revenues and income		**823.396.151**	**869.839.956**
Purchases of materials, consumables and merchandise	30)	13.345.098	18.881.787
Costs for services	31)	520.295.192	547.267.673
Lease and rent expenses	32)	16.446.423	13.813.109
Personnel costs	33)	76.050.854	69.008.124
Other operating costs	34)	48.204.151	31.415.328
Total costs		**674.341.718**	**680.386.021**
Gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals		**149.054.433**	**189.453.935**
Amortisation, depreciation, provisions and impairment losses and reversals	35)	117.230.463	133.080.892
Net operating profit (EBIT)		**31.823.970**	**56.373.043**
Finance income and similar	36)	4.343.235	4.033.370
Finance expenses and similar	37)	73.261.546	73.064.064
Adjustments to financial assets	38)	0	0
Share of profit/(loss) of companies accounted for by the equity method	39)	(45.296)	(10.779)
Loss before income taxes		**(37.139.637)**	**(12.668.430)**
Income taxes	40)	2.664.251	16.677.189
Loss from continuing operations		**(39.803.888)**	**(29.345.619)**
Result attributable to assets held for sale or discontinued operations	41)	0	0
LOSS FOR THE YEAR		**(39.803.888)**	**(29.345.619)**
Other comprehensive income	42)	0	0
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(39.803.888)**	**(29.345.619)**

Profit attributable to non-controlling interests		4.492	12.242
Loss attributable to owners of the Parent		(39.808.380)	(29.357.861)
Total comprehensive income attributable to non-controlling interests		4.492	12.242
Total comprehensive loss attributable to owners of the Parent		(39.808.380)	(29.357.861)
Basic gain (loss) per share	43)	(0,39)	(0,29)
Diluted gain (loss) per share	43)	(0,39)	(0,29)

STATEMENT OF CHANGES IN EQUITY

	ATTRIBUTABLE TO THE OWNERS OF THE PARENT						
(in thousands of Euro)	Share capital	Legal reserve	Share premium reserve	Other reserves	Retained earnings (Accumulated deficit)	Non-controlling interests	Total Equity
Equity at December 31, 2010	**102.500**	**200**	**94.484**	**1.124**	**(85.166)**	**682**	**113.824**
Profit and loss recorded directly in equity							
Loss for the year					(29.357)	12	(29.345)
Total comprehensive loss for the year	**0**	**0**	**0**	**0**	**(29.357)**	**12**	**(29.345)**
Dividends paid (Sisal S.p.A. shareholders' meeting of June 15, 2011)						(55)	(55)
Other changes				483			483
Equity at December 31, 2011	**102.500**	**200**	**94.484**	**1.607**	**(114.523)**	**639**	**84.907**
Profit and loss recorded directly in equity							
Loss for the year					(39.808)	4	(39.804)
Total comprehensive loss for the year	**0**	**0**	**0**	**0**	**(39.808)**	**4**	**(39.804)**
Dividends paid (Sisal S.p.A. shareholders' meeting of June 28, 2012)						(43)	(43)
Other changes				485	266	(266)	485
Equity at December 31, 2012	**102.500**	**200**	**94.484**	**2.092**	**(154.065)**	**334**	**45.545**

STATEMENT OF CASH FLOWS

(in thousands of Euro)	2012	2011
Loss for the year before taxes	**(37.140)**	**(12.668)**
Amortisation and depreciation	89.034	89.432
Impairment charge for receivables in current assets	15.729	12.330
Property, plant and equipment and intangible assets impairment loss (reversal)	17.166	25.734
Investment impairment loss	45	10
Provision for risks and charges - accruals (releases)	(4.698)	5.585
Employee severance indemnities - accrual	1.852	72
Other accruals	485	483
Finance (income) expenses	68.919	69.032
Result for the year +/- adjustments reconciling to cash provided by operations before changes in working capital	**151.392**	**190.010**
Change in working capital	*(17.523)*	*(241.924)*
Net interest paid	*(48.996)*	*(54.862)*
Taxes (paid) /reimbursed	*(24.313)*	*(19.486)*
Cash flows provided by (used in) operating activities	**60.560**	**(126.262)**
Increase (-) decrease (+) in intangible assets	(13.751)	(14.906)
Increase (-) decrease (+) in property, plant and equipment	(45.095)	(34.628)
Increase (-) decrease (+) in investments	(49)	1
Increase (-) decrease (+) in other non-current assets	0	0
Take overs (-)	(9.155)	(10.578)
Cash flows provided by (used in) investing activities	**(68.050)**	**(60.111)**
Increase (-) Decrease (+) in financial assets	0	
Increase (+) Decrease (-) in loans	(29.221)	(3.378)
Dividends paid to minority interests	(43)	(55)
Increase (+) Decrease (-) in leases payable	(4.818)	617
Cash flows provided by (used in) financing activities	**(34.082)**	**(2.816)**
Increase (decrease) in cash and cash equivalents	**(41.572)**	**(189.189)**
Cash and cash equivalents at the beginning of the year	**283.692**	**472.881**
Cash and cash equivalents at the end of the year	**242.120**	**283.692**

SISAL HOLDING ISTITUTO DI PAGAMENTO GROUP

Explanatory Notes
to the Consolidated Financial Statements as of December 31, 2012

STRUCTURE AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sisal Holding Istituto di Pagamento S.p.A. (SHIP S.p.A.) is a limited liability stock company established under the law of the Republic of Italy; at the 2012 year-end the Company had two main activities. The first is represented by the supply of collection and payment services, performed under appropriate authorization issued by the Bank of Italy, to third parties commercial partners and subsidiaries; the second is represented by the ownership of a controlling interest in Sisal S.p.A. a company which operates directly and indirectly through its subsidiaries in Italy in the gaming industry, through a network of more than 46,000 points of sale and about 200 betting agencies throughout the country, principally on the basis of concessions for wagers in pools, horse racing and sports bets and legal gaming using Amusement With Prize gaming machines (AWP gaming machines) and the operation of a Bingo hall in the city of Naples. The same subsidiary carries out marketing activities for telephone top-ups and TV content recharges. The Company also renders management and strategic services to the main subsidiaries subject to its direction and coordination activities.

The company's registered office is at Via Tocqueville 13 in Milan, Italy.

These consolidated financial statements, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and explanatory notes have been prepared from the accounting records and in conformity with International Financial Reporting Standards (IFRS) adopted by the European Union.

In this context, IFRS includes all the International Financial Reporting Standards, all the International Accounting Standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC) in force at the date of preparation of these financial statements and published at that date in the relevant E.U. regulations.

The preparation of financial statements according to IFRS may require the use of estimates and specific valuations and the reasonable judgement of management in the application of accounting policies. The matters which present higher levels of complexity and/or greater reliance on assumptions and estimates are detailed in the paragraph “Use of estimates”.

The financial statements which follow include all the additional information considered necessary even if not required by specific legislation. Valuations have been made on a prudent basis and assuming continuity as a going concern, respecting the criteria and the limits established by law absent any grounds for deviation from them, and applying the accruals concept.

The financial statements have been prepared in the following manner:

- in the statement of financial position, current and non-current assets and liabilities are shown separately;
- in the statement of comprehensive income, the analysis of costs is made on the basis of their nature;
- in the statement of cash flows, the indirect method is used.

These consolidated financial statements are presented in euros and all amounts presented in the explanatory notes are expressed in thousands of euros unless otherwise stated.

The financial statements were approved by the Board of Directors of Sisal Holding Istituto di Pagamento S.p.A. on April 11, 2013.

CONSOLIDATION AREA

The consolidated financial statements as of December 31, 2012 include the financial statements at the same date of Sisal Holding Istituto di Pagamento S.p.A. (the Parent company) and those of the companies in which it holds, directly or indirectly through subsidiaries, more than half of the voting rights, even as a result of an agreement with other investors, or the power to determine the financial and operational policies of the company through a contract or a clause in that company’s bylaws.

A company is also considered to be controlled under IAS 27 if the Parent company retains the right to appoint or dismiss the majority of its board of directors or exercise the majority of voting rights in the governing body when the control is held by that body.

The list of consolidated companies, all consolidated using the line-by-line method, with details of their name, registered office, share capital and percentage owned is provided in Annex 1.

Entities excluded from the consolidation are accounted for by applying the methods described under “Investments”.

Change in the scope of consolidation

There were no changes in the scope of consolidation since the important acquisitions concluded at the end of 2011, that is, the acquisition of 100% interests (and some related business segments) in the companies Ilio S.p.A., La Martingala S.r.l. and Arezzo Giochi S.r.l. These companies, operating as concessionaires for the receipt of horse racing and sports bets, were already included in the scope of consolidation in the relative financial statements of the year 2011. Since these acquisitions were concluded at the end of the year, only their balances sheets and the related goodwill arising from the business combination entries were consolidated in the statement of financial position, whereas, from January 1, 2012, their statements of comprehensive income have also been consolidated in these consolidated financial statements.

Financial statements used in consolidation

The statements of financial position and the statements of comprehensive income of subsidiaries used in consolidation have been prepared by the individual subsidiaries and are consistent with the financial statements as of December 31 approved by the shareholders’ meetings of the respective companies.

The Group’s accounting policies are in accordance with International Financial Reporting Standards, issued by the International Accounting Standards Board (IASB) and approved by the European Commission for the preparation of consolidated financial statements by companies with equity or debt securities listed on one of the European Community’s regulated stock exchanges.

Reference date of the consolidated financial statements

For the 2012 financial year, the statement of comprehensive income reflects the accounting period of the financial statements of the Parent company, Sisal Holding Istituto di Pagamento S.p.A., and all the other companies, subsidiaries and associates, from January 1, 2012 to December 31, 2012.

BASIS OF CONSOLIDATION

In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis. The same accounting standards and accounting policies adopted by the Parent company are applied in the preparation of the consolidated financial statements.

The principles of consolidation adopted are as follows:

- the consolidated financial statements include the financial statements of all subsidiaries from when control over such subsidiaries by the Group commences until the date that control ceases and is transferred to third parties. Starting from December 31, 2010, the business combinations are recorded in accordance with IFRS 3R. At the date of acquisition of control, the equity of the acquired companies is determined attributing to the individual elements of assets and liabilities their fair value. Any difference relative to the cost of the acquisition, if positive, is recorded as goodwill and, if negative, is recognised in the statement of comprehensive income as income from the concluded transaction. Transaction costs are recorded in the statement of comprehensive income when incurred.

  Contingent consideration, considered part of the purchase price, is measured at fair value at the acquisition date. Subsequent changes in fair value, if any, are recognized in the statement of comprehensive income;
- receivables and payables between companies included in the consolidation area have been eliminated;
- costs and revenues, expenses and income between companies included in the consolidation have been eliminated, including dividends distributed within the Group, which have been reallocated in the equity of the Group;
- gains and losses resulting from transactions between Group companies which have not yet been realised with third parties at the end of the reporting period have been eliminated, if significant.

Non-controlling interests

Equity and profit attributable to non-controlling interests are shown as separate items in the financial statements; at the acquisition date, the non-controlling interests can be measured at either the acquisition-date fair value or according to the proportionate share of the ownership interest in the identifiable net assets acquired. The choice of method is made transaction by transaction.

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

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

Translation of foreign currency financial statements

The translation of financial statements expressed in a functional currency other than the Euro has been carried out as follows:

- statement of comprehensive income items have been translated at the average rate for the year;
- statement of financial position items have been translated at the year-end exchange rate.

Translation differences originating from the application of exchange rates and from the translation of opening equity at exchange rates prevailing at the end of the financial year, compared with the rate in effect at the end of the prior year, are recorded directly in the statement of comprehensive income.

The exchange rates applied in the translation of financial statements are the following:

Currency	**Average exchange rate 2012**	**Year-end exchange rate 2012**
British pound	0.810871	0.8161
Currency	**Average exchange rate 2011**	**Year-end exchange rate 2011**
British pound	0.86788	0.83530

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Sisal Holding Istituto di Pagamento S.p.A. Group have been prepared under the historical cost convention where there was choice between cost and fair value.

The accounting policies adopted are described below.

Property, plant and equipment

Property, plant and equipment are carried at cost and recorded at purchase price or construction cost including any directly attributable costs to have the asset ready for use.

The expenses incurred for ordinary and/or cyclical maintenance and repairs are charged directly to the statement of comprehensive income in the year incurred. The capitalization of costs inherent to the expansion, modernization or improvement of the structural elements owned or in use 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., Sisal Match Point S.p.A. and Sisal Bingo S.p.A., which applied a regime of non-recoverable VAT in accordance with art. 36 bis of D.P.R. 633/72. As a result, 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 capitalised 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 over their 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.
When capital expenditures made by the companies refer to assets for the management of gaming obtained by concession from the Customs and Monopolies Agency (AAMS) and are transferable free of charge at the end of the concession period, depreciation is taken over the shorter of the estimated useful life of the asset and the remaining period of the concession.

The main depreciation rates applied are as follows:

Property, plant and equipment	%
Buildings	3
Plants	10-12-15-25-30
Equipments	12-20-25-33,33-40
Other assets:	
-vehicles	20-25
-fixtures & furniture	12
-electronic office equipment	20
Leasehold improvements	shorter of the duration of the lease and the useful life of the asset

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

The Group tests for impairment at least annually if circumstances indicate that the carrying amount of property, plant and equipment may be impaired. In the presence of such indications the recoverable amount of the asset is determined in order to establish the amount of any impairment.

The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. The value in use is determined by discounting estimated future cash flows from the use of the asset and from its disposal at the end of its useful life. Discounting to present value is made using a rate which takes into account the risks specific to the sector of activity. An impairment is recognised when the recoverable amount is lower than the carrying amount. If in subsequent periods the conditions that gave rise to a previous impairment loss no longer exist, the asset value is reinstated to the lower of the recoverable amount and the amount that would have been recorded had no impairment loss been recognised, allocating the difference to the statement of comprehensive income.

Assets held under a finance lease, 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 property, plant and equipment 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 depreciated in the manner described. When there is no reasonable certainty that the lessee will obtain ownership of the asset at the end of the lease term, depreciation is taken over the shorter of the lease term and the useful life of the asset. In the statement of comprehensive income, depreciation and the interest expense relating to the financial component of the lease instalment are recorded in the place of the lease instalments.

Intangible assets

The intangible assets of the Group, as set out in IAS 38, consist of assets which are identifiable, have the capacity to produce future economic benefits and can be controlled by the company.
Such assets are recorded at purchase cost, including directly attributable expenses and are amortised systematically over the duration of their residual possibility of utilization; however, intangible assets with an indefinite life are not amortised but are tested periodically for impairment.
Assets acquired in business combinations are recorded at fair value at the date of acquisition.
The Group assesses at least once a year whether there is any indication that an intangible asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the intangible asset in order to recognise any impairment.

Similarly, when an impairment loss has been recorded in prior years, at the end of every reporting date the Group assesses whether there is an indication that an impairment loss recognised on an asset in previous years – other than goodwill – may no longer exist or has decreased. Whenever there is a change in the estimates used to determine the recoverable amount of the asset since the last impairment charge, the assets are restated at the lower of the recoverable amount and the previous amount recognized in the financial statements, recording the difference in the statement of comprehensive income. The reversal, if any, may not exceed the carrying amount of the asset that would have been recorded (net of amortisation) had no impairment loss been recognised in previous years.

Intangible assets comprise the following categories which are being amortised:

- patent rights and intellectual properties are stated at the cost of purchase and amortised over three years. Costs to develop software are capitalised and amortised on a straight-line basis over three or five years;
- concessions are stated at the cost of purchase and amortised over the concession period;
- trademarks are stated at the cost of purchase and amortised on the basis of their effective future benefit;
- software user licences are stated at the cost of purchase and amortised on a straight-line basis according to their use;
- the other intangible assets relate to the values allocated on acquisition to the assets of the Sisal physical network, the Match Point physical network and Technology Supply.

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 property, plant and equipment 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 depreciated 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, depretiation is made over the shorter of the lease term and the useful life of the assets. In the statement of comprehensive income, depretiation and the interest expense relating to the financial component of the lease instalment are recorded in place of the lease instalments.

The costs relating to the development of the website used for the receipt of bets online, as well as the future management of online payment services, have also been capitalised. In accordance with SIC 32 and IAS 38, such costs have been capitalised since it is believed that the estimated future economic benefits linked to receipts from online games is able to sustain the amount capitalised.

Goodwill

Goodwill arising on an acquisition or business combination is recognised initially at cost since it represents the excess of the cost of acquisition over the Group's interest in the net fair value of the assets acquired and liabilities and contingent liabilities assumed. Goodwill is an intangible asset with an indefinite life and, as such, is not subject to amortization but is tested periodically for impairment to verify the adequacy of the carrying amount in the financial statements with the excess carrying amount, if any, recognised in the statement of comprehensive income. The reversal of a previous writedown for the impairment of goodwill is not permitted.

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The impairment test is carried out by comparing the carrying amount of goodwill and the groups of related net assets separately capable of producing cash flows, or the Cash-Generating Units (CGU), with the higher of the fair value less costs to sell and the value in use of the CGU. The value in use is determined applying the discounted cash flow method by discounting the operating cash flows based on projections made according to assumptions contained in business plans approved by management.

Financial assets

Financial assets are classified at initial recognition under one of the following four categories and measured as follows:

Financial assets at fair value through profit or loss

This category includes: (a) financial assets purchased principally for trading in the short term; (b) those initially designated in this category, whenever applicable, or when the fair value option is exercisable; (c) derivatives (except for a derivative that is designated as an effective hedging instrument - “cash flow hedge”). These financial assets are measured at fair value; changes in fair value during the period of ownership are accounted for in the statement of comprehensive income. Financial instruments under this heading are classified as short term if held for trading or if disposal is expected within 12 months of the end of the reporting period. Derivatives are recognised as assets or liabilities, depending on whether their fair value is positive or negative; positive and negative fair values arising from existing transactions with the same counterparty are offset, whenever envisaged by contract.

Loans and receivables:

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They refer to receivables from customers, including trade receivables, and are shown in current assets except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The assets are measured at their amortised cost, based on the effective interest rate method. Whenever there is clear indication of an impairment, the carrying amount of the asset is reduced to the present value of estimated future cash flows. The impairment loss on trade receivables is determined on the bases of objective evidence of the uncollectibility of the amounts. This evidence arises when the customer is unable or has difficulties in fulfilling its commitments (i.e. state of insolvency, overdue in excess of a certain number of days, company restructurings).

The impairment loss is charged to the statement of comprehensive income under operating costs and represents the difference between the carrying amount of the receivable and the present value of future expected payments. 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 recorded had amortised cost been applied.

