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

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

CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2018

Directors' Report on Operations, Separate Financial Statements

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SISAL GROUP

Directors' Report on Operations

Consolidated Financial Statements at December 31, 2018

Dear Shareholders,

We hereby submit for your attention the consolidated financial statements at December 31, 2018, which highlight a profit for the year pertinent to the Group headed by Sisal Group S.p.A. (hereinafter the "Parent" or the "company") of Euros 36,363 thousand.
In the same year depreciation, amortization and impairment losses of fixed assets were recorded for Euros 100,379 thousand and revenues and income totalled Euros 845,374 thousand. The income statement is also impacted by net finance expenses for Euros 57,261 thousand.

Key data

The results for 2018 are presented in the following table (figures in thousands of Euros), also highlighting the profitability indicators in the adjusted ("Adjusted") which exclude the effects of non-recurring expenses of approximately Euros 5.5 million, mostly associated with reorganization costs, costs for acquisitions and the start-up expenses of the new activities of the Group in Morocco. Furthermore, with regard to EBITDA, which is not specifically presented in the Group's financial statements, this is defined as profit (or loss) for the year/period adjusted for: amortization, depreciation, impairment losses and reversals; finance income and similar; finance expenses and similar and income taxes.

	2018	2017	Change	
Total Revenues and income (1)	845,374	831,983	13,391	1.6%
EBITDA	227,843	213,276	14,567	6.8%
Adjusted EBITDA	233,398	215,126	18,272	8.5%
Operating profit/loss (EBIT)	108,800	100,428	8,372	8.3%
Adjusted operating profit/loss	114,355	102,278	12,077	11.8%
Profit (loss) before income taxes	51,539	43,391	8,148	18.8%
Profit (loss) for the year	36,443	27,325	9,118	33.4%

(1) in relation to the 2018 year, the table reflects the effects of the adoption of the new international accounting standard IFRS15 consisting essentially in the representation of the item Total Revenues and income net of the decision of the one-off charge incurred by the company Sisal S.p.A. for the award of the NTNG concession, still ongoing; as better mentioned at the paragraph 2.5 of the notes at the financial statements, on the other hand, the item EBITDA does not include the effects of this reclassification incoherence with the definition of EBITDA supplied by the Group.

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

The Group's Business

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

During 2018, social management continued and developed what had been implemented in prior years. Particular attention has been paid to the important subject of the social sustainability of all its business activities. In fact, the Group has continued to stand forward as a leader in the promotion of initiatives aimed at ensuring a safe, aware approach to gaming, using a structured model of responsible gaming based on international best practices. To demonstrate this, in 2018 the Group companies have continued and developed initiatives and projects in relation to Responsible Gaming finalised at the retention of the three-year certifications issued by the EL - European Lotteries and the WLA - World Lottery Association at the highest level (Level 4) obtained in 2017 and valid until 2020. The certification process was guaranteed by an independent third party which verified and assessed the Company's Responsible Gaming model, designed in particular to protect the player, promote a culture of responsible gaming, prevent excessive gaming and ban gaming by minors.

The activities conducted by the Group over the years are described in depth in the 2017 Sisal Sustainability Report, issued in September 2018, and in similar documents referring to the previous years. The activities specifically referring to 2018 will be published in a similar report.

The Group operates in Italy in the gaming and betting ("Gaming and Betting") market with a full spectrum of products both in the physical channel (or "retail channel") and the online channel. Furthermore, since 2000, taking advantage of its extensive territorial presence, direct access to consumers and distribution and technological synergies with the gaming and betting business, a diversification system was begun by the Group which has allowed it to strengthen its position as one of the leaders also in the payments and other services ("Payments and Services") market.
In the gaming and betting market, the Group offers a wide product range which includes: i) gaming machines (slot machines and video lottery terminals, "VLTs"); (ii) betting; (iii) lotteries; (iv) online games (such as poker and casino games) and (v) bingo. The products are routed through both the retail channel and the online channel, through the Group's web portal "sisal.it" and mobile applications. Specifically, in the retail distribution network, at December 31, 2018 the Group operates with 2,649 points of sale featuring a series of formats identifiable with the Group's own brands ("Branded Channel") and through a network of 47,393 points of sale linked by computer with the Group's information systems and distributed throughout Italy ("Affiliated Channel"). The Affiliated Channel includes both points of sale offering mainly products not associated with the Gaming and Betting or Payments and Services markets, such as bars and tobacconists, and points of sale whose activities are primarily associated with Gaming Machines.
In the Payments and Services market, the group manages the following activities: (i) payment of bills, utilities, fines, taxes, subscriptions etc.; (ii) top-up of prepaid debit cards; (iii) mobile phone top-ups and pay-for-view TV cards and also (iv) marketing of some products such as gadgets and mini-toys. The Group products and services are distributed through both the Branded and Affiliated Channels and the web portal "sisalpay.it".

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

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

- **“Lottery”**: is responsible for operating the exclusive concession for national tote number games (“NTNG”), which include, among others, the popular products SuperEnalotto, WinForLife! SiVinceTutto and Eurojackpot. The NTNG games are managed through the Branded and Affiliated Channels as well as the Group’s web portals and 14 online gaming portals operated by third parties and connected to the Group’s NTNG online platform. The Lottery business unit also manages the points of sale of the Affiliated Channel that are not managed by the Retail Gaming business unit.