Investments held to maturity

This category includes non-derivative financial instruments, with fixed or determinable payments and fixed maturity dates, which the Company intends and has the ability to hold to maturity. These assets are measured at amortised cost, using the effective interest rate 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

This category includes non-derivative financial instruments either designated in this category or not classified in any of the other categories. These assets are measured at fair value and the gains or losses arising from such valuation are recorded in an equity reserve; gains or losses are recognised in the statement of comprehensive income only when the asset is sold (or extinguished) or, in the case of cumulative negative changes, when it is deemed that the impairment loss already recorded in equity cannot be recovered in the future. If the fair value cannot reasonably be determined, such assets are measured at cost adjusted by impairment losses extrapolated from converging indicators which evidence the incapacity of the asset to recover its original carrying amount. The classification between current and non-current assets depends on the strategic choices concerning the duration of ownership of the asset and its effective negotiability: those expected to be disposed of within 12 months from the end of the reporting period are accounted for in current assets.

Financial assets are derecognised from the statement of financial position when the right to receive cash flows from the instrument is extinguished and the company has substantially transferred all risks and rewards related to the instrument and its control.

Investments

Investments in associates are accounted for using the equity method which provides for the recognition, in a separate line of the statement of comprehensive income, of the Group's share of the results of the companies in which a significant influence is exercised.

Investments in companies in which the Group does not exercise either control or a significant influence are measured at fair value in accordance with IAS 39 except in those cases when fair value cannot be determined; in that case, cost is adopted. Gains or losses from adjustments in value are recognized as other comprehensive income, accumulated in a specific equity reserve. If there is objective evidence that an asset may be impaired, the cumulative loss that was recorded in other comprehensive income must be reclassified from equity to the result for the year as a reclassification adjustment even if the financial asset was not eliminated.

Inventories

Inventories of playslips and rolls of paper for gaming terminals are stated at the lower of purchase cost, using the weighted average cost method, and the cost of replacement by reference to the market price as of December 31, 2012.

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 recording a specific provision directly as a deduction of the asset.

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

Cash and cash equivalents

Cash and cash equivalents are recorded at their nominal value.

Non-current assets held for sale and discontinued operations

Assets held for sale include assets and/or lines of business held for sale under a committed plan to sell a business segment.

An asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Discontinued operations, represented by the related profit (loss) and gains or losses on disposal, if any, are presented net of taxes in the statement of comprehensive income on a separate line.

Debt and financial liabilities

Debt and financial liabilities, comprising loans, trade payables and other financial obligations are measured at amortised cost, applying the effective interest rate method.

Financial liabilities are classified as current liabilities, unless the Company has an unconditional right to defer payment for at least 12 months after the balance sheet date.

Financial liabilities are derecognised from the statement of financial position at the time of extinguishment and when the Company has transferred all risks and rewards related to the instrument.

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 recognised 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 fulfil the obligation. This amount represents the best estimate of the present value of the expenditures required to extinguish the obligation.

Employee benefits

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 statement of comprehensive income as they occur, based on the relative nominal value. In defined benefit plans, as the amount of the benefit to be granted is quantifiable only after termination of employment, the cost is charged to the statement of comprehensive income based on actuarial computations.

The severance indemnity, regulated by art. 2120 of the Italian Civil Code, represents the indemnity recognised in Italy to employees and accrued during their service life, which is liquidated on termination of employment (severance).

It is classified as an unfunded defined benefit plan and therefore there are no assets to service it.

Following the reform of complementary pensions, in accordance with Legislative Decree 252 dated December 5, 2005, the severance indemnity due to employees up to December 31, 2006 will remain as a liability of the company while that accruing to employees from January 1, 2007 must be, at the discretion of the employee, either placed in a complementary pension scheme or remain in the company which will then transfer it to the fund managed by INPS (the Italian Social Security Institute).

The change in the legislation has resulted in a differentiation in the treatments of the amounts due to the employee at the termination of employment as follows:

- the liability for the portion of severance indemnity accrued up to December 31, 2006 continues to follow the rules for defined benefit plans;

- the liability for the portion maturing from January 1, 2007, payable to complementary pension schemes or to the INPS treasury fund, is recorded on the basis of contributions due in the period.

With regard to the severance indemnity accrued up to December 31, 2006, inclusion in the financial statements as a defined benefit plan requires an actuarial estimate of the sums due to employees in exchange for their service in the current period and in the preceding years and the discounted present value calculation of such services in order to determine the present value of the Group's obligations. The calculation of the present value of the Group's obligations is carried out by an external expert using the Projected Unit Credit Method which considers only the seniority matured

at the time of the valuation, the service years accrued at such date and the overall seniority at the time of expected payment of the benefit.
As the Group, after the above mentioned reform, has no obligation for the indemnity maturing after December 31, 2006, the component relative to future salary increases is excluded from the actuarial calculation of the indemnity.

The severance indemnity cost in the current period, charged to the statement of comprehensive income under personnel costs, is equal to the sum of the indemnity matured by the employees working during the year, the finance charge on the present value of the Group's obligation at the beginning of the year and the gains and losses caused by changes in the actuarial assumptions. It should be noted that the Group has decided not to use the "corridor approach" and to recognise gains and losses arising from changes in actuarial assumptions directly in the statement of comprehensive income.
The annual discount rate adopted for calculating present value has been determined on the basis of the average 11-year IBoxx Corporate Index updated to December 31, 2012.

Stock options

Stock option plans and other initiatives remunerated by equity instruments, if any, are accounted for in accordance with IFRS 2, separating those which will be settled through the issue of equity instruments and those which will be settled by payments in cash based on the value of the options granted.
The fair value is determined at the grant date and causes the cost to be recognised (under personnel costs) over the vesting period of the options granted. When the employee's service is remunerated with an equity instrument or when the options granted are on the shares of the Parent company, the contra-entry is to an equity reserve ("stock options reserve" included under "Other reserves"). Instead, when the cost of the share-based payment transaction is settled in cash, the contra-entry is to a payable account.

Foreign currency transactions

Revenues and costs in currencies other than the functional currency, the Euro, are recorded at the exchange rate prevailing at the transaction date.
Monetary assets and liabilities denominated in currencies other than the functional currency are translated to the functional currency at the exchange rate prevailing at the end of the reporting period, with any effect posted to the statement of comprehensive income. Non-monetary assets and liabilities in currencies other than the functional currency measured at cost are recorded at the original transaction rate; when the measurement is at fair value or at the recoverable/realizable amount, the exchange rate at the measurement date is used.

Recognition of revenues

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

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

In accordance with IAS 18, 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 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 recognised 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 recognised in the statement of comprehensive income under "Fixed odds betting income" until the date of the event on which the bet was taken.

Cost of goods purchased and services performed

Purchases of goods and the performance of services are recognised in the statement of comprehensive income on the accrual basis.

The costs incurred by Group companies, specifically Sisal Entertainment S.p.A, Sisal Match Point S.p.A. and Sisal Bingo S.p.A., which applied a regime of non-recoverable VAT in accordance with art. 36 bis of D.P.R. 633/72, are recognized in the statement of comprehensive income 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.

Financial income and expenses

Financial income and expenses are recognised on an accrual basis using the effective interest method.

Income taxes

Income taxes are provided on the basis of an estimate of the tax expense for the year under current laws.

The corresponding liability is shown under “tax payables”.
In accordance with IAS 12, deferred tax assets and liabilities are recognised on the temporary differences between the carrying amount of an asset or a liability in the statement of financial position and its tax base. Deferred tax assets are recognised only to the extent that their recovery is considered probable.
Deferred taxes assets and liabilities are classified as non-current assets and liabilities, respectively. They may be compensated when there is a legally enforceable right to offset and the net amount will be shown as “deferred taxes assets” or “deferred taxes liabilities” depending whether receivable or payable. When the effects of a transaction are credited or charged directly to equity, the related current and deferred taxation is also recognised directly in equity.

Deferred tax assets and liabilities are computed using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled to the extent that such rates have been approved at the end of the reporting period.

Expenses, if any, in connection with litigation with the tax authorities is recorded in “income tax”. in the statement of comprehensive income for the portion relating to the evasion of taxes and the corresponding penalties.
Receivables from the tax authorities are not discounted to present value.

Segment reporting

The operating segments have been identified by management, consistently with the management and control model, with the Business Units in which the Group operates.

Use of estimates

The preparation of the consolidated financial statements and the related explanatory notes in accordance with International Financial Reporting Standards requires estimates and assumptions to be made which have an effect on the reported amounts of assets and liabilities and on the disclosure of contingent assets and liabilities at the end of the reporting period. Actual results could differ from estimates.
Below are briefly described the accounting policies which require more subjective estimates and for which a change in the underlying assumptions may have a significant effect 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 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 2 on Goodwill.

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. 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 with appropriate valuation techniques. 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.

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

The cost of property, plant and equipment and intangible assets is depreciated/amortised 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 economical useful life may, therefore, be different from its estimated useful life. Each year the technological and business segment developments, any contractual and legislative changes related to the utilisation of the assets and their recovery value are reviewed to update the residual useful life. Such updating may modify the period of depreciation and consequently the annual rate and charge for the current and future 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 recognising deferred tax assets depends on factors which may vary over time and may have significant effects on the measurement of this item.

Provisions for risks and charges

The Group accrues in this provision 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 to the company's business.

Severance indemnity

The measurement of the severance indemnity provision (TFR) is carried out by external actuaries; the computation considers the TFR matured on past service and is based upon various assumptions, both demographic and financial. Such assumptions, also based on the company's experience and relevant best practice, are periodically reviewed.

Changes in the adopted accounting standards

There are no changes in the adopted accounting standards compared with the previous year.

In particular, with regard to the application of recently issued accounting standards applicable from January 1, 2012, the following accounting standards, although having no significant impact on the financial statements for the year ended December 31, 2012, are applicable in the typical business of the Group and could have significance in future.

- IFRS 7 – Financial Instruments: Disclosures - Disclosures on transfers of financial assets, applicable from July 1, 2011.

The following principles, amendments and interpretations, in effect from January 1, 2012, address situations and circumstances that are currently not present in the Group. Should they apply to future transactions they will be identified and correctly treated:

- On December 20, 2010, the IASB issued a minor amendment to IAS 12 – Income Taxes, which clarifies the accounting for deferred taxes on investment property measured at fair value.

The Group has not early adopted the accounting standards already endorsed by the European Community but effective for the Group for annual periods after December 31, 2012.
In particular, the following have not been early adopted by the Group:

- IAS 1 - Presentation of Financial Statements - amendment 2011, applicable from July 1, 2012;
- IAS 19 (revised) - Employee Benefits, applicable from January 1, 2013;

- Amendment to IFRS 7 - Financial Instruments: Disclosures, applicable from January 1, 2013;
- IFRS 10 - Consolidated Financial Statements, applicable from January 1, 2014;
- IFRS 11 - Joint Arrangements, applicable from January 1, 2014;
- IFRS 12 - Disclosure of Interests in Other Entities, applicable from January 1, 2014;
- IFRS 13 - Fair Value Measurement, applicable from January 1, 2013;
- IAS 27 (revised) - Separate Financial Statements, applicable from January 1, 2014;
- IAS 28 (revised) - Associates and Joint Ventures, applicable from January 1, 2014;
- IAS 32 Financial Instruments: Presentation - Amendment 2012, applicable from January 1, 2014.

The Group is currently assessing the impact of the applicability, if any, of the above standards on its financial statements.

Moreover, the following standards and amendments are in the process of being endorsed by the European Union and therefore to date are not applicable to the Group:

- IFRS 9 Financial Instruments
- Improvements to IFRSs 2009-2011.

Reclassifications were made to certain lines of the consolidated financial statements at December 31, 2011 for purposes of comparison. These specifically regard the reclassification of receivables and payables to the tax authorities, other than income taxes, to other current assets and liabilities in order to separately show income taxes as required by international accounting standards. These reclassifications, equal to EUR 9.6 million and EUR 6.1 million, respectively, did not have an impact on the loss for the year.

Similarly in the financial statements at December 31, 2012, the statement of cash flows is reconciled to the changes in "cash and cash equivalents" whereas in prior years the definition of liquidity at the beginning and end of the year represented the sum of cash, short-term loans and the current portion of long-term loans. The 2011 statement of cash flows has been restated consistently with this new approach.

RISK PROFILE

The main financial instruments used by the Group comprise bank loans, finance leases, short-term bank deposits and bank deposits on demand. The main objective of these instruments is to fund the operating activities of the Group. The Group also has various other financial instruments such as trade receivables and payables from operating activities

Market risk

Market risks according to international accounting standards are as follows:

Exchange rate risk

The Group is exposed to exchange rate risks to a limited extent, solely in reference to the supply of spare parts for gaming equipment purchased in foreign currency (USD and GBP).

Interest rate risk

The Group is exposed to risks related to fluctuations in the levels of interest rates, specifically with reference to a financing contract signed at the end of 2006 with a pool of banks with Royal Bank of Scotland acting as agent bank; this risk was partially covered by a series of interest rate swap until December 31, 2012.

Raw materials price risk

The Group's exposure to price risk is minimal.

Liquidity risk

Liquidity risk is the risk of not being able to fulfil present or future obligations on account of 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 funding and the gradual and homogeneous distribution of maturities of medium- and long-term funding over time.

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 values played on the gaming terminal 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 transactions with the agencies managed by third parties, under partnership agreements, and with the parties operating AWP 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 eventually granted to individual players, in accordance with the internal procedure, is subject to the examination and authorization of management on the basis of technical and commercial assessments.

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.

Gaming concessions and related litigation

On the gaming concessions and relative litigation front, the following principal developments are reported.

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

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

- on June 26, 2009, after a process lasting approximately two years and the favourable outcome of the verification processes conducted by the State Monopoly Board (AAMS, now the Customs and Monopolies Agency), relating in particular to Sisal's bid, an agreement governing the concession was entered into between AAMS and Sisal;

- on the legal front, Sisal S.p.A. had to contend with some appeals to the administrative tribunal filed by the other two companies participating in the selection procedure (namely SNAI S.p.A. and Lottomatica S.p.A.) and by other companies (including Stanley International Betting Limited), mainly with a view to gaining access to all the documentation and having the provisional and final concession awards overturned. They include the appeals filed by SNAI S.p.A., which complained that the specific points contained in its proposals had not been sufficiently taken into consideration compared with the evaluation of the same points described in Sisal's proposals, and by Lottomatica S.p.A., objecting to the failure of the Examining Commission to carry out the verification procedure on an "anomalous" bid. With specific reference to this latter appeal, on March 25, 2009, AAMS announced its decision to instruct the Examining Commission to carry out a preliminary investigation to verify the suitability of the bid submitted by the company. The verification by the Examining Commission was completed on May 18, 2009, and established that the technical and economic bid submitted by Sisal was suitable and reliable, thus effectively removing the substance of the appeal made to the Regional Administrative Tribunal (TAR) by Lottomatica S.p.A. against the outcome of the selection procedure. As a result, with reference to the legal proceedings filed by Lottomatica S.p.A. and SNAI S.p.A. against the final award of the tender to the Group company, at the hearing on May 27, 2009, the Appellants asked for a period of time to examine the outcome of the verification procedure with the aim of filing additional objections if applicable, and such objections were subsequently filed. On June 25, 2009 and July 14, 2009, SNAI S.p.A. and Lottomatica S.p.A. filed an additional pleading setting out their objections to the Commission's ruling. The proceedings are still pending at the date of the financial statements, since a date for the public hearing of the above-mentioned appeals has yet to be set. In Sisal S.p.A.'s opinion, the appeals are unfounded with reference to the claims regarding the alleged anomaly of the bid and, with specific reference to the appeals filed by SNAI S.p.A. and Stanley International Betting Limited, are inadmissible, since they were filed by parties which had no interest in appealing: in the case of SNAI S.p.A., because of its position in the final award classification, and in the case of Stanley International Betting Limited, because it did not participate in the tender procedure.

Again as regards the concession for the operation and development of national totalisator number games (NTNG), art. 14.3 of the corresponding Agreement contains an undertaking by the Concessionaire to collect minimum gaming receipts of € 350 million in the first 18 two-month periods during which the concession is in force, failing which a penalty of € 500,000.00 will be imposed for every million euros or fraction thereof not collected. In the last two-month period in question, May-June 2012, the receipts collected amounted to EUR 317,326,174.00; AAMS then asked the company to pay a penalty calculated at EUR 16,500,000.00. The concessionaire filed formal defence arguments and appealed to the Lazio Regional Administrative Tribunal, substantially arguing that in the 18 two-month periods referred to in the agreement, taken as a whole, the receipts collected were actually 50% higher than the minimum guaranteed amount, and raised various crucial factors, falling outside the concessionaire's control, which led to its failure to reach the minimum receipts in the said two-month period; however, after the main hearing on December 19, 2012, the Regional Administrative Tribunal ruled, by judgment filed on February 13, 2013, that the penalty imposed by AAMS was lawful. The judgment appears to be substantiated, although various aspects are deserving of consideration by a higher court, and in any event leads to a substantially unfair result; Sisal S.p.A. is therefore considering whether to appeal against the judgment to the Council of State.

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

- Sisal Entertainment S.p.A., formerly Sisal Slot S.p.A., operates in the AWP gaming 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 AWP gaming machines, and of the associated activities and functions, signed on June 3, 2006.

- Despite the growth and dynamism of the sector, it has been fraught with disputes for several years which have created a general situation of serious difficulty and uncertainty. In particular, the question of the penalties or fines for loss to the Treasury which AAMS and the Prosecutor at the Court of Auditors believe can be imposed on concessionaires of gaming machines is under examination.

  Firstly, in the event of breach of contractual obligations, a distinction must be made between penalties, which AAMS can impose on concessionaires on the basis of the terms of the concession agreements, and the loss to the Treasury caused by the said breach, for which the Court of Auditors can require concessionaires to pay damages.

  The first case of breach of contractual obligations basically relates to the delay with which the online gaming machine management network was implemented at the start of the concession period. In this case, AAMS initially imposed penalties amounting to a total of EUR 2 million on the concessionaire company belonging to the Group; the Regional Administrative Tribunal then revoked the penalties, which were later reissued by AAMS against the company belonging to the Group in the total amount of EUR 200,000. This time, the Regional Administrative Tribunal ruled that the penalties, thus reduced, were justified, and the concessionaires appealed against its ruling to the Council of State.

  The Council of State upheld the appeal, revoked the penalties and ordered AAMS to pay costs, on the basis of the following main arguments:

  - despite the existence of a formal agreement, civil law provisions are fully applicable to the attribution of liability for breach of the agreement, proof of the loss caused, and whether the penalty is appropriate and proportionate;

  - however, before a penalty can be imposed, some objective loss must have been suffered by AAMS;

  - AAMS' lawyers failed to demonstrate that the breaches of contract complained of against the concessionaire were wholly or partly to blame for the general delay in the start of the public service; in fact: a) the creation of an online network without precedent in the world was a pre-requisite for the activation of the service and, that being so, the parties involved were fully aware that a period of testing would be inevitable; b) precisely during this phase, a series of unforeseen technical and administrative problems arose, leading to a widespread delay in the start-up of the service; c) a large number of the machines initially approved by AAMS proved to be sub-standard, so that AAMS had to issue new instructions to the concessionaires, which instituted an ongoing testing contract in progress; d) the concessionaires were in no way involved in the design of the machines; e) the delays in the start-up of the service were due to obstructiveness by the previous operators of the machines towards the signature of agreements with the concessionaires and the removal of the old machines, and the concessionaires could not be considered by AAMS to be solely responsible for solving these problems.

The Council of State's verdict therefore supported the arguments which had always been advocated by the concessionaires.

The Prosecutor of the Court of Auditors issued a summons applying for a parallel order for the concessionaires to pay compensation for lost fiscal revenues caused by the delay in the start-up of the network, quantified at the original amount estimated by AAMS. In its judgment and simultaneous order filed on November 11, 2010, the Court of Auditors ruled that in theory, damages for lost fiscal revenues can be claimed from the concessionaires, a principle already adopted by the Combined Sections of the Court of Cassation, before which the concessionaires had filed a preliminary request for a ruling on jurisdiction. In the present case, in view of the defences submitted by the concessionaires, including on the merits of the case, the Court of Auditors commissioned an expert's report from the non-profit public agency Digit P.A., to be delivered within six months, regarding the technical and behavioural reasons that may have caused the delay in starting up the network, such as (i): the intentional or unintentional delay with which the machine operating companies asked the concessionaires to sign the necessary agreements for connection of the machines to the online system; the scarcity of communication lines; the existence of machines which had been type-tested and approved despite having different communication ports; the suitability of the characteristics of the central system of AAMS and SOGEI; and (ii) compliance by the concessionaires with all the technical pre-requisites required for the network to be activated on schedule.

The Court therefore wished to clarify whether the delay in activating the network, possibly resulting in loss of fiscal revenues, was the fault of the concessionaires or other parties. Significantly, it also called SOGEI to court, the company which designed, implemented and operated the whole system for the management and control of the machines on behalf of

AAMS. As regards the calculation of lost fiscal revenues, the Court ruled that the criteria proposed by the Prosecutor (namely the criteria specified in the agreement for quantifying penalties) could not be taken into consideration, postponed the calculation, and stated that in this respect, it would take into consideration the findings of the Technical Commission and the opinion of the Council of State, the main aspects of which are described below.

The second case of breach of the agreement involves failure to comply with the service level established in the agreement, relating to the response of the gateway system to interrogations by Sogei's central system. In this respect, AAMS initially imposed a penalty of EUR 1 billion on the concessionaire subsidiary, but the Regional Administrative Tribunal revoked the said penalty. Subsequently, AAMS appointed a Technical Commission, within the terms of the agreement, which should have established in advance the criteria for recording and calculating breaches of contract and penalties; the Commission not only clarified and established the technical criteria for calculating and recording data but in its final report, partly based on agendas approved by Parliament, introduced the concept of setting a ceiling on penalties, to safeguard the principles of proportionality, reasonableness and balance of the contract. It suggested that the limit should be set at 10% of the net amount of the agreement, calculated (including all the legal relationships associated with the management of the concession) at 0.3% of the receipts.

AAMS, having acknowledged this report, also asked the Council of State, by way of consultation, for its opinion on the system of penalties laid down in the concession agreement; the said opinion confirmed the need to establish a maximum limit on such penalties, suggested as being 11% of the concessionaire's remuneration, leaving it up to AAMS to establish this last parameter, but suggesting that it should be between 0.25% and 1.2% of the takings.

AAMS then suggested that concessionaires should sign a rider to the agreement establishing the maximum ceiling of penalties as 11% of their remuneration, indicated as 3% of the takings, and the concessionaires signed this rider at the end of October 2010, specifying that the fact that they had signed did not mean that they admitted breach of contract, and that "remuneration" was defined as the net sum effectively remaining in the hands of the concessionaire and calculated in accordance with the principles of fairness and reasonableness indicated by the Council of State.

On February 18, 2011, AAMS sent the concessionaires a "notice of breach of service level agreement". The notice described the sequence of events to date, and stated that the penalty, calculated according to the terms of the current agreement, the parameters identified by the Technical Commission and the information contained in the AAMS and Sogei databases, amounted to EUR 46,399,750.00 for the period July 15, 2005 to March 12, 2008, as far as the subsidiary is concerned. However, by applying the other principles of reasonableness and proportionality required by the Regional Administrative Tribunal and the Council of State and contained in the last rider to the concession agreement, on the basis of which the penalty for each year cannot exceed 11% of the average real remuneration received by the concessionaire, calculating this remuneration on the basis of certain criteria which, however, are open to question, and applying the said percentage to the result obtained, the disputed penalty amounts to EUR 8,995,332.98.

As regards this notice, which did not mention the imposition of a penalty, but only the alleged breach of contract with a reference to the possible consequences thereof, the concessionaires filed a defence, objecting to the contents of the AAMS notice in terms of both substance and form; in particular, the objection related to the fact that there was no delay in responses from the gateway system and, in any event, even if it existed, it could not be attributed to the concessionaires; the fact that the criteria for recording and calculating penalties had not yet been established by AAMS in the period in question; the failure to consider the criticisms made by the Council of State in the judgments issued on the above-mentioned appeals by the concessionaires; with specific reference to Sisal Entertainment S.p.A., the inclusion in the concessionaire's average real remuneration of amounts which are entirely unrelated to its actual remuneration as concessionaire.

AAMS notified the mentioned penalty in a document dated January 27, 2012, quantifying it at EUR 8,995,332.98 and rejecting all the detailed defence filed by Sisal Entertainment S.p.A.; similar measures have apparently also been taken against all the other concessionaires, and the total amount of the penalties imposed is believed to amount to about EUR 70 million.

Sisal Entertainment S.p.A. appealed to the Regional Administrative Tribunal against this claim by AAMS, asking firstly for AAMS' claim to be suspended and, in the main suit, for a ruling that the alleged deficiencies do not exist and that the granting agency's calculations are incorrect.

In particular, the application of the percentage of 11%, which establishes the maximum ceiling on the penalties, to the entire turnover of Sisal Entertainment S.p.A., and not just the part relating to income obtained as concessionaire (the remaining part relating to the activity of manager) seems unacceptable and contrary to the opinions submitted to AAMS by the Council of State and the Technical Commission; if the calculations were performed correctly, the amount of the penalty would be halved on this ground alone.

Equally dubious and untrue is AAMS' allegation that the Technical Commission belatedly appointed by AAMS only determined the criteria for calculating the penalties, not the criteria for determining what the breach of contract consists of in practice.

As stated, the ruling also dismisses (on the ground that they relate to different breaches of contract) the judgments whereby the Council of State recently revoked the first three

penalties, relating to the delay with which the online network was started up by the concessionaires, and ignoring the much broader ground, involving the disputes now under discussion, provided by the Council of State (namely the fact that the overall system imposed by AAMS in 2004/5 clearly had an experimental nature, which was later reviewed and amended over time).
All the technical defences formulated in the defence were also repeated in the appeal, together with those emerging from examination of the documents supplied by SOGEI to AAMS at the end of December.
At the hearing held on May 9, 2012, the Regional Administrative Tribunal heard the application for an interlocutory order, suspended the efficacy of AAMS' request and set down the case for hearing on February 20, 2013: at present, the filing of the judgment is awaited.

As regards the case brought before the Court of Auditors, again in relation to the gateway, the Prosecutor of the Court of Auditors asked, in the above-mentioned summons, for the concessionaires to be ordered to pay damages amounting to the original amount of the alleged loss of fiscal revenues, namely a total of EUR 98 billion for all concessionaires.
In the said judgment and order of November 11, 2010, the Court did not agree with the calculation criterion proposed by the Prosecutor, since specific proof would need to be provided that (i) the gateway did not function properly, due to the fault of the concessionaires, and (ii) this caused the loss of fiscal revenues (a hypothesis already rejected by the Technical Commission).
The concessionaires took part in the process conducted by Digit pursuant to Italian Law 241/90, and provided it with all the necessary documentation.
On September 30, 2011 Digit filed its technical report with the Court of Auditors. No liability directly attributable to the concessionaires emerged from the mentioned report; in particular, no wilful misconduct or negligence was attributed directly to them, but it was suggested that they may have contributed to the determination of some critical factors that affected the start-up of the gaming system.
The concessionaires filed their comments on Digit's pleading in the Court of Auditors, and at the hearing held on November 24, 2011, the Court of Auditors set down the case for a full hearing.

On February 17, 2012 the Court filed the judgment at first instance, ordering the concessionaires to pay a total of about EUR 2.5 billion, and the former General Manager and the former Gaming Director of AAMS to pay the total amount of about EUR 7.4 million; Sisal Entertainment S.p.A., in particular, was ordered to pay EUR 245 million.

Sisal Entertainment S.p.A. appealed against the judgment, as did all the concessionaires and the AAMS executives. The appeals automatically suspend the enforcement of the judgment, but the Prosecutor could ask the court, in an *inter partes* application, for a specific ruling that the judgment is enforceable.

On the basis of the developments in the proceedings described above, and in particular of the numerous rulings in favour of the concessionaires, the entire industry expected a favourable, or at any rate mild judgment.

However, the Court ruled that the concessionaires were responsible for a series of events which occurred at the time of start-up of the network, which Digit had concluded were not their fault, shifting the focus to the alleged failure to control the entire system and reviving the subject of the gateway in order to reach that conclusion.

Ruling that "control" was the main factor in the appointment granted to the concessionaires and that the concessionaires negligently failed in their duty to exercise control, and consequently ignoring the huge fiscal income received, which was well above the forecasts, it identified the loss caused to the State as the sums paid by the State to the concessionaires in terms of income received pursuant to the concession, including amounts which the concessionaire is obliged to pay to managers and merchants. The judgment seems unfair because in view of the penalties imposed by AAMS in parallel, the concessionaires are being punished twice for the same facts in the same way.

It also seems legally questionable, because the Court of Auditors appears to have overstepped the limits established by the Combined Sections of the Court of Cassation for its jurisdiction in such cases; the Combined Sections ruled that the Court of Auditors can only claim damages for loss additional to the contractual loss when imposing penalties.

The judgment would perhaps have been understandable if the Court had identified a loss to the Treasury consisting of loss of income, which is not punished as such by the agreement, but the Court admitted that it was impossible to identify such loss, and had to use the much vaguer concept that "the concessionaires did not fully perform their duties, and must consequently receive lower remuneration".

Moreover, where this aim is based on the merits, it is already dealt with by the penalty system, which AAMS brought into play and which is provided for by the agreement in order to achieve the same effect.

If the national Court of Auditors should confirm the judgment of the regional Court, possibly modifying the amounts, which can be disputed on various grounds, an appeal against the judgment could be made to the Combined Sections of the Court of Cassation for the reasons already illustrated, on the ground of conflict of jurisdiction.

In the case of Sisal Entertainment S.p.A., the amount of the penalty seems disputable, as it is higher than the mark-up received during the period in question, whereas on the basis of the same judgment, it should have been 80% of the mark-up, although even in that case, the judgment would have been groundless on the merits; moreover, the Court of first instance took no account of the objective evidence that identified Sisal Entertainment S.p.A. as the most virtuous concessionaire, or less guilty in the Prosecutor's view, in terms of commercial behaviour and the operational functionality of the system implemented.

As stated, Sisal Entertainment S.p.A. submitted a substantiated appeal and obtained a detailed independent opinion from an eminent expert, Prof. Morbidelli, Professor of Administrative Law at La Sapienza University, Rome, which confirms that the numerous arguments used in the appeal filed are all well founded; an independent opinion was also obtained from Prof. Guido Rossi, regarding the correctness of not including a provision for that risk in the financial statements, in view of the probable outcome of the proceedings.

For the sake of completeness, it should be mentioned that the Court's judgment names Sisal S.p.A. as the defendant company, probably due to a typographical error; the judgment was actually served on Sisal Entertainment S.p.A. Purely for safety's sake Sisal S.p.A. filed an appeal, pointing out the error, which undermines the validity of the entire judgment, and the fact that it had never been sued, and adopted all the other arguments submitted by Sisal Entertainment S.p.A.

Again for the sake of completeness, it should be mentioned that after Sisal Entertainment S.p.A. filed its appeal, it received the cross-appeal filed by the Prosecutor in the regional Court. In that document, the Prosecutor requested the Court to increase the amounts ordered in the judgment to be paid by the concessionaires, on the ground that they take no account of the loss to the Treasury resulting from higher costs due to "waste of personnel and of unused economic resources".
The Prosecutor therefore requested the Court to increase the orders issued at first instance on the basis of one of the following criteria: principally: 1% of the initial order requested; subordinately: an additional 50% of the order imposed at first instance,
For Sisal Entertainment S.p.A., this would mean an additional EUR 10 million in the first case, and EUR 122 million in the second.
The two proposed parameters lead to opposite consequences, including in terms of sharing the alleged loss between concessionaires: Sisal Entertainment S.p.A. would be affected to a lesser extent than the other concessionaires on the basis of the first parameter, and to a greater extent on the basis of the second. These applications will form the subject of further pleas and objections by Sisal Entertainment S.p.A..

As regards such proceedings, the case has yet to be set down for a hearing of the main suit.

Again with regard to the AWP gaming machine sector, on November 17, 2010 the Court of Auditors issued a judgment which on the one hand recognised that one of the roles of concessionaires is to act as an accounting agent, and that they are therefore required to prepare an accounting statement, but on the other rejected the Prosecutor's request to order the concessionaires to pay large fines for the delay with which they submitted the accounting statement, ruling that there was no evidence of gross negligence by Sisal Entertainment S.p.A. in particular.

On March 14, 2011, the Regional Prosecutor of the Court of Auditors appealed against that judgment, without producing any new arguments or documents, insisting that the concessionaires must be ordered to pay heavy fines, in the case of the subsidiary Sisal Entertainment S.p.A. amounting to approximately EUR 111.6 million for the years 2004-2006, and an amount to be quantified for the subsequent years. The discussion hearing was set down for some concessionaires for 13 March 2013; and for others, including Sisal Entertainment S.p.A., for 19 June 2013.

Moreover, 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 fulfil 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 the said accounting statement", that "the accounting statements produced up to the 2009 financial year have not been checked by AAMS' Internal Control Office, which should have approved the Account", and that "in the 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 preparing accounting statements; the proceedings were then adjourned to the hearing set down for May 16, 2013, when the said template will be examined.

Horse racing and sports betting concession

In the case of horse racing betting concessions awarded in 2000, on December 23, 2011 AAMS sent a request to the various concessionaires, including Sisal Match Point 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 no. 169 of 8 April 1998, destined for UNIRE, is less than the 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 no. 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 safeguards 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., appealed to the Lazio Regional Administrative Tribunal against that application by AAMS, and the Tribunal granted a suspension.

The above-mentioned Fiscal Decree Law no. 16/2012, now converted to Law no. 44/2012, cancelled the said provision relating to "safeguarding measures" for concessionaires, and provided that pending disputes could be settled by paying 95% of the amount requested by AAMS.

As a result of the appeals and additional documents filed by all concessionaires, including Sisal Match Point S.p.A., the Regional Administrative Tribunal referred the matter to the Constitutional Court.

Further information about gaming concessions

With reference to Decree Law no. 40, known as the "Incentives" Decree, published on March 26, 2010 and converted to a Law in May 2010, and in particular to the terms of art. 2.2 thereof, which prohibits State concessionaires from having any business dealings with third parties unless they are expressly contemplated in and governed by the concession and the corresponding call for tenders, and requires concessionaires to pay to the granting body any sums received by virtue of such dealings, Sisal S.p.A. obtained some legal opinions in 2010 which confirm that an in-depth examination of the provision indicates that it is not applicable to business dealings conducted by the company itself, in particular with outlets relating to the NTNG concession, and also appears to have some unconstitutional aspects, as the said provision limits freedom of private initiative for no discernible reason, and appears to be inconsistent with Community principles.

In this context, the subsidiary formally notified AAMS that it considered the said provision to be inapplicable to the business dealings conducted by it, and a similar reply, with a request to convene a round-table discussion with all concessionaires, was later sent to AAMS by Sisal Match Point S.p.A. In the meantime, Sisal S.p.A. continued to invoice and receive the specified fees without any particular problems (and still does so), while AAMS requested a general opinion from the Council of State, which was obtained in spring 2011. The reason for the request for an opinion was that on the one hand, the express purpose of the provision is to "guarantee full compliance with the Community competition principles" and on the other hand, gaming concessions "constitute a species of service concessions and as such, are not governed by Directive 2004/18/EC" and contain the "provision, which is very frequent in gaming tender procedures, regarding outsourcing of the management and organisation of the business to which the concession relates".

In the said opinion, the Council of State held that the said statutory provision is "undeniably" applicable to gaming concessions, as it is to all concessions that generate revenue for the Treasury, having regard to the literal terms of the provision; it also confirmed "the exception to the prohibition" on dealings between concessionaires and third parties if, as stated in the Act, those dealings were expressly contemplated in and governed by the tender documents, and emphasised that the rationale for the provision is to ensure "effective control by parties that operate gaming businesses".

On February 20, 2012, AAMS formulated requests to Sisal S.p.A. based on the alleged applicability of the prohibition on business dealings between concessionaires and third parties, unless such dealings are contemplated in and governed by the tender documents regarding the award of the corresponding concessions, laid down by art. 2.2 of Decree Law no. 40/2010. The said requests related to details of the amounts paid by outlets (Sisal has replied to that request); the payment to AAMS, subject to adjustment, of the total amount of about EUR 147 million, estimated to have been received by the company in the period between the start of the NTNG concession and December 31, 2011; and reiteration of the request for payment within sixty days, failing which the guarantees issued in the ambit of the NTNG concession would be called in. On the strength of the independent opinions obtained, especially from Prof. Pietro Rescigno, which state that the prohibition contained in the provision in question is inapplicable to the said dealings because the NTNG tender documents contemplated and governed them, so that the request by AAMS was unfounded, the company appealed to the Lazio Regional Administrative Tribunal against the granting agency's claims, and obtained a suspension order on April 18, the Court having ruled that the appeal showed a *prima facie* case, and set down the case for a full hearing on July 11, 2012.