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

- **“Payments and Services”**: is responsible for the management of: (i) payment of bills, utilities, fines, taxes, subscriptions etc.; (ii) top-up of prepaid debit cards; (iii) mobile phone top-ups and pay-for-view TV cards and also (iv) marketing of some products such as gadgets and mini-toys. The products and services are distributed through both the Branded and Affiliated Channels - the latter also including the 10,527 Service Only points of sale at December 31, 2018 – and through the web portal sisalpay.it.

The tables below illustrate revenues and ‘adjusted’ EBITDA for each business unit for the years ending December 31, 2018 and December 31, 2017 (the 2017 figures are presented on a pro forma basis to reflect the effects of adopting the new accounting standard IFRS 15 in accordance with how the 2018 results were presented).

Business units ***(in Euros millions)***	**31.12.2018**	**31.12.2017 pro forma**
Retail Gaming	477.3	478.1
Lottery	92.8	84.7
Online Gaming	83.1	72.4
Payments and Services	190.8	183.1
Other revenues	1.4	1.7
Total Revenues	**845.4**	**820.0**

Business Units *(in Euros millions)*	31.12.2018	31.12.2017 pro forma
Retail Gaming	84.5	74.8
Lottery	48.5	42.3
Online Gaming	37.0	31.2
Payments and Services	66.2	68.7
Total business unit EBITDA	236.2	217.0
Items with different classification	(2.8)	(1.9)
Total EBITDA adjusted	**233.4**	**215.1**

Retail Gaming: the Retail Gaming results for 2018 were mainly determined by the performance of the gaming machines market (turnover and revenues of VLTs up and a reduction in the effects resulting from completion of the slot machine quota process thanks to implementation of actions to optimize the distribution network and relative cost structures), and the sports betting, both in terms of turnover and of profitability. As a percentage of total revenues, the Retail Gaming 'Adjusted' EBITDA in 2018 amounted to 17.7% compared to 15.7% in 2017.

Lottery: the results of the Lottery Business Unit in 2018 reflect improved revenue performance from the previous year, even without considering the differential effect of the adjustment due to adoption of the new accounting standard IFRS 15, since the average SuperEnalotto Jackpot level was higher than 2017. Based on this trend, the impact from the final operating costs was lower (including promotional expenses), and therefore the 'Adjusted' EBITDA of the Lottery Business Unit in 2018 was 52.3%, up from 49.9% in 2017 as a result of the factors mentioned above.

Online Gaming: Online Gaming's excellent results in 2018, following a highly positive performance the previous year, were driven by the solid performance of most of the key products in this business unit, particularly slot games, quick games and - last but not least - the extremely positive sports betting performance in terms of transaction volumes and profit margins. As a percentage of total revenues, Online Gaming 'Adjusted' EBITDA in 2018 amounted to 44.5% compared to 43% in 2017, also absorbing the effect of the increase in expenses relating to the distribution network and promotional expenses, which led to a further significant increase in active players on the platforms managed by the Group, with a positive effect on turnover and revenues.

Payments and Services: the equally excellent results, in terms of growth in revenues, of the Payments and Services Business Unit in 2018 mainly stem from the further growth of transaction volumes in the financial services segment and in payments managed directly by Sisal Group S.p.A. As a percentage of total revenues, the 'Adjusted' EBITDA of Payments and Services in 2018 amounted to about 34.7%, down by around 2.9 percentage points on the final figure achieved in 2017, mainly due to the costs of goodwill and the launch of the new "Digital Payments" in the third quarter of the year; without these charges, the 'Adjusted' EBITDA for 2018 would have been up by 3%, with the percentage to revenues substantially in line with the previous year.

The Group operates through a distribution network of 50,042 points of sale at December 31, 2018 across two different retail channels: the Branded Channel and the Affiliated Channel, as well as through the Online Channel.
A breakdown of the distribution network of the Group at December 31, 2018 by type of product normally offered under the various distribution formats is presented in the following chart.

Channel	Format	Number	Betting market	VLTs	Slot machines	Lottery	Payments and Services
Branded Channel	WinCity	25	√	√	√	√	√
	Matchpoint Betting Agencies	364	√	√	√	√	√
	Matchpoint Corners	1,384	√		√	√	√
	SmartPoint	876			√	√	√
	Total Branded Channel	**2,649**					
Affiliated Channel	POS with gaming machines, Lotteries, Payments and Services	2,174			√	√	√
	POS with gaming machines only	2,344		√	√		
	POS with Lotteries, Payments and Services	32,348				√	√
	POS "Service Only (stand-alone terminals)"	10,527					√
	Total Affiliated Channel	**47,393**					
Total Group Network		**50,042**					

Branded Channel

The Branded Channel at December 31, 2018 includes 2,649 points of sale directly identifiable with the Group's own brands. This channel encompasses two types of points of sale:

- points of sale dedicated to gaming activities managed directly by the Group. This category includes the 25 WinCity gaming halls directly managed by the Group and the 364 Matchpoint betting agencies, some of which operate on the basis of partnership contracts. These gaming points of sale cover an area of about 250 to over 1,000 square meters, in locations and places such as to attract a large number of users;
- points of sale where the business is not predominantly gaming, promoted by the Group according to a shop-in-shop model. This category comprises (i) the 1,384 Matchpoint betting corners and (ii) the 876 SmartPoints, new type of points of sale. Both the corners and the SmartPoints are third-party points of sale operated according to the shop-in-shop model, in which the Group manages the product mix, the displays and furnishings, the brand name and the information material and marketing of these gaming areas with its own sales force. In addition, the Group has organized sales and training initiatives especially developed for these points of sale.

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

Affiliated Channel

The Affiliated Channel at December 31, 2018 includes a network of 47,393 third-party points of sale in which the Group distributes its own products for lotteries and gaming machines as well as Payments and Services; such points of sales include the following:

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

The Affiliated Channel includes both points of sale such as bars, tobacconists and newsstands, which are not predominantly associated with the Gaming and Betting or Payments and Services markets, and points of sale dedicated exclusively to gaming machines. The Affiliated Channel allows the

Group to reach a broad community of consumers thanks to its widespread presence throughout Italy, which complements and supplements the Group's distribution network through the Branded Channel. The Affiliated Channel also includes 10,527 "Service Only" points of sale which the Group set up in the last two years in shops such as bars, tobacconists, newsstands, supermarkets, etc. where only Payments and Services are offered by the Group on an exclusive basis.

A summary of the revenues and EBITDA adjusted for the two above channels of the Retail Gaming business unit, for the years ended December 31, 2018 and 2017, is presented in the following chart (in line with what was stated above).

Retail Gaming (*in Euros millions*)	**31.12.2018**	**31.12.2017**
Revenues		
Branded Channel	264.5	266.6
Affiliated Channel	212.8	211.5
Total Revenues	**477.3**	**478.1**
EBITDA adjusted		
Branded Channel	54.9	48.2
Affiliated Channel	29.6	26.6
Total EBITDA adjusted	**84.5**	**74.8**

Industry Overview

Gaming and Services market in Italy: the scenario

2015–2018 trend

The Group operates in the following two markets:

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

- Addressable payment services market, calculated net of payments made by direct debit, which includes the payment of utilities, taxes, fines, telephone top-ups and reloads of prepaid debit cards. Market analyses were performed thanks to a study carried out by the Digital Innovation Observatory of Milan Polytechnic, "Quantification of the payment market in Italy". The scope of the analysis excluded MAV/RAV payments, values that had been included in the analyses carried out in previous years.

The trend is analysed for the period from 2015 to 2018.

The aggregate of the two markets in 2018 reached a value of more than Euros 190 billion, with the addressable Services market reaching over 44.0% of the total.
The gaming market rose by 5.0% in 2018 compared to 2017, whereas the Services rose by 2.9%.

Considering the average period performance (2015-2018), the addressable payment services market shows an average annual growth rate ("CAGR") of +2.0% while the gaming market recorded 6.6% growth.

The data in the following charts are expressed in millions of Euros, unless otherwise indicated.
The data relative to the gaming market for the year 2018 are estimates based on ADM data.

	2015	2016	2017	2018	CAGR 2015/2018
Total Gross Gaming Market Revenue*	**88,016**	**95,727**	**101,567**	**106,665**	**6.6%**
Total Addressable Services Market	**78,874**	**77,767**	**81,290**	**83,643**	**2.0%**
Total Addressable Market	**166,890**	**173,494**	**182,857**	**190,309**	**4.5%**

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

Gaming Market in Italy: the scenario

2015–2018 trend

The total turnover of the gaming market increased with a CAGR of 6.6%.
The reasons behind this trend rest on two factors:

1) A material increase in the pay-out - the amount returned to players - which in 2018 amounted to approximately Euros 88 billion (82.4% of total turnover), up 6.1% compared to 2017. This indicator was also positive for the average period, recording a CAGR of +7.3%;
2) A material increase in the online market which achieved a turnover of over Euros 31 billion, a CAGR of 23%, with a 30% share of total revenue. A growth of 16.7% was achieved in 2018 compared to the previous year.

Other important gaming market indicators are the actual expenditure by the public, calculated as turnover less pay-out and taxes.
Expenditure showed an increase of 3.7% while payables to tax authorities recorded a CAGR of 4.0%.

	2015	2016	2017	2018	CAGR 2015/2018
Total revenue*	**88,016**	**95,727**	**101,567**	**106,665**	**6.6%**
pay out*	**71,210**	**76,953**	**82,863**	**87,933**	**7.3%**
Actual public expenditure*	**16,806**	**18,775**	**18,704**	**18,732**	**3.7%**
Tax Authorities	*8,844*	*10,431*	*10,004*	*9,951*	**4.0%**

	2015	2016	2017	2018
Total revenue*	**100.0%**	**100.0%**	**100.0%**	**100.0%**
pay out*	**80.9%**	**80.4%**	**81.6%**	**82.4%**
Actual public expenditure*	**19.1%**	**19.6%**	**18.4%**	**17.6%**
Tax Authorities vs. Actual expenditure	**52.6%**	**55.6%**	**53.5%**	**53.1%**

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

An analysis of the gaming market segments shows that market growth is driven by the positive trend in betting (with a CAGR of +23.3%), due to expansion of the operators offering this product, as well as of the product mix itself, increasingly rich and well-structured, and of the Skill, Card & Casino sector (CAGR of +20.2%).