In the meantime, when Fiscal Decree Law no. 16 of February 2, 2012 was converted to Law no. 73/2010, it was held that the said provision of art. 2.2 of Decree Law no. 40/2010, converted to Law no. 73/2010, "should be interpreted as stating that it is applicable to public State concessions whose tender procedures are published after the date of entry into force of the said Law no. 73 of 2010 and, in the case of concessions already in existence on the date of entry into force of the Law converting this Decree, provided that the files or the said transactions with third parties take the form expressed in the bid documents". The Chamber of Deputies then voted on a Government-approved agenda which, "having regard to the fact that since the formulation of the said provision, a misalignment seems to be emerging between the terms of the said sub-section, because, while the first part limits its applicability to the period after the entry into force of Law no. 73 of 2010, the last part of the sub-section could be incorrectly interpreted as retrospectively anticipating its effects, for concessions already existing on the said date", and "being aware of the need to operate on the basis of authentic interpretation, in order to discover the legislator's exact intention", requires the Government to clarify in a forthcoming legislative provision that the said terms are to be interpreted in any event as meaning that the terms of Decree Law no. 40/2010 "shall only apply to concessions where the call for tenders was published after the date of entry into force of Law no. 73 of 2010".

The tenders for the award of the NTNG concession, in the framework of which the commercial relations referred to above between the concessionaire Sisal S.p.A. and the outlets took place, was published on July 6, 2007, about three years before the entry into force of Law no. 73 of 2010; thus the prohibition contained in Decree Law no. 40 of 2010 is clearly inapplicable to the company's dealings with third parties. An identical conclusion is also reached on the basis of the letter of the provision in its current formulation, since the said business dealings were not contemplated in the tender documents submitted by Sisal at the time of the tender procedure.

This is confirmed by the judgment filed on September 25, 2012, in which the Regional Administrative Tribunal revoked the request by AAMS, ruling that the remuneration in dispute was specified in the call for tenders and does not constitute a practice in restraint of competition, and that in any event, according to the terms of Decree Law no. 16/2012, the prohibition issued by Decree Law no. 40/2010 is not applicable to it. As the time limit for appealing against the judgment of the Regional Administrative Tribunal expired on December 15, 2012, it now has the force of law.

RELATED PARTY TRANSACTIONS

With regard to transactions with the ultimate parent, Gaming Invest S.à.r.l., the Parent company has a loan payable totalling about Euros 420 million on which more information is given later in these explanatory notes; accrued interest expense for the year on this loan is about Euros 41 million at the reporting date, of which about Euros 20 million has been capitalised.

Concerning financial and commercial transactions with other related parties, the pre-existing transactions with S.P.A.T.I. S.p.A., whose shareholders are also shareholders of the ultimate parent, relating principally to the purchase price of the business activity consisting of 96 horse racing and sports betting agencies by Sisal Match Point S.p.A., were extinguished during the previous year.

The compensation to the Group’s key managers charged with strategic responsibilities, in other words those with the authority and responsibility for the planning, management and control of the Group’s operations, amounts to EUR 4,430 thousand for the entire calendar year 2012 (EUR 5,926 thousand in 2011) and is detailed as follows:

	2012	2011
Salaries	4,206	5,597
Employee severance indemnity	224	329
Total	4,430	5,926

The reduction compared with the prior year is due to the resignation of some key directors of the Group and a lower incidence of variable compensation.

Managers who are also company directors, with related powers and responsibilities, are entitled to directors’ compensation determined by the shareholders at the annual general meeting.

Under the agreements reached with the shareholders following the acquisition of the majority of the share capital of Sisal S.p.A. by the Parent in 2006, some managers subscribed to certain debt and equity instruments of the vehicle used for the purpose of the new acquisition. Similar opportunities were offered to some managers hired in successive years, as described in the note on other reserves under equity.

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

A) NON-CURRENT ASSETS

Property, plant and equipment (1)

The composition and movements of property, plant and equipment during 2012 and in the prior year are as follows:

(in thousands of Euro)

Property, plant and equipment	**At 12/31/2011**	**Movements during the year**			**At 12/31/2012**
		Increases	**Decreases**	**Reclassifications**	
Land and buildings					
Original cost	26,771	3,623	0	366	30,760
Accumulated depreciation	(9,447)	(1,668)	0	0	(11,115)
Revaluations	0	0	0	0	0
Writedowns	0	0	0	0	0
Net	**17,324**	**1,955**	**-**	**366**	**19,644**
Plant and machinery					
Original cost	22,097	2,502	0	(290)	24,309
Accumulated depreciation	(12,842)	(2,404)	0	383	(14,862)
Revaluations	0	0	0	0	0
Writedowns	(1)	0	0	0	(1)
Net	**9,254**	**99**	**-**	**93**	**9,446**
Industrial and commercial equipment					
Original cost	290,812	37,126	(6,504)	1,207	322,641
Accumulated depreciation	(203,542)	(33,424)	5,764	(892)	(232,095)
Revaluations	0	0	0	0	0
Writedowns	(1,620)	0	554	0	(1,066)
Net	**85,649**	**3,702**	**- 186**	**315**	**89,481**
Other assets					
Original cost	24,824	2,077	(107)	(1,099)	25,656
Accumulated depreciation	(16,574)	(1,281)	58	325	(17,434)
Revaluations	0	0	0	0	0
Writedowns	(187)	0	0	0	(187)
Net	**8,063**	**796**	**49**	**- 774**	**8,036**
Buildings, equipment, plant and machinery					
Original cost	364,504	45,328	(6,611)	184	403,366
Accumulated depreciation	(242,406)	(38,777)	5,822	(184)	(275,507)
Revaluations	0	0	0	0	0
Writedowns	(1,807)	0	554	0	(1,253)
Net	**120,290**	**6,551**	**- 235**	**-**	**126,606**

(in thousands of Euro)

Property, plant and equipment	At 12/31/2010	Movements during the year Increases	Decreases	Reclassifications	At 12/31/2011
Land and buildings					
Original cost	17,231	2,865	0	6,675	26,771
Accumulated depreciation	(3,306)	(1,555)	0	(4,586)	(9,447)
Writedowns	0	0	0	0	0
Net	**13,925**	**1,310**	**0**	**2,089**	**17,324**
Plant and machinery					
Original cost	22,280	6,503	0	(6,686)	22,097
Accumulated depreciation	(14,392)	(3,086)	0	4,636	(12,842)
Writedowns	0	0	0	0	0
Net	**7,888**	**3,417**	**0**	**(2,050)**	**9,255**
Industrial and commercial equipment					
Original cost	276,155	28,374	(6,120)	(7,597)	290,812
Accumulated depreciation	(187,256)	(28,183)	5,812	6,085	(203,542)
Writedowns	(1,449)	(596)	425	0	(1,620)
Net	**87,450**	**(405)**	**117**	**(1,512)**	**85,649**
Other assets					
Original cost	12,799	3,544	(33)	8,514	24,824
Accumulated depreciation	(8,300)	(2,137)	31	(6,168)	(16,574)
Writedowns	(187)	0	0	0	(187)
Net	**4,312**	**1,407**	**(2)**	**2,346**	**8,063**
Buildings, equipment, plant and machinery					
Original cost	1,746	844	(1,717)	(873)	0
Accumulated depreciation	0	0	0	0	0
Writedowns	0	0	0	0	0
Net	**1,746**	**844**	**(1,717)**	**(873)**	**0**
Total					
Original cost	330,211	42,130	(7,870)	33	364,504
Accumulated depreciation	(213,254)	(34,961)	5,843	(33)	(242,406)
Writedowns	(1,636)	(596)	425	0	(1,808)
Net	**115,321**	**6,573**	**(1,602)**	**0**	**120,290**

Property, plant and equipment, as detailed in the above table, include gross capital investments including new fixed asset expenditures for about EUR 45 million.

Additions to *Land and buildings* of approximately EUR 3.6 million relate mainly to improvements and renovation work on certain horse racing and sports betting agencies as well as the furnishing of some points of sale, including the new Sisal Wincity in Florence.

Investments in *Plant and machinery* of about EUR 2.5 million principally regard work at points of sale managed directly by the Group carried out to rebuild electrical systems in order to meet the respective legal standars and to plan and modify the air-conditioning and video surveillance systems.

The increase in *Industrial and commercial equipment* of about EUR 37.1 million is due mainly to:

- investments in new AWP “comma 6A” slot machines, access points (PdAs) and change machines by Sisal Entertainment S.p.A. for approximately EUR 16.5 million;
- the purchase of new-generation gaming and services equipment such as the “Microlot” terminals and “Wave betting terminals” for approximately EUR 12 million;
- the purchase of network hardware for employees as well as display equipment for points of sale for approximately EUR 6.5 million.

In light of the ever increasing focus of the legislation relative to AWP machines on the "electronic game card" component and the significant growth in the activities to replace these cards to meet commercial demands for the introduction of new games, during the current year the Group deemed that the presuppositions existed for the application of the component approach in accordance with IAS 16 in relation to the separation of the entertainment asset into its "cabinet" and "electronic game card" components.
As a result of this decision, the AWP machines previously depreciated over an average estimated useful life of five years, are now capitalized separately and the cabinet component is considered to have a useful life of seven years whilst electronic game card component is deemed to have a useful life of 2.5 years to cover commercial obsolescence.
Consequently, the costs to replace the cards, reported in previous years as maintenance expenses when the costs did not refer to work to fulfil legal obligations, are now capitalised as a new separate asset class.
To best reflect this new differentiation in the useful life of the AWP machines, the Group has separated the two components also for all the recently capitalized machines that had not been subjected to updates to meet regulations or for the machines that were not almost completely depreciated.
The recalculation of accumulated depreciation into the two separate components, for the classes that were recalculated, did not generate a significant difference compared with the amount determined on the basis of the average useful life.
The increase in *Other assets* by approximately EUR 2.1 million is instead due mostly to the purchase of furniture and fixtures for the modernization and/or furnishing of directly managed points of sale.

The reclassifications column includes mainly the allocation of the assets under construction to the respective asset classes previously included in *Other assets*.

The table below sets forth information on outstanding finance leases accounted for in accordance with IAS 17:

(in thousands of Euro)

Asset category	Net book value at 12/31/2012	Leasing instalments 2012	Residual debt at 12/31/2012	Residual leasing instalments at 12/31/2012
T.G. Microlot (industrial & commercial equipment)	6,598	3,373	4,720	4,827
AWP gaming machines, Comma 6A	1,637	1,585	188	179
Total	**8,235**	**4,958**	**4,908**	**5,006**

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

Goodwill (2)

The carrying amount of *Goodwill* is EUR 869,564 thousand compared with EUR 886,520 thousand at the end of the prior year, with a reduction of EUR 16,956 thousand owing to the recognition of the impairment charge of EUR 17,166 thousand described below.

The movements in goodwill in the various years refer to the following:

- goodwill recognized on the purchase of the Sisal Group at the end of 2006 for a total of EUR 1,053.1 million;
- an increase of about EUR 26 million on the purchase, in December 2006, of the minority interest (35%) in Sisal Slot S.p.A. by the Parent company;
- a decrease of around EUR 33 million for the cancellation of a pre-existing purchase option granted by Sisal S.p.A. to the Sisal Slot S.p.A. minority shareholders, as part of the agreements for the purchase of the minority interest by the Parent company;
- an increase of around EUR 46 million due to the acquisitions of companies and business activities, completed during the years 2007-2011, regarding the business segments of legal gaming with AWP gaming machines and horse racing and sports betting;
- an impairment loss of around EUR 206 million recorded as a result of the impairment tests performed at the end of 2007;
- an impairment loss of around EUR 17 million recorded as a result of the impairment tests performed at the end of 2012.

Goodwill was tested for impairment as of December 31, 2012 in accordance with International Financial Reporting Standards. Specifically, operating cash flows were measured to determine the value in use of the identified Cash-Generating Units (CGUs) by applying the “discounted cash flow” method.

For purposes of impairment testing, the Group uses five-year cash flow projections approved by top management on the basis of growth rates differentiated according to the historical trends of the various products and relative markets of reference.

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 the management according to reasonable projections of estimated long term sector growth and it is equal to 3%.

In case of impairment of an individual asset related to the concessions or rights for the receipts from gaming products, where necessary, the projections are extended for the number of years’ duration of the right being tested.

The rate used to discount cash flows to the present value is equal to a WACC of 8.71%, derived from the weighted average cost of capital of 9.9% (including a Market Risk Premium of 4.8%) and the after-tax cost of debt of 3.64%.

The Group’s structure and, consequently, its reporting lines to management, are organized into three Business Units which identify the three operating segments in which the Group operates: Entertainment, Lottery, Digital Games and Services.
Different cash-generating units were identified in the three operating segments.

The **Lottery** operating segment, in particular, coincides with the Traditional games CGU, which primarily refers to cash flows from National Totalisator Number Games (NTNGs, including SuperEnalotto);

The **Digital Games and Services** operating segment corresponds to the following CGUs:

- Services, which include activities through the Sisal network of services provided to the consumers such as, for example, mobile top-ups and payment services etc.;
- Digital Games, which comprise all the games distributed online.

As for the **Entertainment** operating segment, the following CGUs were also identified:

- Agencies, which include the flows from activities of providing and managing AWP entertainment machines (New Slots and VLTs) through the Sisal Match Point S.p.A. agencies as well as the flows deriving from gaming halls and wagers 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;
- Retail – Wincity, which comprises the flows from AWP machines (New Slots and VLTs) from the new Sisal Wincity network of points of sale;
- Providing, which includes all the flows from interconnected AWP machines only.

Such operating segments have so far represented the normal prospects for earnings and operational analysis of the Group’s performance.

Goodwill as of December 31, 2012 is allocated to the different operating segments (net of the recognition of the impairment loss) as follows:

(in thousands of Euro)

Operating Segments	
Lottery	156,622
Digital Games & Services	277,614
Entertainment	435,328
Total	**869,564**

The impairment test showed that actualised cash flows by CGU exceeded invested capital (including goodwill) allocated to each CGU with the exception of the Digital Games CGU, for which a partial impairment loss on goodwill was recognized for about EUR 17 million, which was recognized in *Amortization, depreciation, provisions and impairment losses and reversals* in the statement of comprehensive income. This impairment loss derives from the allocation rationale that was initially adopted for the significant amount of goodwill that originated in prior years, particularly during the 2005-2006 period when two successive acquisitions of the formerparent company Sisal S.p.A. were finalized (and which, in accordance with International Financial Reporting Standards, may not normally be adjusted to account for the changing trends of business in its various forms) and, by a more updated assessment of the expected future cash flows from the online gaming products, still characterized by a growth rate lower than originally estimated especially due to competitive trends in this segment and the general macroeconomic situation.

In particular, the excess of the recoverable amount of the operating segments / CGUs, determined on the basis of the parameters described above, compared with the relative carrying amount before the aforementioned impairment loss, is as follows:

(in thousands of Euro)

Operating Segments	
Lottery	134,830
Entertainment	334,923
Digital Games & Services	
of which CGU Services	*415,877*
of which CGU Digital Games	*(17,166)*
Total	**868,464**

The change in the values assigned to the base assumptions, in terms of the discount rate and growth factor, which renders the recoverable amount of the operating segments / CGUs equal to its carrying amount, is the following:

Operating Segments	discount rate	growth rate
Lottery	11.8%	-1.3%
Entertainment	11.9%	-2.1%
Digital Games & Services		
of which CGU Services	*22,8%*	*-33.6%*
Base value	**8.7%**	**3.0%**

Intangible assets (3)

The composition and movements of intangible tangible during 2012 and in the prior year are as follows:

(in thousands of Euro)

Intangible assets	**At**	**Movements during the year**			**At**
	12/31/2011	**Increases**	**Decreases**	**Reclassifications**	**12/31/2012**
Patents and utilisation rights, copyrights and similar rights					
Original cost	39,161	9,651	(80)	232	48,964
Accumulated amortisation	(28,846)	(7,406)	18	(199)	(36,433)
Revaluations	0	0	0	0	0
Writedowns	(6)	0	0	0	(6)
Net	**10,309**	**2,245**	**- 62**	**32**	**12,524**
Concessions,licences, trademarks and similar rights					
Original cost	610,153	3,852	(0)	(44)	613,960
Accumulated amortisation	(286,969)	(42,851)	0	11	(329,809)
Revaluations	0	0	0	0	0
Writedowns	(47,667)	0	0	0	(47,667)
Net	**275,516**	**- 38,999**	**- 0**	**- 32**	**236,485**
Othe intangible assets					
Original cost	0	100	0	0	100
Accumulated amortisation	0	0	0	0	0
Revaluations	0	0	0	0	0
Writedowns	0	0	0	0	0
Net	**-**	**100**	**-**	**-**	**100**
Total					
Original cost	649,314	13,602	(80)	188	663,024
Accumulated amortisation	(315,815)	(50,257)	18	(188)	(366,242)
Revaluations	0	0	0	0	0
Writedowns	(47,673)	0	0	0	(47,673)
Net	**285,825**	**- 36,654**	**- 62**	**-**	**249,108**

Intangible assets	**At**	**Movements during the year**			**At**
	12/31/2010	**Increases**	**Decreases**	**Reclassifications**	**12/31/2011**
Patents and utilisation rights, copyrights and similar rights					
Original cost	31,060	8,384	(59)	(224)	39,161
Accumulated amortisation	(22,979)	(6,140)	49	224	(28,846)
Writedowns	0	(6)	0	0	(6)
Net	**8,081**	**2,238**	**(10)**	**0**	**10,309**
Concessions, licences, trademarks and similar rights					
Original cost	588,856	21,737	(665)	224	610,152
Accumulated amortisation	(236,249)	(50,770)	274	(224)	(286,969)
Writedowns	(22,398)	(25,532)	263	0	(47,667)
Net	**330,209**	**(54,565)**	**(128)**	**0**	**275,516**
Other intangible assets					
Original cost	0	0	0	0	100
Accumulated amortisation	0	0	0	0	0
Writedowns	0	0	0	0	0
Net	**0**	**0**	**0**	**0**	**100**
Total					
Original cost	619,916	30,121	(724)	0	649,313
Accumulated amortisation	(259,228)	(56,910)	323	0	(315,815)
Writedowns	(22,398)	(25,538)	263	0	(47,673)
Net	**338,290**	**(52,327)**	**(138)**	**0**	**285,825**

Concessions, licences, trademarks and similar rights increased during the year by about EUR 4 million principally due to the purchase of software licenses and, for about EUR 1.7 million, to the recognition of the concession expense deriving from the payment of EUR 100 for each permit to install the Comma 6A gaming machines, owned by the Group. As a result, the concessionaire company Sisal Entertainment S.p.A., during the awarding phase of the tendering process, declared his will to keep the aforementioned gaming machines to the granting Agency pursuant to paragraph 10.2 letter a) of the relative specification of the expenses. The permits paid on the Comma 6A machines not owned by the company were, as established by the relative formal regulation, charged to the owner and/or third party operators of the machines.

Patent and utilisation rights, *copyrights and similar rights* increased during the year by EUR 9.6 million and are related exclusively to the purchase and development of software for the management of business operations and the management of the concession activities in the Group's various businesses.

Amortisation charged to the statement of comprehensive income for the year was around EUR 50 million; more than EUR 16 million of that amount refers to the higher value allocated to the concession rights and the trademarks owned by the Group as a result of accounting for the effects of the purchase of the Sisal Group concluded in prior years.