	2015	2016	2017	2018	CAGR 2015/2018
Lotteries	**17,193**	**18,650**	**18,070**	**18,771**	**3.0%**
Bets and CPS	**7,836**	**10,063**	**13,176**	**14,680**	**23.3%**
Gaming machines	**48,161**	**49,427**	**48,948**	**48,601**	**0.3%**
Bingo	**1,598**	**1,602**	**1,619**	**1,647**	**1.0%**
Skill, Card & Casino Games	**13,229**	**15,986**	**19,755**	**22,966**	**20.2%**
Total Gaming Market	**88,016**	**95,727**	**101,567**	**106,665**	**6.6%**

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

In 2017 this indicator showed Euros 18.7 billion with a positive CAGR of 3.7% for the period 2015-2018. However, it is pointed out that in the last three years this value has remained practically stable around Euros 18 billion.

The gross market turnover was driven by a steady increase in the amount of the pay-out. As a consequence, the percentage rate of actual expenditure by the public to gross turnover shows a steady decrease from approximately 19.1% in 2015 to 17.6% in 2018.

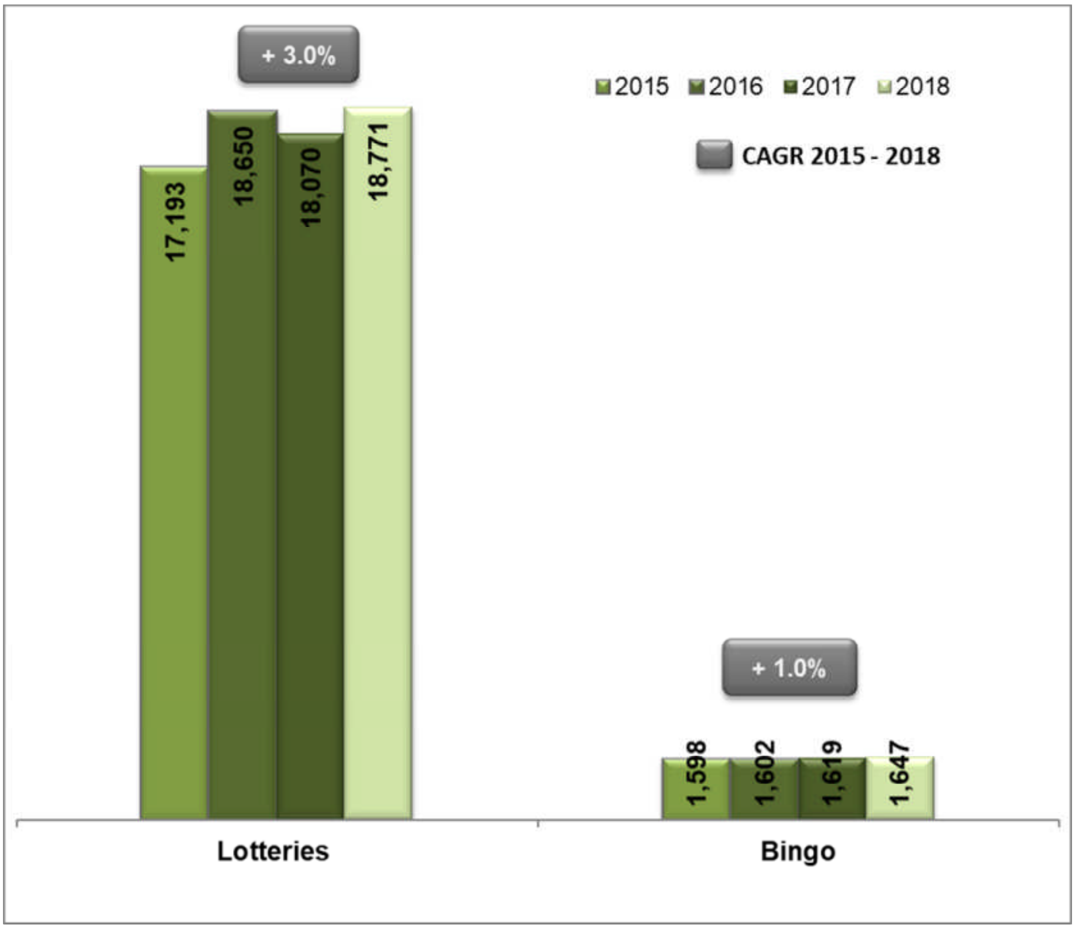
	2015	2016	2017	2018	CAGR 2015/2018
Lotteries	5,354	6,161	5,335	5,344	-0.1%
Bets and CPS	1,145	1,306	1,738	1,901	18.4%
Gaming machines	9,348	10,249	10,429	10,148	2.8%
Bingo	477	478	479	487	0.7%
Skill, Card & Casino Games	483	580	723	852	20.9%
Total Gaming Market	16,806	18,775	18,704	18,732	3.7%

Business and Product Analysis - Turnover

Lottery & Bingo

The Lottery segment records a growth rate during the period of 3.0%. In 2018, the overall performance of turnover in this segment reflects a slight growth, returning to the 2016 values.