The following table presents information on outstanding finance leases, signed in 2011, and recorded in accordance with IAS 17:

(in thousands of Euro)

Asset category	Net book value at 12/31/2012	Leasing instalments 2012	Residual debt at 12/31/2012	Residual leasing instalments at 12/31/2012
Software licenses	137	159	122	124
Total	**137**	**159**	**122**	**124**

Investments (4)

Investments comprise mainly holdings in associates.

(in thousands of Euro)

	At 12/31/2011	Changes during the year					At 12/31/2012
		Increases	Decreases	Revalutions	Reclassifications	Impairments	
Investments in subsidiaries							
Investments in associates	22	49	0	0	0	(45)	26
Investments in other companies							

The list of investments owned and the information required by art. 2427 of the Italian Civil Code is provided in Annex 1.

Deferred tax assets (5)

The information concerning deferred tax assets is detailed in the following table:

(in thousands of Euro)

Recognition of deferred tax assets and related effects	2012 Temporary differences (Amount)	2012 Tax effect (27.5%/31.7% rate)	2011 Temporary differences (Amount)	2011 Tax effect (27.5%/31.7% rate)
Deferred tax assets				
Provision for risks and charges	6,879	2,170	13,254	3,885
Impairment of receivables/Other receivables	37,616	10,344	32,155	8,844
Maintenance expenses	8,950	2,461	9,623	2,649
Other writedowns	21,484	6,061	26,132	7,273
Amortisation and depreciation	7,965	2,293	3,236	918
Directors' compensation accrued	922	254	1,443	397
Guarantee deposits accrued	0	0	87	28
Other temporary differences	248	105	522	159
Non-deductible VAT pro-rated	0	0	0	0
Reversal of quota of current deferred taxes	(980)	(230)	(866)	(424)
Reversal of quota of non-current deferred taxes	(22,840)	(6,659)	(16,226)	(4,732)
Net deferred tax assets	**60,244**	**16,799**	**69,360**	**18,997**
Deferred tax assets on losses - current year	**0**	**0**	**0**	**0**
Deferred tax asset on losses - prior years	**0**	**0**	**0**	**0**
Temporary differences excluded from the deferred tax computation	**2,014**	**554**	**2,014**	**554**

The Group expects to have sufficient taxable profits in the future, in excess of those arising from the reversal of deferred tax liabilities, to recover deferred tax assets.

The temporary differences excluded from the calculation of deferred tax assets relate to losses reported by the Parent company in the first year of operations (and therefore can be carried forward for an unlimited period of time) prior to opting for tax consolidation as a result of which deferred tax assets were not recorded, based on the probability, supported by current information, of suitable taxable profits in the future against which the losses can be recovered.

The reversal of deferred taxes refers to the portion than can be compensated with the corresponding item of deferred tax liabilities based on the timing of the reversal.

Other non-current assets (6)

Other non-current assets amount to EUR 14,925 thousand and mainly comprise:

- VAT receivables for refunds requested upon presentation of the VAT return using the VR model, for both the results of 2008, equal to EUR 6,305 thousand, and for those of 2007, equal to EUR 3,906 thousand; the increase during the year 2012 mainly refers to interest accrued on the above VAT receivables;
- IRES receivables from tax authorities for EUR 2,401 thousand, due over 12 months, deriving from the application of the dispositions contained in Legislative Decree no. 16 of March 2, 2012 referring to prior years;

- guarantee deposits for leases, sundry utilities and related revaluations for approximately EUR 1.5 million.

<u>Assets held for sale/discontinued operations</u> (7)

There are no *Assets held for sale or discontinued operations* as of December 31, 2012.

B) CURRENT ASSETS

<u>Inventories</u> (8)

Inventories as of December 31, 2012 are composed of the following:

(in thousands of Euro)

	At 12/31/2012	At 12/31/2011
Playslips	230	245
Rolls of paper for TG	1,828	1,353
VLT tickets	37	0
Spare parts (repairs)	3,041	3,504
Spare parts (consumables)	814	272
Materials, auxiliaries and consumables	**5,950**	**5,373**
Top-up and scratch cards	833	616
Virtual top-ups	3,055	8,435
Mini-toys	43	83
Finished goods and merchandise	**3,931**	**9,134**
Total	**9,881**	**14,507**

Stocks of *materials, auxiliaries and consumables* are recorded net of a provision of EUR 1,838 thousand, with an increase of EUR 249 thousand compared with the prior year.

The change during 2012 is largely due to an increase of EUR 282 thousand in the provision account for spare parts of gaming terminals and a decrease due to the release to income of about EUR 80 million on the stock of spare parts for AWP machines.

Inventories of *finished goods and merchandise* totalling EUR 3,931 thousand represent primarily telephone top-up cards bought for resale to the public from Vodafone Omnitel N.V. (EUR 2,898 thousand) in accordance with the clauses of the contract signed at the beginning of 2004 between Sisal S.p.A. and Vodafone. They also include physical stocks of telephone top-up and TV content recharge cards of key operators of the sector, bought for resale to the public from Servizi in Rete 2001 S.p.A. (EUR 833 thousand) according to the clauses of contracts signed by Sisal S.p.A. and this company in 2005. The considerable reduction from the prior year (approximately EUR 5.2 million) is due principally to lower purchases of Vodafone top-up cards during the last days of the year to for use during the holidays between the end and beginning of the new year as a result of a more precise management of inventories at the end of December based on actual operating needs.

Trade receivables (9)

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

Trade receivables comprise the following:

(in thousands of Euro)

Trade receivables	At 12/31/2012	At 12/31/2011
Receivables from points of sale	114,094	155,016
Trade receivables from network	18,169	20,346
Trade receivables from betting agencies	10,105	13,263
Trade receivables from gaming customers	365	340
Trade receivables from third parties	1,777	1,445
Other trade receivables from third parties	2,334	1,121
Doubtful receivables	46,618	33,485
Provision for impairment of receivables	(42,147)	(41,034)
Total	**151,315**	**183,982**

Receivables from points of sale represent amounts due by the Group for bets placed on the last events of December 2012 and from sales of non-gaming products in the same month. The decrease from last year is particularly attributable to a different timing in the collection of receivables and, in particular, the activation of an additional flow of automated bank collections (RID) for the wide network of points of sales during the last week of December 2012.

Trade receivables from network represent the sums due from the customer network of AWP 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 consideration of the concessionaire, the PREU tax (Prelievo Erariale Unico) and the AAMS concession fee.

Trade receivables from betting agencies represent wagers on horse races and sports events, accepted by the agencies operating under partnership contract, not yet paid to Sisal Match Point S.p.A.

Trade receivables from gaming customers reflect the incremental national totalisator number games (NTNG) margin relating to the combinations of the Sicily Region accrued in the years 2009/2010 and 2010/2011 and not yet collected.

Doubtful receivables for EUR 46,618 thousand represent unpaid outstanding amounts generated by receivables that were subject-to-collection, due mainly from retail points of sale, on which recovery procedures and also legal actions were initiated, excluding amounts due on situations that can be resolved in the short term and referring to the month of December 2012.

The provision for impairment of receivables as of December 31, 2012 comprises:

(in thousands of Euro)

Provision for impairment of receivables	At 12/31/2012	At 12/31/2011
Provision for impairment of network trade receivables	(41,336)	(40,385)
Provision for impairment of other trade receivables	(811)	(649)
Total	**(42,147)**	**(41,034)**

The changes during the year are as follows:

(in thousands of Euro)

Provision for impairment of receivables	At 12/31/2011	Change during the year		At 12/31/2012
		Increases	Decreases	
Provision for impairment of network trade receivables	(40,459)	(15,233)	14,356	(41,336)
Provision for impairment of other trade receivables	(574)	(250)	13	(811)
Total	**(41,034)**	**(15,483)**	**14,369**	**(42,147)**

The increase over the end of the previous year reflects the directors' prudent assessment of the recoverability of certain receivables, particularly the amounts due from insolvent points of sale and from the network of AWP gaming machines. This change reflects, in part, the ongoing trend in insolvent situations (particularly referring to points of sale) and, also, the unfavourable general macroeconomic climate which has caused an increase during the year in the percentage of managed insolvent situations compared to the volumes collected and, as a consequence, to the doubtful positions. The decrease recorded during the year refers mainly to the sale of non-recourse receivables and settlement agreements regarding prior years' receivables as well as the write-off of doubtful positions, including those relating to owned AWP machines subject to manual collection and/or installed at points of sale managed directly by the Group, due to a relevant period of time and, after close examination, no longer considered recoverable. The Group constantly monitors changes in non-performing positions and adopts, when possible and appropriate, recovery procedures by mutual consent through recovery plans, assisted, where necessary, by guarantees.

Current financial assets (10)

Current financial assets do not show significant balances after the sale in 2012 of Monte dei Paschi di Siena securities for about EUR 1 million. The securities were held to guarantee bank loans which were extinguished as the same time.

Other current assets (11)

Other current assets amount to EUR 42,485 thousand and comprise the following:

(in thousands of Euro)

Other current assets	At 12/31/2012	At 12/31/2011
Other receivables from third parties		
Other receivables from employees	331	347
Other receivables from third parties	1,745	5,989
Other sundry receivables from the Public Administration	26,510	30,642
Other receivables from tax authorities	11,228	9,694
Provision for impairment of other receivables	(430)	(271)
Total	**39,383**	**46,402**
Prepaid expenses	3,101	3,073
Total	**3,101**	**3,073**
Total Other current assets	**42,485**	**49,475**

- *Other receivables from third parties* total EUR 1,745 thousand and include, among other things, receivables from social security agencies and advances on supply contracts. The reduction from the balance as of December 31, 2011 is mainly due to the conclusion of the supply of new "Microlot" gaming terminals and the complete use of the advances paid in previous years;
- *Other sundry receivables from the Public Administration*, equal to EUR 26,510 thousand, are mainly composed of receivables of EUR 23,011 thousand for security deposits with AAMS, under the concessions relating to gaming receipts using AWP gaming machines, EUR 1,467 thousand of receivables from the PREU tax and EUR 1,373 thousand of receivables from AAMS, claimed by Sisal Match Point S.p.A., for adjustments on the horse race and sports betting concession fee in 2012 and recovered in January 2013. The receivables for security deposits decreased during 2012 as a result of the reimbursement of the sums at one time deposited as guarantees (equal to 0.5% of turnover), referring to the year 2011, for a total of EUR 21.6 million, based on the levels of service reached and investments made. As regards the amounts referring to 2012, in light of the levels of service reached and the percentage of PdAs (access points) updated using GPS technology, Sisal Slot S.p.A. recorded a net positive amount in the statement of comprehensive income of approximately EUR 22.8 million, equal to 0.495% of the receipts received during the year; the settlement of this sum, after the relative controls by AAMS, should take place by the end of the first half of 2012. The reduction in this item is largely due to the compensation of the prior years' PREU tax receivables against the tax payments made in the month of July 2012.
- *Other taxes receivable from tax authorities* of EUR 11,228 thousand mainly refer to receivables for VAT of EUR 7,770 thousand relating to VAT receivable as of December 31, 2010, prior to the start of the Group VAT regime, for which a refund request has not yet been filed, and EUR 1,673 thousand for receivables from the Group VAT liquidation as of December 31, 2012.
- *Prepaid expenses* of EUR 3,101 thousand represent the prepaid portion of expenses not referring to 2012 incurred for the issue of bank guarantees, for approximately EUR 1 million, whereas the remaining prepaid expenses refer to sundry supplies, rent and premiums for health insurance.

Tax receivables (12)

Taxes receivable amount to EUR 6,285 thousand as of December 31, 2012 and are composed of the following:

(in thousands of Euro)

Taxes receivable	At 12/31/2012	At 12/31/2011
Receivables for IRES tax from tax authorities	4,650	274
Receivables for IRAP tax from tax authorities	1,635	2,300
Total	**6,285**	**2,573**

Receivables for IRES and IRAP taxes from the tax authorities are presented net of advance payment made during the year and reflect, respectively, the credit positions as of December 31, 2012 of the tax group and the companies Sisal S.p.A. and Sisal Match Point S.p.A.

Cash and cash equivalents (13)

Cash and cash equivalents as of December 31, 2012 are as follows:

(in thousands of Euro)

Cash and cash equivalents	At 12/31/2012	At 12/31/2011
Bank and postal accounts	150,027	159,056
Restricted bank accounts	89,171	121,472
Cash and cash equivalents in hand	2,922	3,164
Total	**242,120**	**283,692**

Restricted bank accounts total about EUR 89 million for prize money, including the amount deposited for the special winnings of the Vinci per la Vita – Win for Life games and for the so-called SuperStar Reserve Fund which holds the difference between available prize money and winnings payable calculated for each single game, in addition to the balance of the bank accounts which include the deposits made by the players who participate in the Group's online games.

These deposits are managed by the Group but their use is restricted to the payment of the cumulative prizes on the relative games and to the payment of the tax, if any, from the deposits regarding the online games. The amounts in the deposit accounts for the prize money decreased overall (approximately -EUR 32.3 million) compared to the prior year mainly due to the effect of a lower SuperEnalotto Jackpot carried forward to the first game of the next year, a contraction in the volumes of the Vinci per la Vita – Win for Life games, with a consequent decrease in the bank account dedicated to prize monies, and a reduction in the volumes of the SiVinceTutto SuperEnalotto product introduced in the previous year.

Bank and postal accounts amount to approximately EUR 150 million, with a decrease of about EUR 9 million compared to the prior year-end. This change is due to lower cash flows from current operations, which is in line with the trends recorded by the Group in terms of operating profitability.

EQUITY AND LIABILITIES

A) Equity (14)

Total consolidated equity amounts to EUR 45,545 thousand.

The following table presents the composition of equity while the changes in equity are presented in the relative statement:

(in thousands of Euro)

Equity	At 12/31/2012	At 12/31/2011
Equity attributable to owners of the Parent		
Share capital	102,500	102,500
Share premium reserve	94,484	94,484
Legal reserve	200	200
Other reserves	(112,165)	(83,558)
Total comprehensive loss for the year	(39,808)	(29,358)
Total equity attributable to owners of the Parent	**45,211**	**84,268**
Equity attributable to non-controlling interests	335	639
Total equity attributable to non-controlling interests	**335**	**639**
Total equity	**45,545**	**84,907**

Share capital

The share capital of the company as of December 31, 2012, fully subscribed and paid-in, is composed of 102,500,000 ordinary shares.

With reference to *Other reserves*, in order to allow participation in an effective system of manager co-investment plans, some top managers of the Group have been granted the possibility of taking part in incentive plans of the ultimate parent, Gaming Invest S.à.r.l. In particular, the co-investment plans provide for the subscription, as employees of the Group, to equity instruments and debt instruments issued by Gaming Invest S.à.r.l. under a system that is more favourable than those granted to the shareholders. The investment is structured as an equity-settled share-based payment transaction under IFRS 2 and consequently is reflected as such in the financial statements of the Group. For purposes of the determination of the fair value of the plan, the differential yield that will be paid to the managers as compared with the shareholders was measured at the grant date of the plan. Various assumptions for the realization of the investment were considered and on that basis a cost referring to the year of EUR 485 thousand was recorded in the statement of comprehensive income with a contra-entry to other reserves.

The plans thus structured co-exist with similar incentive plans granted to the managers of the Group as part of the operation that took place in 2006 which led to the change in the Group's shareholders. Such plans have been granted to replace, in whole or in part, the previously existing plans, the costs of which had been reflected in the statements of comprehensive income of the various companies.

Comprehensive income (loss)

As shown in the statement of changes in equity, the Group does not have income or losses recognized directly in equity to be detailed in the determination of the comprehensive result for the year.

Non-controlling interests

The decrease in non-controlling interests is due to the variation in the result for the year net of the payment of dividends of approximately EUR 43 thousand to the non-controlling interests of Sisal S.p.A. Added to these changes (decreasing the aggregate of non-controlling interests) is the effect of the acquisition by Sisal S.p.A. of the 35% interest in the company Sisal Entertainment S.p.A. (formerly Sisal Slot S.p.A.), previously held directly by the Parent company. This acquisition, since it took place within the Group and thus in the relative consolidated financial statements, did not require the recognition of new goodwill and/or intangible assets but instead resulted in a reduction of consolidated equity at the level of the sub-consolidation of Sisal S.p.A., with a consequent reduction in non-controlling interests.

B) NON-CURRENT LIABILITIES

Long-term debt (15)

Long-term debt of EUR 1,010.2 million comprises:

(in thousands of Euro)

Long-term debt	At 12/31/2012	At 12/31/2011
Loans from financing pool Royal Bank of Scotland	588,023	672,498
Loans from other banks	710	5,613
Loans from other lenders - factoring	0	3,906
Loans from other lenders - leasing	1,439	5,041
Loans from ultimate parent Gaming Invest S.a.r.l.	419,997	395,214
Total	**1,010,168**	**1,082,272**

The loans secured from a banking pool are shown net of commission costs and transaction consulting fees, not pertaining to the current year, totalling EUR 5,166 thousand.

The following tables present the credit lines granted by the banking pool, with Royal Bank of Scotland acting as lead bank, in total with the relative details by company, including both the long-term and the short-term portions; the amounts are stated gross of the above-mentioned commissions and transaction consulting fees deducted from the debt in accordance with the amortised cost method:

Summary of loans by banking pool - SHIP Group

(in thousands of Euro)

Lines	Type	Residual debt at 12/31/2011	Residual debt at 12/31/2012	Expiry	Repayment
Facility A	Amortising	67,446	50,561	12/31/2014	semiannually
Facility B	Bullet	245,000	245,000	12/31/2015	at expiry
Facility C	Bullet	245,000	245,000	12/31/2016	at expiry
Facility D	Amortising	139,028	139,028	12/31/2014	semiannually
RF	Revolving facility	34,286	34,286	12/31/2014	
Total		**730,760**	**713,875**		

SHIP Group

Amortisation plan	Residual debt at 12/31/2012	2013	2014	2015	2016
Facility A	50,561	16,886	33,675	0	0
Facility B	245,000	0	0	245,000	0
Facility C	245,000	0	0	0	245,000
Facility D	139,028	69,514	69,514	0	0
RF	34,286	0	34,286	0	0
Total	**713,875**	**86,400**	**137,475**	**245,000**	**245,000**
Residual debt		**627,475**	**490,000**	**245,000**	**0**

Long-term lines - beneficiary: SHIP S.p.A.

(in thousands of Euro)

Lines	Type	Residual debt at 12/31/2011	Residual debt at 12/31/2012	Expiry	Repayment
Facility A1	Amortising 7 years	44,852	33,623	12/31/2014	semiannually
Facility B1	Bullet 8 years	169,625	169,625	12/31/2015	at expiry
Facility C1	Bullet 9 years	169,625	169,625	12/31/2016	at expiry
Facility D	Amortising 7 years	26,942	26,942	12/31/2014	semiannually
RF	Revolving facility	34,286	34,286		
Total		**445,330**	**434,101**		

SHIP S.p.A.