Bingo records a CAGR up 1.0% for the period 2015-2018.

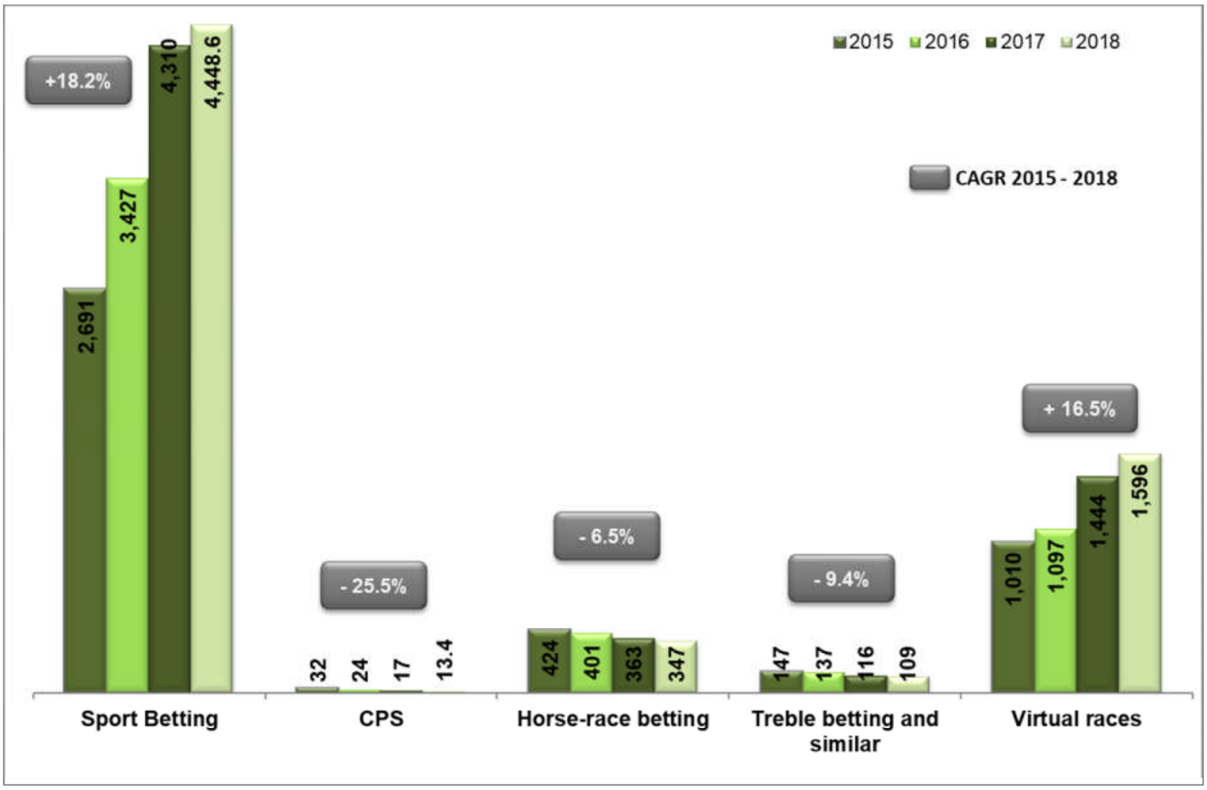


Betting market

The Sports betting market, retail channel, displays an average overall growth of 18.2% during the period 2015-2018. Turnover for the past year was in excess of Euros 4.4 billion, up 3.2% on 2016.

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

Virtual Races are another sector benefiting from the expansion in the number of operators that characterized the betting segment. In 2018, in fact, this sector saw its market expand by over 10.0%.