(in thousands of Euro)

Amortisation plan	Residual debt at 12/31/2012	2013	2014	2015	2016
Facility A	33,623	11,229	22,394		
Facility B	169,625			169,625	
Facility C	169,625				169,625
Facility D	26,942	13,471	13,471		
RF	34,286		34,286		
Total	**434,101**	**24,700**	**70,151**	**169,625**	**169,625**
Residual debt		**409,401**	**339,250**	**169,625**	**0**

Long-term lines - beneficiary: Sisal S.p.A.

(in thousands of Euro)

Lines	Type	Residual debt at 12/31/2011	Residual debt at 12/31/2012	Expiry	Repayment
Facility A2	Amortising 7 years	22,594	16,938	12/31/2014	semiannually
Facility B2	Bullet 8 years	75,375	75,375	12/31/2015	at expiry
Facility C2	Bullet 9 years	75,375	75,375	12/31/2016	at expiry
RF	Revolving facility	0	0	12/31/2014	
Total		**173,344**	**167,688**		

Sisal S.p.A.

(in thousands of Euro)

Amortisation plan	Residual debt at 12/31/2012	2013	2014	2015	2016
Facility A	16,938	5,657	11,281		
Facility B	75,375			75,375	
Facility C	75,375				75,375
RF	0				
Total	**167,688**	**5,657**	**11,281**	**75,375**	**75,375**
Residual debt		**162,031**	**150,750**	**75,375**	**0**

Long-term lines - beneficiary: Sisal Match Point S.p.A

(in thousands of Euro)

Lines	Type	Residual debt at 12/31/2011	Residual debt at 12/31/2012	Expiry	Repayment
Facility D	Amortising 7 years	71,086	71,086	12/31/2014	semiannually
Total		**71,086**	**71,086**		

Sisal Match Point S.p.A.

(in thousands of Euro)

Amortisation plan	Residual debt at 12/31/2012	2013	2014	2015	2016
Facility D	71,086	35,543	35,543		
Total	**71,086**	**35,543**	**35,543**	**0**	**0**
Residual debt		**35,543**	**0**	**0**	**0**

Long-term lines - beneficiary: Sisal Entertainment S.p.A.

(in thousands of Euro)

Lines	Type	Residual debt at 12/31/2011	Residual debt at 12/31/2012	Expiry	Repayment
Facility D	Amortising 7 years	41,000	41,000	12/31/2014	semiannually
Total		**41,000**	**41,000**		

Sisal Entertainment S.p.A.

(in thousands of Euro)

Amortisation plan	Residual debt at 12/31/2012	2013	2014	2015	2016
Facility D	41,000	20,500	20,500		
Total	**41,000**	**20,500**	**20,500**	**0**	**0**
Residual debt		**20,500**	**0**	**0**	**0**

Interest on the credit lines provided under the Senior Credit Agreement is based on the 1-month, 3-month or 6-month Euribor plus a spread of between 1.875% and 3.68% depending on the characteristics of the credit line. The charge for interest in the statement of comprehensive income is integrated by the impact of recording the liability at amortised cost and the consequent inclusion, in determining the effective interest, of the transaction costs incurred at the time of taking out the loan.

The Senior Credit Agreement, moreover, contains financial covenants based on key economic/financial ratios related to the consolidated financial statements of the Parent company, including, for example, the ratio of net consolidated debt / gross consolidated operating profit and the ratio of the latter and the interest cost to service the debt. These covenants were checked on quarterly basis and during 2012, as in previous years, they are complied in all respects.
As already indicated, besides the above mentioned loans, the Group has derivative contracts (matured as of December 31, 2012) to hedge the risk of exposure to interest rate fluctuations with the characteristics described in the note on “Other current liabilities”.

Loans from the ultimate parent Gaming Invest S.à.r.l. refer principally to a loan from shareholders, denominated Shareholder Loan C. This is a bullet loan under which the Parent company is entitled to obtain the repayment ofthe loan on request, but it is subordinate to the payments under the Senior Credit Agreement. The Parent company has the right to repay all or a part of the loan at any time, taking into account the condition mentioned above; as a result, this loan is therefore considered a medium-/long-term loan. The interest on the “PIK Margin” (6%) can be capitalised for the entire term of the loan upon request of the party financed whereas for the quota of interest denominated “Cash Margin” (4.5%), this right exists only for the first 12 months of the term of the loan; during the year a total of approximately EUR 20 million of interest was capitalised and principal was repaid for about EUR 1.2 million.
The sole shareholder, Gaming Invest S.à.r.l., in June 2009, extended another loan of EUR 60 million, bearing interest from January 1, 2010, denominated “subordinated zero coupon shareholder loan” with zero coupon interest and, like the preceding loan, subordinate to the obligations under the “Senior Credit Agreement”. The payment of 11% interest, during the year equal to about EUR 5.1 million, which cannot be capitalised, will take place at the time of the repayment of principal; such interest is recognized in the statement of comprehensive income at amortised cost.

Loans from other banks refer to the residual amount of pre-existing medium/long-term debt in the companies acquired by the Group at the end of the previous year and merged at the end of 2012 in Sisal Match Point S.p.A.

Loans from other lenders – leasing, for EUR 1,439 thousand, refer to the long-term portion of instalments due on leasing contracts signed in the years 2010 and 2011 for the purchase of new generation gaming terminals denominated “Microlot”.

Loans from other lenders – factoring, which last year amounted to EUR 3,906 thousand, were reclassified within “Current portion of long-term debt” and are commented in Note 23.

In the aggregate, outstanding loans as of December 31, 2012, including the current portion, amount to about EUR 1,139 million, of which approximately EUR 719 million relates to bank or similar debt at variable rates (63% of the total) and EUR 420 million to loans from shareholders at fixed rates (37% of the total).

<u>Provision for employee severance indemnities</u> (16)

The provision, amounting to EUR 9,096 thousand, reflects the effects of the present value calculation required by IAS 19. The movements during the year are presented in the following tables.

(in thousands of Euro)

	At 12/31/2012	**At 12/31/2011**
Beginning balance	**7,876**	**7,592**
Current service costs	105	28
Finance expenses	353	374
Actuarial (gains) losses	1,393	(330)
Contributions made - Benefits paid	(631)	(436)
Change in scope of consolidation	0	647
Total	**9,096**	**7,876**

	At 12/31/2012	**At 12/31/2011**
Current service costs	105	28
Finance expenses	353	374
Actuarial (gains) losses	1,393	(330)
Total recorded in statement of comprehensive income	**1,851**	**72**

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

	Managers	Non managers
Discount rate	3.2%	3.2%
Inflation rate	2.0%	2.0%
Future salary increase rate	3.0%	3.0%
Estimated mortality rate	80% table RG48	80% table RG49
Estimated disability rate	70% table RG49	70% table RG50
Probability of resignation/retirement (annual)	3.0%	3.0%

There are no plan assets servicing the defined benefit plans.

Deferred tax liabilities (17)

The information concerning deferred tax liabilities is detailed in the following table:

Recognition of deferred tax liabilities and related effects	2012		2011	
	Temporary differences (Amount)	Tax effect (27.5%/31.7% rate)	Temporary differences (Amount)	Tax effect (27.5%/31.7% rate)
Deferred tax liabilities				
Severance indemnity deducted out of books	1,820	501	1,832	501
Leasing instalments	0	0	0	0
Goodwill deducted out of books	16,056	5,090	14,716	4,624
Depreciation - differences between IAS and tax bases	0	0	(3)	(1)
Accelerated depreciation	2,482	682	2,545	701
Merger deficit - taxed	52,706	16,304	46,560	15,249
Reversal of impairment loss on intangible assets	16,644	5,276	18,922	6,187
Other temporary differences	275	84	2,445	773
Reversal of quota of current deferred taxes	(980)	(230)	(866)	(424)
Reversal of quota of non-current deferred taxes	(22,840)	(6,659)	(16,226)	(4,732)
Consolidation deficit - taxed	22,454	7,118	33,975	10,770
Net deferred tax liabilities	**88,617**	**28,166**	**103,900**	**33,648**
Temporary differences excluded from the deferred tax computation	**0**	**0**	**0**	**0**

The reversal of deferred taxes refers to the portion than can be compensated with the corresponding item of deferred tax assets based on the timing of the reversal.

Provisions for risks and charges (18)

Provisions for risks and charges total EUR 8,863 thousand and include the following:

Provision for risks and charges	At 12/31/2011	Changes during the year		At 12/31/2012
		Increase	Decrease	
Sundry risks and charges provisions	14.266	150	(7.060)	7.356
Technological updating provision	957	550	0	1.507
Total	**15.223**	**700**	**(7.060)**	**8.863**

The provisions in place arise from the directors' prudent assessment of the litigation in progress, mainly in civil and employee-related areas. The decreases in the provisions can be ascribed particularly to an updated evaluation of such situations which led to the release to the statement of comprehensive income of EUR 5,399 thousand recorded in *Amortization, depreciation, provisions* *and impairment losses and reversals* and the recognition of the relative legal costs incurred during the year.

The increase in *Technological updating provision* refers to the accrual which the concessionaire Sisal Entertainment S.p.A. is required to provide based on the relative concession agreement in order to ensure over the time that the online network and infrastructures are updated in technology and size necessary for the collection of receipts. The same obligation applicable to the concessionaire Sisal S.p.A. did not result in an increase in such provision due to the significant investments made by the company in the current and previous years.

The Group operates in a complex legal environment where regulations are continuously evolving and subjected to the strong presence of the State's regulatory activity and the bodies responsible for the control and management of this market. The result is frequently a high number of cases and disputes. At this time, although in a context of uncertainty, it is believed that such cases and proceedings will not give rise to liabilities besides those already recorded in the financial statements or will not have significant consequences. At the same time, it should be mentioned that at the year-end reporting date there are certain tax inquiries 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 financial statements.

Other non-current liabilities (19)

Other non-current liabilities total EUR 3,245 thousand. Details are as follows:

(in thousands of Euro)

Other non-current liabilities	At 12/31/2012	At 12/31/2011
Payable for the acquisition of business segments	1,465	2,044
Other non-current liabilities	1,780	4,276
Total	**3,245**	**6,320**

The *Payable for the acquisition of business segments* refers to the non-current amount payable for the acquisition of the business segment from the company Merkur Interactive Italia S.p.A. which was concluded during the preceding year.

Other non-current liabilities refer to the non-current portion of the payable to the tax authorities relating to the proposal to settle the Note of Findings (NoF) issued following the inspection by the Financial Police and signed by the Parent company in December 2011.

Liabilities relating to assets held for sale/discontinued operations (20)

There are no such liabilities as of December 31, 2012.

C) CURRENT LIABILITIES

Trade and other payables (21)

Trade and other payables are composed of the following:

(in thousands of Euro)

Trade payables	At 12/31/2012	At 12/31/2011
Payables to suppliers	92,587	91,586
Payables to partners for services	186,805	158,376
Payables to AWP gaming machines network	4,391	8,548
Other trade payables	523	649
Total	**284,306**	**259,159**

Payables to partners for services relate mainly to the sale of telephone and TV content recharges sold (by the company Sisal S.p.A.) and collection and payment services operated directly by the Parent company on behalf of private and public entities. The increase as of December 31, 2012 over the previous year is due to the growth in the volumes transacted and some differences in the timing of amounts transferred to the companies/partner entities.

Payables to AWP gaming machine network mostly include the amount due to the network on receipts and the remaining amount still to be paid to some of them as a result of the reduction in the PREU tax rate from 12.6% to 12.1524% in 2011 (AAMS Decree 2012/11048/ADI dated March 12, 2012).

Short-term debt (22)

Short-term debt, amounting to EUR 34,406 thousand, mainly includes the amount of EUR 34,286 thousand drawn under the revolving facility granted by the banking pool with the aim of financing short-term cash and working capital requirements.

Current portion of long-term debt (23)

The current portion of long-term debt, amounting to EUR 94,158 thousand, represents principally the instalments due on or before December 31, 2013 for about EUR 86,400 thousand according to current repayment plans under the “Senior Credit Agreement”. In addition, there is 3,906 thousand of debt from a contract signed in 2009 with a leading factoring company for the sale of VAT receivables referring to the year 2007 and reclassified during the year from *Long-term loans*, owing to agreements signed, for the repayment of the loan, with the same company at the end of the year and EUR 3,591 thousand on the finance lease contracts signed in previous years.

Other current liabilities (24)

Other current liabilities, amounting to EUR 210,943 thousand, are composed as follows:

(in thousands of Euro)

Other current liabilities	At 12/31/2012	At 12/31/2011
Other current liabilities	1,820	1,849
Payables to social security agencies	6,350	6,720
Liabilities relating to fair value of derivative instruments	0	6,591
Sundry payables	197,954	275,099
Sundry payables to tax authorities	4,819	6,142
Total	**210,943**	**296,402**

Payables to social security agencies represent the Group's and its employees' social security contributions on salaries and wages and INPS contributions on the compensation paid to external collaborators.

Details of *Sundry payables* are as follows:

(in thousands of Euro)

Sundry payables	At 12/31/2012	At 12/31/2011
Payables for winnings		
Payables for SuperEnalotto-SuperStar winnings	71,732	97,744
Payables for Win for Life winnings	8,005	28,387
Payables for SiVinceTutto-SuperEnalotto winnings	2,856	12,046
Payables for Tris games and horse race betting winnings	256	328
Payables for CONI games	321	283
Payables for Bingo winnings	13	11
Payables for VLT winnings	4,700	6,052
Payables for Eurojackpot winnings	741	0
Total payables for winnings	**88,624**	**144,850**
Other payables on games		
Payables to tax authorities for games	71,851	82,252
NTNG subscribers	2,937	974
Payables for online games	6,174	7,715
Payables for guaranteed minimum	7,837	9,922
Payables for betting management	1,996	1,263
Total other payables on games	**90,795**	**102,126**
Payables to employees	11,253	11,329
Payables to collaborators	1,558	1,549
Other payables to third parties	5,724	15,244
Total other payables	**18,535**	**28,123**
Total sundry payables	**197,954**	**275,099**

Sundry payables to tax authorities	12/31/2012	12/31/2011
Payables for IRPEF payroll tax to tax authorities	1,996	2,128
Payables for withholding tax on RBS loan to tax authorities	431	80
Other taxes payable	2,376	3,905
Payables for equalisation tax to tax authorities	16	29
Total	**4,819**	**6,142**

Payables for winnings include jackpots payable by the Group to winners of pool games, bets and VLTs as of December 31, 2012; these liabilities are covered mainly by the dedicated bank accounts included in the statement of financial position under assets. The decrease in outstanding overall payables compared to the prior year is about EUR 56 million and mainly relates to the first category SuperEnalotto prize payouts awarded, and already paid at the end of the year, a lower SuperEnalotto jackpot carried forward to the first game of the next year and a lower amount in the prize money accounts for all the NTNG games due principally to a contraction in game volumes. This is partly offset by the recognition of payables for the winnings of the Eurojackpot, a new NTNG game introduced in April 2012.

Other payables on games are composed mainly of the game taxes on the last NTNG games of the year for about EUR 15 million, in addition to about EUR 16.6 million for the penalty and interest imposed by AAMS to Sisal S.p.A. for not having reached the minimum level of receipts on NTNG games for the May-June 2012 two-month period, payables for the PREU tax and concession fees on AWP machines, relating to receipts for the last two months of the year, for about EUR 27 million and tax payments, relating to turnover for the month of December on sports pool games, horse race and sports betting and online games, for a total of about EUR 9.5 million. All these payables, with the exception of the penalty on NTNG guaranteed minimum receipts, were duly settled by the various concessionaires of the Group in January 2013.

Payables for guaranteed minimum, for EUR 7,837 thousand, include the remaining amount payable to the concession grantors for the integration due on the guaranteed minimum adjustment, as set out in the concession agreement, for receipts from horse race betting signed by the company Sisal Match Point S.p.A. In 2009, Sisal Match Point S.p.A. did not pay, in agreement with the concession grantors, the instalment due for 2009 relating to the guaranteed minimum adjustment for horse race betting. This was because of the receivable awarded by the Arbitration Board on May 26, 2003 which involved 171 companies against the concession grantor Unire and which, by decision of the arbitration board was resolved in favour of the companies, confirming, inter alia, the existence of the receivable in favour of the concessions held by Sisal Match Point S.p.A. following the acquisition of the business segments and mergers which took place in prior years. The decision by the Arbitration Board is still subject to an appeal by AAMS. The line item also includes the payable for the integration due on the guaranteed minimum adjustments accrued for the years 2008 and 2009. Furthermore, there is a dispute with AAMS over the settlement of these amounts, covering also the years 2006 and 2007, for which the concessionaire company of the Group had paid the amount requested, under pain of exclusion from participation in public tenders of vital interest, but reserving the right to at least the partial restitution of the amount paid. This dispute which involves all the other operators in the sector recently arrived at the Constitutional Court from which a ruling is awaited. At this point in time and also on the basis of authoritative legal opinions it has been decided to partially recalculate this liability, reducing it by about EUR 2.1 million and at the same time recognizing the amount in the statement of comprehensive income under *Other income*.

Payables for online games reports the sums deposited by players in order to play online.

NTNG subscribers include the payable for subscriptions to SuperEnalotto games and relative additional SuperStar game, Vinci per la vita - Win for life, and Eurojackpot, which began in in the first two months of 2013.

Other payables comprise *Payables to employees* which include the 14th month salary, bonuses, vacation, former holidays, outstanding amounts due and overtime accrued at the end of the year but not paid. *Payables to collaborators* include compensation similar to employee remuneration and compensation due to members of administrative boards, which will be paid upon issue of specific payslips and/or receipt of invoices.

Other payables to third parties principally comprise payables for the purchase of business segments, for security deposits received, for non-deductible VAT on invoices to be received and also for dividends not yet paid. The reduction can be ascribed mainly to the payment during the year of liabilities contracted at the end of 2011 for the acquisition of companies and business segments, based on the relative agreements.