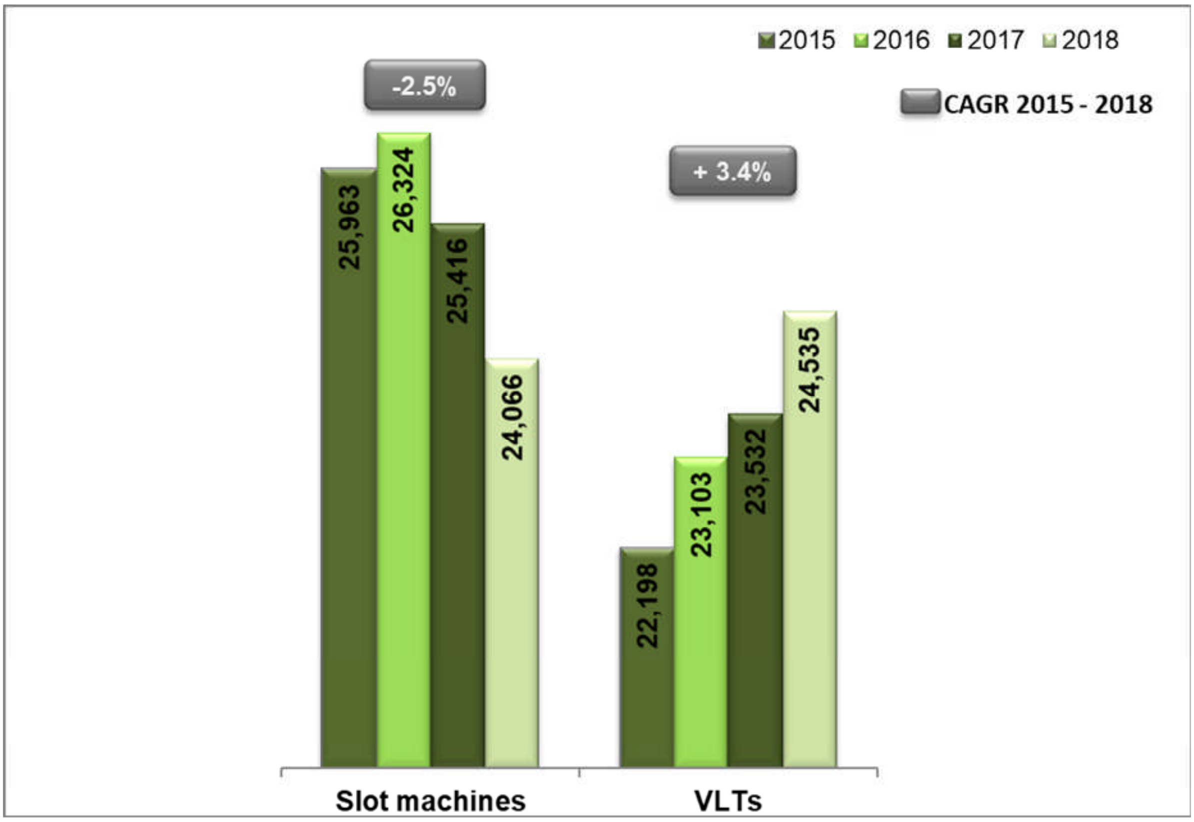


Gaming machines market (Slot machines and VLTs)

At the end of 2018, the gaming machines market accounts for 45.6% of the entire gaming market in Italy.

The segment's gross turnover was around Euros 48.6 billion, with a CAGR recording a slight growth of 0.3%.

VLTs recorded a positive CAGR of 3.4%, whilst for slot machines the CAGR was down by 2.5%, with a 2018 value markedly down on 2017 (-5.3%).



Among the elements that have influenced the sector performance, mention must be made of the marked reduction in the AWPs present in the territory (-35%) and the various regional laws regulating the market of amusement and gaming machines.