Liabilities relating to fair value of derivative instruments amounting to EUR 6,591 thousand as of December 31, 2011 show a nil balance as of December 31, 2012. The change is due to the maturity and extinguishment of the interest rate swaps (IRS) put into place in previous years to hedge the previously mentioned loans that were taken out by the Parent company and other Group companies. In view of the financial market conditions and the underlying relative assumptions on the trend of the interest rate curve it was however decided not to extend these financial instruments for the time being. Therefore, from the end of the year, the financial debt is allowed to fluctuate with the variations in interest rate. The main characteristics of the derivative instruments which matured at the end of the year are as follows:

IRS - SISAL S.p.A.			
From	To	Notional	Hedging Fix Rate
12/31/2010	3/31/2011	157,000,000	2.000%
3/31/2011	6/30/2011	155,000,000	2.000%
6/30/2011	9/30/2011	149,000,000	2.650%
9/30/2011	12/31/2011	30,000,000	2.650%
12/31/2011	3/31/2012	140,000,000	2.900%
3/31/2012	6/30/2012	140,000,000	2.900%
6/30/2012	9/30/2012	140,000,000	3.000%
9/30/2012	12/31/2012	140,000,000	3.000%

IRS - SHIP S.p.A.			
From	To	Notional	Hedging Fix Rate
12/31/2010	3/31/2011	380,000,000	4.197%
3/31/2011	6/30/2011	380,000,000	4.197%
6/30/2011	9/30/2011	380,000,000	4.197%
9/30/2011	12/31/2011	380,000,000	4.197%
12/31/2011	3/31/2012	280,000,000	1.510%
3/31/2012	6/30/2012	280,000,000	1.510%
6/30/2012	9/30/2012	280,000,000	2.810%
9/30/2012	12/31/2012	280,000,000	2.810%

The hedging rate was at the 1-month or 3-month Euribor.

Other tax payables of EUR 4,819 thousand consist mainly of EUR 2,372 thousand for the short-term portion of the payable due to the acceptance of the Notice of Findings issued by the Finance Police signed by the Parent company at the end of the previous year and EUR 1,996 thousand for IRPEF tax on employees compensation and on services performed by self-employed collaborators paid in the early part of 2013 on their due dates.

Tax payables (25)

Tax payables comprises the following:

(in thousands of Euro)

Tax payables	At 12/31/2012	At 12/31/2011
Payables for IRAP tax to tax authorities	221	3,371
Payables for IRES tax on income tax consolidation	0	6,623
Total	**221**	**9,993**

Payables for IRAP tax to tax authorities at year-end is net of advances already paid, whereas *payables for IRES tax on income tax consolidation* show a nil balance since the Group had a net receivable based of the results of the national tax consolidation at the end of the year.

Provisions for risks and charges (26)

There are no short-term *Provisions for risk and charges* as of December 31, 2012.

COMMITMENTS

The guarantees, guarantee insurance policies and credit guarantees provided by the Group amount to EUR 383,210 thousand and are composed as follows:

(in thousands of Euro)

Guarantees provided on behalf of third parties - December 31, 2012	Amount
Customs and Monopolies Agency (AAMS)	238,468
Non-game services	140,820
Other guarantees provided	3,311
Tax revenues agency - VAT Office	611
Total	**383,210**

The balance of the Customs and Monopolies Agency (AAMS) refers to the aggregate of the guarantees and/or commitments issued by the concessionaire companies of Group on behalf of the granting Agency for the concession to operate and develop various games and also the related tax and operating obligations. Non-gaming services instead refer to the guarantees issued by the Parent company and Sisal S.p.A. on behalf of customer partners mainly for agreements relating, respectively, to payment services and to the sale and/or distribution of telephone top-ups for which the above companies are required to duly guarantee payment, net of their fees, of the amounts collected under the terms of the agreements.

The reduction in total Guarantees provided on behalf of third parties as of December 31, 2012 compared with December 31, 2011 of about EUR 136 million is due mainly to the partial release of

EUR 158 million of the second guarantee provided on behalf of AAMS referring to the NTNG concession, at the end of the three-year monitoring period of the guaranteed minimum gaming receipts, leaving a residual amount of EUR 17 million to cover the aforementioned NTNG penalty levied on Sisal S.p.A. because the guaranteed minimum turnover were not reached in the two-month period May-June 2012.

Moreover, to guarantee the debt deriving from the financing contracts signed in the course of the acquisition of the majority interest in Sisal S.p.A., the Group pledged the shares held in Sisal S.p.A., Sisal Match Point S.p.A. and Sisal Entertainment S.p.A. in favour of the banks financing the operation.

FINANCIAL INSTRUMENTS: SUPPLEMENTARY INFORMATION

The supplementary information requested by IFRS 7 relating to financial instruments, if not supplied elsewhere in these explanatory notes, is presented below.

Categories of financial assets and liabilities

In accordance with IFRS 7, the following table presents the carrying amount of each category of financial asset and liability, as defined by IAS 39, and the reconciliation with the financial statements as of December 31, 2012 and also the comparison with the respective fair value*:*

Categories of financial assets and financial liabilities - IAS 39	Balance 12/31/2012	Statement of comprehensive income		Balance 12/31/2011	Statement of comprehensive income	
		income	expenses		income	expenses
ASSETS						
Cash and cash equivalents						
Bank and postal deposits and valuables in hand	242.120	4.081	6	283.692	2.978	4
Total	**242.120**	**4.081**	**6**	**283.692**	**2.978**	**4**
Financial assets at fair value through profit or loss						
Derivative instruments	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**
Investments held to maturity						
	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**
Loans and receivables						
Current financial assets	0	0	0	0	0	0
Trade receivables - current and non-current	151.315	0	0	183.983	0	0
Other assets - current and non-current	46.182	263	0	51.664	246	0
Total	**197.497**	**263**	**0**	**235.647**	**246**	**0**
Available-for-sale financial assets						
Other securities	2	0	0	1.004	0	0
Total	**2**	**0**	**0**	**1.004**	**0**	**0**
LIABILITIES						
Financial liabilities at amortised cost						
Bank debt and payables to other lenders - current and non-current (*)	1.138.732	0	71.135	1.145.241	**0**	69.903
Trade payables - current / non-current	284.306	0	146	259.159	0	26
Other liabilities - current and non-current	209.369	0	361	264.841	0	522
Total	**1.632.407**	**0**	**71.642**	**1.669.242**	**0**	**70.452**
Financial liabilities at fair value through profit or loss						
Derivative instruments	0	0	1.619	6.591	810	2.609
Total	**0**	**0**	**1.619**	**6.591**	**810**	**2.609**

(*) The figure includes debt payable to shareholders at its nominal amount since the fair value measurement is not available at this time.

Categories of financial assets and financial liabilities - IAS 39	Balance 12/31/2012	Fair value	Balance 12/31/2011	Fair value
ASSETS				
Financial assets at fair value through profit or loss				
Derivative instruments	-	-	-	-
Total	**-**	**-**	**-**	**-**
Investments held to maturity	-	-	-	-
Total	**-**	**-**	**-**	**-**
Loans and receivables				
Interest bearing loans				
Trade receivables - current and non-current	151.315	151.315	183.983	183.983
Other assets - current and non-current	46.182	46.182	51.664	51.664
Total	**197.497**	**197.497**	**235.647**	**235.647**
Available-for-sale financial assets				
Other securities	2	1.004	1.004	2
Total	**2**	**1.004**	**1.004**	**2**
LIABILITIES				
Financial liabilities at amortised cost				
Bank debt and payables to other lenders - current and non-current (*)	1.138.732	1.143.898	1.145.241	1.155.892
Trade payables - current / non-current	284.306	284.306	259.159	259.159
Other liabilities - current and non-current	209.369	209.225	264.841	264.697
Total	**1.632.407**	**1.637.429**	**1.669.242**	**1.679.749**
Financial liabilities at fair value through profit or loss				
Derivative instruments	-	-	6.591	6.591
Total	**-**	**-**	**6.591**	**6.591**

(*) The figure includes debt payable to shareholders at its nominal amount since its fair value measurement is not available at this time

Reclassification

The Group has not carried out any reclassification of 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 of their respective fair value.

For indexed loans, the future cash flows of which were not known at year end, the Group has estimated them at a variable rate (inclusive of spreads) and discounted them to present value at the reporting date.

For financial instruments recognized in the statement of financial position at fair value, IFRS 7 requires the classification based on a hierarchy that reflects the significance of the inputs in the determination of the fair value.

The three levels of input are:

- level 1: quoted prices in active markets for identical assets or liabilities;
- level 2: inputs other than quoted prices included in Level 1 observable either directly (prices) or indirectly (derived from prices) in the market;
- level 3: inputs that are not based on observable market data.

The following table sets out the assets and liabilities measured at fair value as of December 31, 2011 and December 31, 2012, by the level of the fair value hierarchy.

As of December 31, 2012

				(in thousands of Euro)
Financial assets/liabilities measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
1. Financial assets measured at fair value recognised in the statement of comprehensive income				0
2. Available-for-sale financial assets	2			2
3. Hedging derivatives				0
Total	**2**	**0**	**0**	**2**
1. Financial liabilities measured at fair value recognised in the statement of comprehensive income				0
2. Hedging derivatives				0
Total	**0**	**0**	**0**	**0**

As of December 31, 2011

				(in thousands of Euro)
Financial assets/liabilities measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
1. Financial assets measured at fair value recognised in the statement of comprehensive income				0
2. Available-for-sale financial assets	1,004			1,004
3. Hedging derivatives				0
Total	**1,004**	**0**	**0**	**1,004**
1. Financial liabilities measured at fair value recognised in the statement of comprehensive income		(6,591)		(6,591)
2. Hedging derivatives				0
Total	**0**	**(6,591)**	**0**	**(6,591)**

Financial instruments risk management policy

The qualitative and quantitative information required by IFRS 7 concerning the Group's exposure to risks from financial instruments, is detailed below.

Credit risk

The Group normally operates only with known and trustworthy counterparts. Receivable balances are regularly monitored throughout the year to ensure that exposure to losses is not significant.

The following main categories of homogeneous credit risk were identified:

	(in thousands of Euro)	
Credit risk by class of risk	**Balance 12/31/2012**	**Balance 12/31/2011**
Receivables from Public Authorities	26,510	30,642
Receivables from Points of sale and shops	158,292	185,425
Receivables from Betting Agencies	10,219	13,391
Receivables from Network	20,474	21,644
Other receivables	9,653	13,967
Provision for impairment of receivables	(42,577)	(41,305)
Total	**182,571**	**223,764**

- *Receivables from Public Authorities* include receivables from AAMS for games managed according to the regulations of the specific concessions, receivables from advances made on behalf of the granting authority in the course of management of the Totip game and receivables from the Public Administration for reimbursement requests already filed at year end, for which settlement is expected in the short term; no credit risk is believed to exist on these positions;
- *Receivables from Points of sale and shops* represent essentially amounts due from gaming activities and non-gaming services in the last few days of the year 2012 and the relative receivables arising from the automated weekly collections of the preceding periods that have gone unpaid. The large number of outlets exposes the Group to a partial uncollectibility risk which, following suitable evaluation by the directors, has duly been covered by a specific provision for impairment of receivables;
- *Receivables from Network* represent mainly receipts from gaming through AWP machines, including the 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 duly covered by a specific provision for impairment of receivables;
- *Receivables from Betting Agencies* represent mainly receivables from third parties which manage some of the horse racing and sports betting agencies on the basis of partnership agreements; the size of individual accounts, some inherited through acquisitions of the businesses concerns, requires constant monitoring of the same and the recognition of a provision for certain critical cases, often resolved with agreed repayment plans;
- *Other receivables* include insurance receivables, advances to 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 form of risk is believed to exist.

Risk exposure

At year end, the provision for impairment of receivables of the Group was EUR 42.5 million; movements in the provision account are presented in the related note.

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

(in thousands of Euro)

Analysis of credit risk	Balance 12/31/2012	ageing			
		current	overdue 0 - 90 days	overdue between 90 - 180 days	overdue more than 180 days
Trade receivables	193,462	136,998	10,019	2,798	43,647
Provision for impairment of receivables	(42,146)	(5,784)	(1,187)	(2,221)	(32,954)
Net amount	**151,316**	**131,214**	**8,832**	**577**	**10,693**
Other receivables	31,687	30,704	0	0	983
Provision for impairment of receivables	(430)	(246)	0	0	(184)
Net amount	**31,257**	**30,458**	**-**	**-**	**799**
Total	182,573	161,672	8,832	577	11,492

Overdue trade receivables not covered by provisions represent balances on which the Group believes an insignificant risk of uncollectibility to exist.

As already mentioned, the Group monitors credit risk on 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.

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

Liquidity risk

The liquidity risk is the risk that the Group encounters difficulty in meeting obligations associated with financial liabilities.

The Group manages this risk by seeking to establish a balance between outflows of cash and the sources of short-term and long-term funding and the gradual and homogeneous distribution of maturities of medium- and long-term funding over time.

Set out below is the amount of financial liabilities, with the indication of the amounts subdivided by their repayment dates, as required by IFRS 7, in relation to analysis of liquidity risk:

(in thousands of Euro)

Financial liabilities disbursement analysis	Balance 12/31/2012	Financial liabilities disbursement analysis			
		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	718,735	1,994	92,283	629,624	-
Trade payables	284,306	254,453	29,373	512	-
Other payables	209,367	116,649	87,072	5,646	-
Total	**1,212,408**	**373,096**	**208,729**	**635,782**	**0**

The flows indicated refer only to repayments of principal. Actual disbursements will be increased by the interest charges due based on the rates applicable to the various loans as detailed in the note on long-term debt.

Bank loans and payables to other lenders do not include the loan received from the ultimate parent, Gaming Invest S.à.r.l., on which there is no liquidity risk and however the repayments are subordinated to those of the "Senior Credit Agreement".
Further, the table does not include the payments associated with taxes payable which will be paid Inland Revenue at due dates established by existing laws.
During the year, the Group has complied with all the repayment clauses stated in the existing loan agreements.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument fluctuate because of changes in market price variables such as foreign currency exchange rates, interest rates, raw materials prices and stock market prices.
The market risk thus comprises:

- foreign currency exchange risk;
- interest rate risk;
- commodity price risk.

As the Group does not operate with foreign currencies it is not exposed to foreign currency exchange risk nor is it exposed to commodity risk due to the characteristics of its business.

Foreign currency exchange risk

The Group is not habitually exposed to foreign currency exchange risk since in fact it operates only in Italy. There are obligations to English and American suppliers for amounts that are not significant in relation to the size of ordinary business operations.

Interest rate risk

The Group utilises a mix of debt instruments according to the nature of its financial needs. Specifically, 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.

Until December 31, 2012, Group policy aimed to reduce the fluctuation of interest costs on its debt and the related effect on the statement of comprehensive income by putting into place interest rate swaps (IRS). As previously commented, the current anticipated trend in the economic climate, and therefore expectations in terms of inflation, makes it appear as though an increase in interest rates is not probable; thus, at this time, the Group has decided not to extend the hedging transactions that matured at the end of the year.

Concerning interest rate risk, a sensitivity analysis was made to determine the effects on income and equity of hypothetical positive and negative 100 bps (basis points) variations relative to current effective interest rates.

The analysis was carried out with reference mainly to the following:

- cash or cash equivalents
- short- and long-term financial liabilities, in connection with the related derivative instruments.

Concerning cash and cash equivalents, reference was made to the average balance and the average interest rate thereon for the year, while for short- and long-term financial liabilities the effect was calculated at the end of the reporting period, adjusting the cost in the statement of comprehensive income by the effect of the closure of the related derivative instrument. This analysis did not include financial payables to the Parent company, since they were contracted at fixed rates, and leases payable.

(in thousands of Euro)

	Balance 12/31/2012	Analysis +/- 1% interest rate			
		income		Statement of financial position	
		+1% profit / (loss)	-1% profit / (loss)	+1% profit / (loss)	-1% profit / (loss)
Net financial debt	(551,491)	(779)	779	(779)	779
Derivative instruments	0	0	0	0	0
Total	**(551,491)**	**(779)**	**779**	**(779)**	**779**

Capital management

The Group manages its capital structure according to its business needs, also in light of the relationships with the private equity funds that indirectly have stakes in its share capital.

The solid financial basis of the Sisal Group is confirmed by the fact that in the last few years the debt/equity ratio has always been below 1:1 except during 2006 due to the corporate and financial restructuring following the acquisition of stakes by Italian and international private equity funds, namely Clessidra, Apax and Permira. The size of the financial debt deriving from the above mentioned transaction was at that time decided on the basis of the assessment of the Group’s capacity to generate constant earnings and financial flows to support its debt repayments and related costs and also the cash flows from ordinary activities and investments for its business development.

In the presence of opportunities for investment aimed at enhancing the Group’s value and stability, the international importance of the controlling funds and their solid asset base constitute a guarantee of the Group’s ability to seize such opportunities even through recourse to risk capital.

NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Revenues (27)

Revenues include the consideration received by Group companies for the following lines of business:

(in thousands of Euro)

Revenues	2012	2011
Gaming revenues	557,163	611,294
Services and non-gaming products revenues	110,517	98,425
Points of sale revenues	85,375	81,896
Other revenues	1,079	1,005
Total	**754,134**	**792,621**

In particular, the gaming revenues received by Sisal S.p.A., Sisal Entertainment S.p.A., Sisal Match Point S.p.A. and Sisal Bingo S.p.A. are as follows:

(in thousands of Euro)

Gaming revenues	2012	2011
NTNG revenues	67,248	91,407
Slot machines revenues	452,749	479,121
Horse race betting revenues	16,271	20,975
Big bets revenues	53	74
Sports pools revenues	1,017	1,336
Online game revenues	18,254	16,595
Bingo revenues	1,571	1,785
Total	**557,163**	**611,294**

Gaming revenues record a decline in NTNG revenues (about EUR 24 million) set against a contraction in gaming volumes. As for AWP gaming machines, the decrease in revenues (of about EUR 26 million), even though aggregate receipts grew, is instead mainly due to two factors. The first is a shift in the product mix, in terms of the total played, towards VLTs; with the same receipts, because of the higher pay-out on VLTs, the gross revenues for the Group concessionaire company are lower than those from first generation new slot machines. Secondly, the taxation on VLTs increased from 2% in 2011 to 4% in 2012 (this was compensated only in part by a reduction in the taxation of new slot machines from 12.15% in 2011 to 11.8% in 2012).

Horse race betting revenues decreased due to the overall trend of the segment which, consistently with previous years, also this year continued to report a negative trend that affected both totalisator horse racing and national horse racing.

Online game revenues generated a positive trend aided in this by the new casino and quick games which benefited from a continuous renewal of the product portfolio during the year.

Services and Non-gaming revenues are those Group revenues linked primarily to the sale/distribution of telephone top-ups, the sale/distribution of TV content recharges and also revenues from the collection and payment services managed by the Parent company, which during the course of the year reported considerable growth (following a trend already begun in prior years) and stand out as the main contributors of the increase in this segment's revenues.

Points of sale revenues include mainly the annual affiliation "Point-of-Sale" fee from Sisal retail outlets according to the contract terms (EUR 77.6 million) in addition to EUR 3.4 million of fees invoiced to points of sale qualified as horse racing and sports betting points of sale, pursuant to the Bersani Decree, for the services rendered by Sisal S.p.A., specifically covered by contracts and about EUR 1 million for fees charged to the outlets under the "Sisal Point" contracts.

Fixed odds betting income (28)

Fixed odds betting income amounts to EUR 62,283 thousand and includes income from fixed odds horse racing bets handled by Sisal Match Point S.p.A., the concessionaire of the Group.