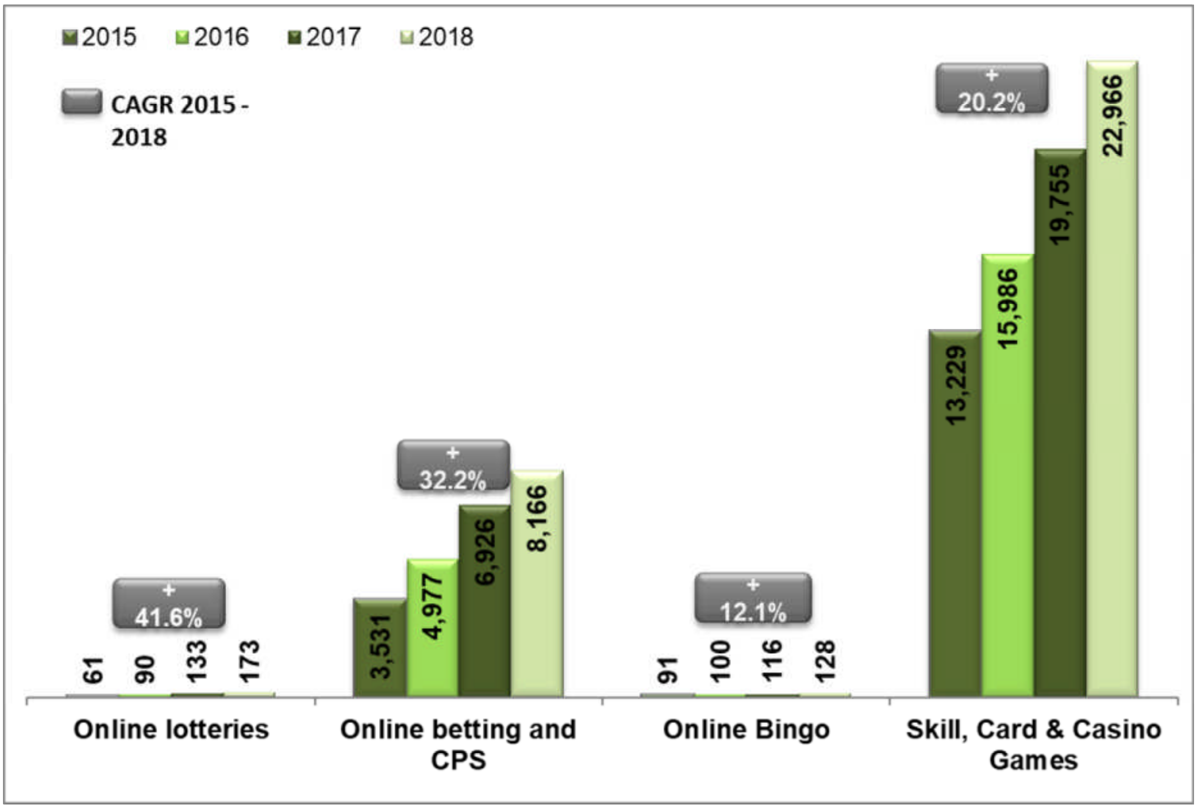
Online market

Online Gaming shows a positive trend, with a +23.0% CAGR.

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

The CAGRs for these two segments were strongly positive, recorded as +32.2% for Betting and +20.2% for the Cards & Casino segment. It is interesting to note the growth of the online lotteries segment which in the period in question achieved a CAGR of +41.6%, even if at values that are not yet significant.

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

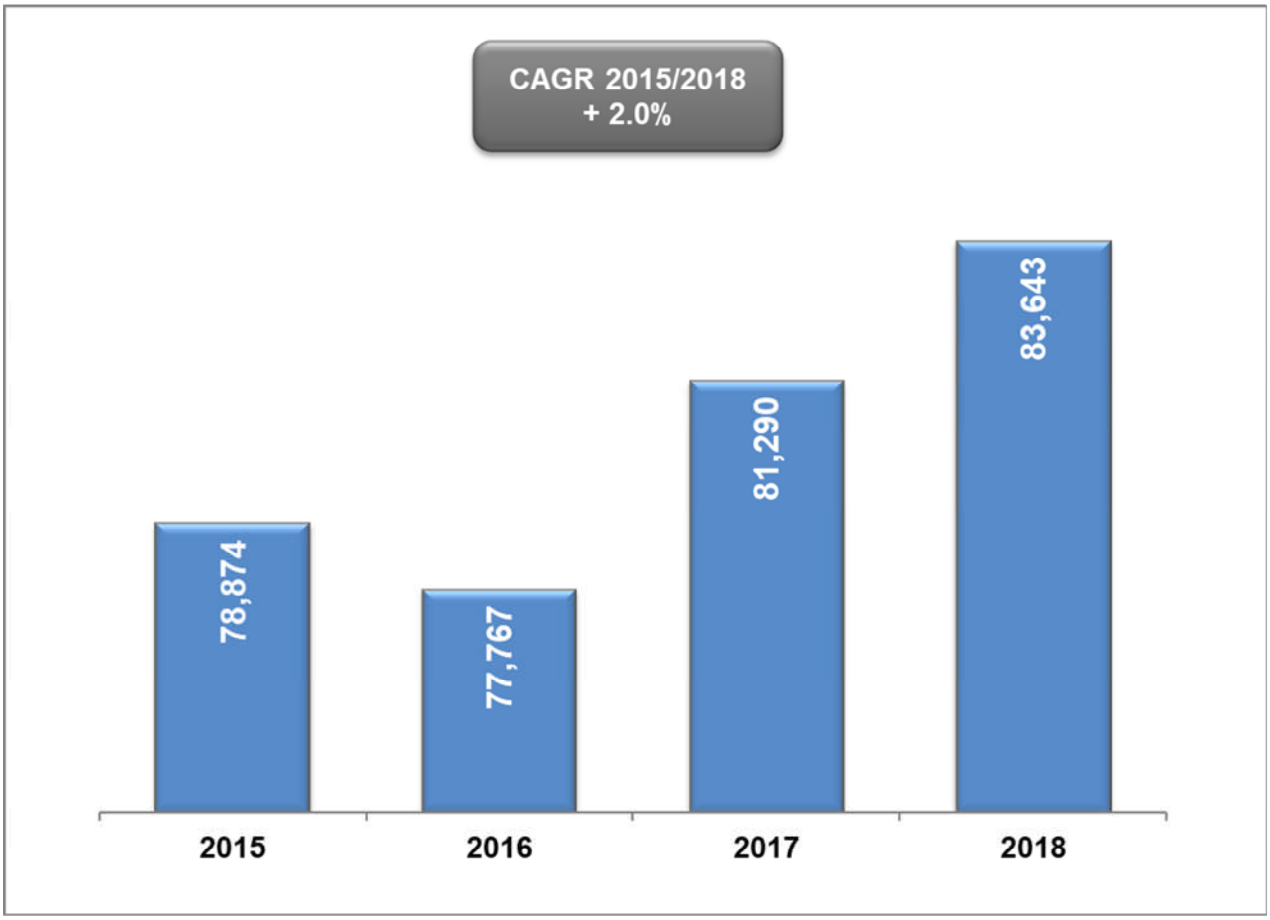


In an extremely dynamic market environment, once again with a steady growth trend, the Group's total turnover for all of 2018 in the segments described above (approximately Euros 8.8 million) resulted in a growth of approximately 6% compared to last year, leading to an overall growth in market share from 8.2% in 2017 to 8.3% at the end of 2018.