(in thousands of Euro)

Fixed odds betting income	**2012**	**2011**
Fixed odds sports betting income	61,832	73,854
Fixed odds horse race betting income	(5)	14
Reference horse race betting income	457	588
Total	**62,283**	**74,456**

The significant decrease in these revenues is mostly attributable to fixed-odds sports bets and reflects a particularly unfavourable trend for the bookmaker (also and especially because of the increasing trend recorded in the previous year) from the results of sports events which recorded the worst performance of the last ten years for the entire sector.

Other income (29)

Other income of EUR 6,978 thousand are principally composed of income from adjustments to expense estimates including a reduction of EUR 2.1 million in liabilities relating to the 2006-2009 guaranteed minimum. The remaining amount refers to rent income and costs recharged in connection with promotional online gaming activities.

Purchases of materials, consumables and merchandise (30)

(in thousands of Euro)

Purchases of materials, consumables and merchandise	2012	2011
Game materials purchases	8,278	12,489
Spare parts purchases	3,060	4,739
Sundry materials purchases	2,507	2,026
Warehousing	182	224
Change in inventories	(682)	(596)
Total	**13,345**	**18,882**

This line item, equal to EUR 13,345 thousand, includes *Game materials purchases* for the cost of paper purchased for gaming terminals and playslips for pool betting and bets for EUR 8,278 thousand and also *Spare parts purchases* for the spare parts and consumables used in the maintenance of gaming terminals for EUR 3,060 thousand.

There are also *Sundry materials purchases* for EUR 2,507 thousand referring to advertising and promotional material, stationery and printed forms, packaging and consumables fully expensed in the year.

The decrease in *Game materials purchases* for about EUR 4.2 million is mostly due to the capitalization, beginning in 2012, of the costs for the purchase and replacement of electronic game cards used in the operation of the Comma 6A AWP machine, described in the note on *Industrial and commercial equipment*.

Costs for services (31)

The composition of services, amounting to EUR 520,295 thousand, is the following:

Costs for services	2012	2011
Commerical services	52.641	64.931
Other services	467.654	482.337
Total	**520.295**	**547.268**

(in thousands of Euro)

Commercial services	2012	2011
Marketing and commercial expenses	38.871	48.533
Other commercial initiatives	12.814	14.259
Other commercial services	956	2.139
Total	**52.641**	**64.931**

(in thousands of Euro)

Other services	2012	2011
Sales channel - Gaming	297.316	322.304
Sales channel - Non-gaming services	69.027	62.182
Games and gaming management	4.040	3.174
Maintenance and technical assistance	14.379	15.338
Logistics	5.109	5.531
Sisal TV-Media	2.071	3.212
Telecommunications	16.624	15.792
Consulting	15.971	17.101
Compensation to corporate boards	2.544	2.640
Banking charges	6.951	5.450
Employee travel and trips	3.969	3.476
Headquarter operating costs	9.347	7.682
Insurance	2.456	2.272
Outsourcing services	8.570	7.825
Other service costs	9.282	8.359
Total	**467.654**	**482.337**

The overall decrease in costs for services of about EUR 27 million is due mainly to the contraction in expenditures for promotional activities (-EUR 12.3 million) partly due to targeted cost savings actions and the redesign of the communication and marketing campaigns and the change in the fees paid to the outlet networks in the country (fees to retail outlets and businesses/operators and agencies/operators of AWP machines), which decreased in total by about EUR 18 million. In particular, the fees paid to the networks for activities connected with gaming receipts decreased by more than EUR 25 million owing to the volume trend in the various areas of the Group's gaming business whereas the fees paid to points of sale and payments for non-gaming services rose by over EUR 6.8 million (+11%) in line with the positive trend in volumes transacted, specifically in the payment and financial services segment.

As required by art. 2427.16 bis of the Italian Civil Code, disclosure is provided about the fees paid to the audit firm for the audit of the annual financial statements of the Parent company and the subsidiaries, which total (net of VAT) EUR 331 thousand, for the auditing procedures carried out during the year in connection principally with the various obligations required for the NTNG concession for another EUR 62 thousand and for auditing procedures of the amount intended for the Parent company for EUR 11 thousand.

Lease and rent expenses (32)

These expenses, amounting to EUR 16,446 thousand, are composed as follows:

(in thousands of Euro)

Lease and rent expenses	2012	2011
Building leases	12,206	9,909
Other rentals and operating leases	4,241	3,904
Total	**16,446**	**13,813**

Lease and rent expenses include:

- lease of corporate headquarters and points of sale and related condominium expenses for EUR 12,206 thousand;
- rental principally of motor vehicles and hardware equipment for EUR 4,241 thousand.

The increase in leases and related expenses is mostly in connection with the expansion of the distribution networks as a consequence of the consolidation for a full year of the acquisitions concluded at the end of the previous year and the opening during 2012 of new points of sale managed directly by the Group.

Personnel costs (33)

Personnel costs total EUR 76,051 thousand and comprise the following:

(in thousands of Euro)

Personnel costs	2012	2011
Salaries and w ages	51,984	48,923
Social security contributions	16,374	15,409
Employee severance indemnities	5,593	3,616
Other personnel costs	2,100	1,060
Total	**76,051**	**69,008**

The total increase in personnel costs is largely due to a higher headcount in the Group in 2012 as can be seen in the following table which presents the average number of employees by category for the entire calendar year 2012 and the prior year.

Average number of employees	2012	2011
Managers	44	43
Management staff	114	92
Clerical	1,386	1,147
Labourers	11	5
Total	**1,555**	**1,286**

Other operating costs (34)

Other operating costs amount to EUR 48,204 thousand and comprise the following:

(in thousands of Euro)

Other operating costs	2012	2011
Other taxes and duties	1,902	1,856
Gifts and donations	1,131	1,067
Gaming concession fees	21,704	21,335
Other operating costs	23,467	7,158
Total	**48,204**	**31,415**

Other operating costs largely include the concession fees payable under existing regulations for legal gaming with AWP gaming machines (for approximately EUR 13.8 million), for sports betting and horse racing and sports games (for approximately EUR 4.2 million) and for NTNG national totalisator number games (for approximately EUR 3.7 million). The increase in *Other operating costs* is for the most part due to the penalty of EUR 16.5 million levied on Sisal S.p.A. by AAMS for not having reached the minimum level of receipts from the NTNG games for the two-month period May-June 2012.

Amortisation, depreciation, provisions, impairment losses and reversals (35)

The line item amounts to EUR 117,230 thousand and comprises the following:

(in thousands of Euro)

Amortisation, depreciation, provisions and impairment losses and reversals	2012	2011
Amortisation of intangible assets	50,257	56,835
Depreciation of property, plant & equipment	38,777	32,597
Other impairment losses on fixed assets	17,166	25,734
Impairment losses on current receivables	15,729	12,330
Accruals to provisions for risks and charges	(4,698)	5,585
Total	**117,230**	**133,081**

Other impairment losses on fixed assets, as commented above, reflect the impairment charge on the concession rights relating to horse race betting, Tris and pool games recorded in 2011 and the impairment charge on goodwill for EUR 17.1 million recognized in 2012 on the basis of the impairment test. The change in *Accruals to provisions for risks and charges* highlights the release to the statement of comprehensive income of prior years' provisions based on an updated assessment by the directors of pending litigation and the risks connected with assets.

Finance income and similar (36)

Finance income and similar amount to EUR 4,343 thousand and comprise the following:

(in thousands of Euro)

Finance income and similar	2012	2011
Other finance income	4,343	3,224
Other income on derivative instruments	0	810
Total	**4,343**	**4,033**

Finance income and similar mainly includes interest income accrued on the liquid assets of the Group. The increase over the prior year is due to higher average balances and higher average rates of remuneration.

Finance expenses and similar (37)

Finance expenses and similar amount to EUR 73,262 thousand and comprise the following:

(in thousands of Euro)

Finance expenses and similar	2012	2011
Interest and other finance expenses - Group	40,630	37,349
Interest and other finance expenses - third parties	30,872	33,080
Other expenses on sundry instruments	1,619	2,609
Exchange (gains) losses realised	154	22
Exchange (gains) losses unrealised	(13)	4
Total	**73,262**	**73,064**

Interest and other finance expenses – Group refer to expenses on the outstanding loans from the company Gaming Invest S.à.r. l., the sole shareholder of the Parent company.

Interest and other finance expenses – Third parties decreased mainly owing to a lower cost in terms of the interest rate (connected with the trend of the Euribor) and the relative spread during the year, based on the existing agreements with the pool of lending banks.

Other expenses on sundry instruments refer to expenses on derivative instruments put in place in previous years, relating to loans secured from a pool of lending banks and which reached maturity as of December 31, 2012, as commented in the note on *Other current liabilities*.

Adjustments to financial assets (38)

There are no adjustments to financial assets in 2012.

Share of profit (loss) of companies accounted for by the equity method (39)

The loss of about EUR 45 thousand refers to the adjustment of the carrying amount of the investment in the associates Consorzio Promoippica, under liquidation and Sistema S.r.l.

Income taxes (40)

Income taxes comprise the following:

(in thousands of Euro)

Income taxes	2012	2011
Current income taxes	5,949	31,152
Deferred tax liabilities	(3,750)	(4,851)
Deferred tax assets	465	(9,624)
Total	**2,664**	**16,677**

Deferred income taxes include the tax benefit or charge for deferred taxes on the positive and negative components of income of the consolidated companies and any temporary difference between the results of those companies and those determined after consolidation adjustments. *Current income taxes* include the tax credit (for the partial deductibility of IRAP taxes for IRES tax purposes) referring to prior years and totalling about EUR 2.4 million.

Overall the Group reports a current and deferred tax charge of EUR 2,664 thousand on a pre-tax loss of EUR 37,140 thousand. The difference between the reported tax charge and the theoretical tax charge computed on the pre-tax result using the tax rate of 31.7% is mainly due to the non-deductibility of assimilated personnel and collaborator costs for IRAP purposes, the effect of the recognition of the above tax credit, the partial deductibility (96%) of interest expenses expensed during the year by the Parent company and the tax charge (equal to about EUR 3.9 million) calculated on the gains from the sale of the investments within the Group at the end of the year.

Result attributable to assets held for sale/discontinued operations (41)

There are neither assets held for sale nor discontinued operations recorded in 2012.

Other comprehensive income (42)

There is no other comprehensive income in 2012.

Earnings per share (43)

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

Diluted earnings (loss) per share is obtained by adjusting the weighted average number of shares outstanding, to take into account all potential ordinary shares having dilutive effects.

The year 2012 shows a loss per share of EUR 0.39 compared with a loss per share of EUR 0.29 in 2011, computed by the dividing the loss attributable to the owners of the Parent by the number of shares forming the share capital of Sisal Holding Istituto di Pagamento S.p.A.

There were no changes in the number of shares forming the share capital of the Parent during the course of the last two years.

	2012	2011
Number of shares outstanding (in thousands)	102,500	102,500
Result attributable to owners of the Parent, Sisal Holding Istituto di Pagamento	(39,808)	(29,358)
(in thousands of Euro)		
Basic loss per share (in Euro)	(0.39)	(0.29)
Diluted loss per share (in Euro)	(0.39)	(0.29)

The shares which form share capital are ordinary shares and there are no obligations for the payment of preferred dividends or other differences in the allocation of the loss among the shares.
There are no instruments with a potential dilutive effect on the loss of Sisal Holding Istituto di Pagamento S.p.A.

Reporting segments

The Group's operating activities are organized and managed separately in three Business Units which ensure an effective control over operations and identify the operating segments as set out in IFRS 8:

- Entertainment, engaged in retail, AWP gaming machines and betting activities
- Lottery, engaged in National Totalisator Number Games (NTNG) activities
- Digital Games and Services, engaged in online games and payment services activities

The identification of the operating segments and the relative information reported under segment reporting is confirmed by the elements that management uses to make operating decisions consistently with the organizational, management and control model in use.
Management makes decisions about resources to be allocated and the assessment of the performance by the different segments principally on the basis of the "gross operating margin".

The valuation of this margin conforms with accounting standards applicable to the consolidated financial statements of the Group, thus the main items in reconciliation between the results of the segments and the "Gross operating margin before amortization, depreciation, provisions and impairment losses and reversals" presented in the consolidated financial statements refer to the costs of the corporate structure excluded from the gross operating margin of the various operating segments.
Such costs are mainly in reference to the following:

- IT/Telecommunications services across the different operating segments

- advertising and institutional communication
- coordination, control and strategic guidelines of the Group’s business
- planning and centralized management of human resources and financing
- management of administrative, fiscal and legal/corporate obligations

For presentation purposes only, so that this different criterion has no effect on the valuation of the various financial statements items, the portion of revenues paid to the supply chain for the Entertainment and Digital games and Services Business Units, is shown in management reports net of the relative costs. Likewise, there are certain categories of cost presented in the consolidated financial statements as a deduction of revenues which in the management reports are included in operating costs.

The details of the composition of revenues and the gross operating margin by operating segment for the years 2011 and 2012 are summarized in the table below together with a reconciliation to the corresponding figure in the financial statements.

	2012		2011	
	Total revenues	Gross Operating Margin	Total revenues	Gross Operating Margin
Entertainment				
Revenues	259,761		279,534	
Supply Chain / Other Revenues	265,496		286,735	
Total	525,257	121,667	566,270	145,577
Lottery				
Revenues	120,057		150,070	
Supply Chain / Other Revenues	(953)		(712)	
Total	119,104	28,951	149,357	59,260
Digital Games & Services				
Revenues	112,223		97,505	
Supply Chain / Other Revenues	60,693		55,295	
Total	172,916	74,724	152,799	63,011
Other Revenues	6,118		1,413	
	823,396	**225,342**	**869,840**	**267,848**
IT / Telecommunications		(23,543)		(21,931)
Corporate Marketing		(7,128)		(7,520)
General & Administrative		(30,487)		(30,600)
Other operating costs		(8,995)		(23,452)
Items with different classification		(6,134)		5,110
	823,396	**149,054**	**869,840**	**189,454**

Total revenues by operating segment refer entirely to third parties as there are no intersegment revenues.

The line “Supply Chain / Other Revenues refers to the net portion of revenues that are presented differently in the management report.

“Other revenues” refer to activities and businesses which do not constitute an operating segment under IFRS 8 and principally relate to prior period items, gains on the sale of fixed assets and other items.

“Items with different classification” refer to income and expenses presented in the statutory financial statements under “Gross operating margin before amortization, depreciation, provisions and impairment losses and reversals” but included in the management definition of the margin by operating segment.

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

There are no significant items included in segment revenues for 2011 and 2012 whereas the gross operating margin in 2012 for the Lottery operating segment includes the penalty of EUR 16.5 million recognized in the financial statements for not having reached the guaranteed minimum receipts for the two-month period May-June 2012, described in greater detail in Note 24) Other current liabilities and Note 34) Other operating costs.

Gross operating margin does not include items relating to financial management (finance income and expenses) since they cannot be ascribed directly to the operating responsibility of the operating segments. Similarly, also excluded are items of impairment or amortization and depreciation or material non-cash items other than amortisation and depreciation, the entity's interest in the profit or loss of associates accounted for by the equity method, income tax or income which must be separately indicated in accordance with IFRS 8.
From the standpoint of the financial position, segment assets are not included in the information reviewed by management.

Significant events occurring after the end of the year

As for the main concessions, on March 20, 2013, Sisal Entertainment S.p.A. signed a new agreement for the creation and operation of the online legal gaming network using AWP gaming machines pursuant to art. 10.6 T.U.L.P.S. as well as the connected activities and functions". The Group company participated together with another 12 candidates in the selection procedure called by AAMS in fall 2011 obtaining the final award of the new nine-year concession. Twelve of the 13 candidates, excluding BPlus S.p.A., signed the new agreement on the same date.

On the business front, after an in depth analysis and closer examination (including due diligence), the acquisition of a 60% interest in Friulgames S.r.l. by Sisal Entertainment S.p.A. was arranged in December 2012 and concluded in January 2013 for about EUR 5.7 million. Friulgames S.r.l. is an important company operating over 2,000 slot machines and VLTs mainly in the Friuli Venezia Giulia region and one that was already a commercial partner of the Group's concessionaire company.
In addition, some new NTNG products were launched. In particular, after a thorough study and the receipt of all the approvals from AAMS, the new Win for Life Classico product was launched last February and joined the other games in the Win for Life family with the aim of completing and relaunching all at once the offering and attractiveness of these games on the market; appreciable results were immediate, in line with estimates
At the same time, urgent activities aimed at the technological and commercial development and the definition of the relative regulatory aspects are underway to arrive in the shortest time possible at the launch of new online SuperEnalotto products. These are products in the NTNG family but

designed specifically for the online channel and intended as an important complement to the company's offer in this market and especially in the online market which is one of the most vibrant in the entire gaming sector in Italy.

Finally, an important company project was completed in February 2013 aimed at exploiting the corporate brand, that is, the Sisal Brand. This is considered one of the major assets of the Group and a distinctive trademark for customers and a source of renewal for Sisal's image as a group specialized in entertainment and services offered to the public. The project aims to revise the logos of the corporate brand, channel and product into a new visual identity to create a modern and innovative language to match the company's new position. Analogously, the Group defined a new vision and new mission to render "people's lives more simple and enjoyable" and to offer the best entertainment proposal and services" in a responsible and sustainable way.

Milan, April 11, 2013

On behalf of the Board of Directors

The Chairman

Prof. Augusto Fantozzi

ANNEX 1

List of Companies included in Consolidation

Companies consolidated line-by-line

Name	Headquarters	YEAR-END	SHARE CAPITAL	% HOLDING Direct and indirect
			Euro	2012
SISAL HOLDING ISTITUTO DI PAGAMENTO S.p.A.	Milan	December 31	102.500.000	**PARENT**
SISAL S.p.A.	Milan	December 31	125.822.467	99,81%
Services Segment				
Sisal Point S.p.A.	Milan	December 31	600.000	99,81%
AWP (Amusement With Prizes) gaming machines (slot machines) segment				
Sisal Entertainment S.p.A.	Milan	December 31	2.131.622	99,81%
Betting and Gaming Hall Segment				
Sisal Bingo S.p.a.	Milan	December 31	120.000	99,81%
Sisal Match Point S.p.a.	Rome	December 31	24.020.000	99,81%
Thomas Morden Course Ltd	Byfleet GREAT BRITAIN	December 31	30,000 (1)	99,81%

(1) British pound

Companies accounted for using the equity method

DENOMINAZIONE	Headquarters	YEAR-END	SHARE CAPITAL	EQUITY 2012	% HOLDING Direct / indirect
			Euro	€/000	2012
Consorzio Promoippica under liquidation	Rome	December 31	25.825	86	25,23%
Sistema S.r.l.	Rome	December 31	100.000	9	49,00%