This trend reflected in particular the positive trend of VLTs and sport betting and the substantial stability in the Online Gaming market, which however grew in absolute terms by more than 16% compared to the values of the previous year.

Payment Services Market

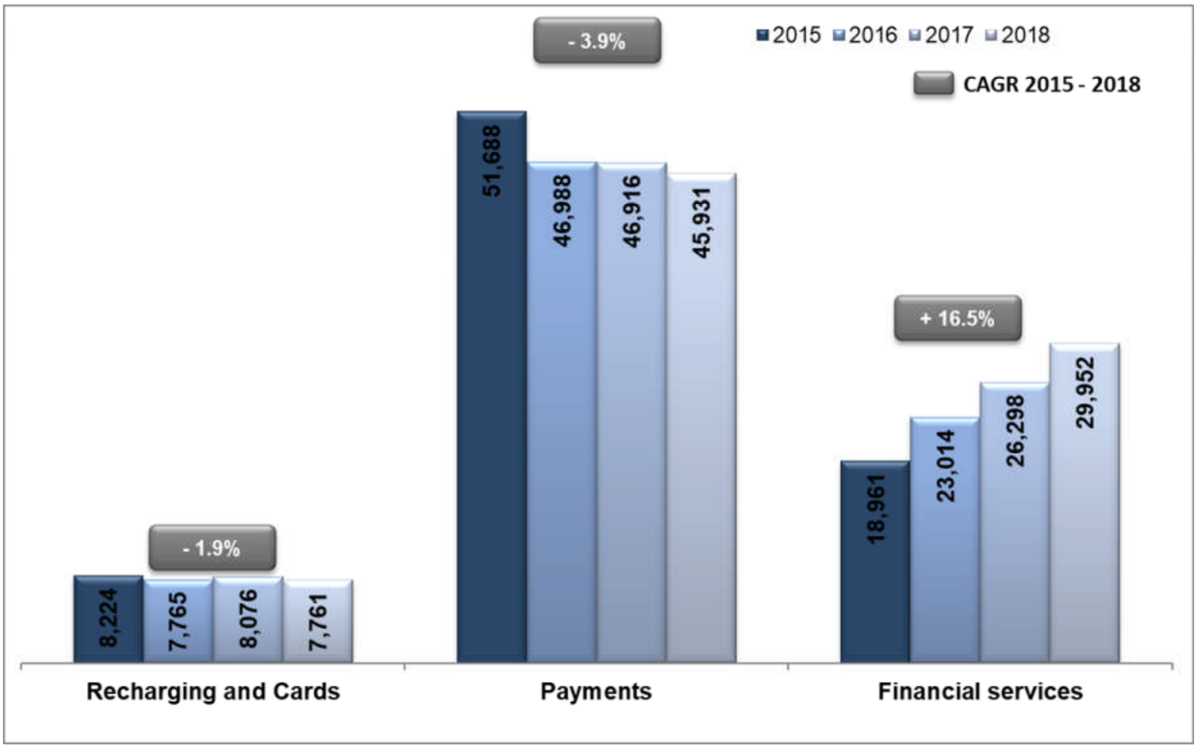
The addressable payment services market - the total paid by Italians net of direct debits - in 2018 reached a turnover of Euros 84 billion, with CAGR up by 2.0%.



An analysis of the various markets of the Services segment shows the increasing importance of the financial services, which grow faster than the other segments. In 2018, in fact, turnover amounts to Euros 30 billion, with CAGR of around +16.5% in the period 2015-2018.

The top-ups and cards segment, however, continues its downtrend due to extensive changes to the product mix for the public by the major telephone operators. The segment's turnover in 2018 was close to Euros 8.0 billion with a CAGR of -1.9%.

Payment Services also decreased (CAGR -3.9%) due to higher direct debit, the migration for certain tax payments to collection methods typical of banks (F23/F24 forms) and a slight drop in the average bill, as a result of strong competitiveness with landline telephony and energy bill efficiency improvements.



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

Overall in 2018 the Group reported turnover across its own network throughout the territory and the “Sisal Pay” online platform of approximately Euros 10.2 billion, recording an increase of approximately 6.6% compared to 2017 and improving its market share which, calculated in relation to the addressable services market, is around 12.2% at year-end 2018 compared to about 11.7% in the prior year.

Overview

As it is known, from January 1, 2018 the new accounting standard IFRS 15 "Revenue from contracts with customers". The Group has completed the analysis in order to identify the impact linked to the adoption of the requirements introduced by the new standard and no significant impact has been identified relating to the initial application; therefore, no adjustments have been made to the opening balances of the net worth at January 1, 2018, in compliance with the transition requirements of the new standard.

The application of the new standard has, however, involved some adjustments to the financial statements presentation, with reference to the Statement of Financial Position, essentially relative to the reclassification from the item “Intangible assets” to the item “Other non-current assets” of the amount relative to the residual net accounting value of the advance payment made by the company Sisal S.p.A. in relation to the NTNG concession and consequently, with reference to the Statement of Comprehensive Income, as previously commented, to the reclassification of the annual amount relative to the one-off above-mentioned commission, previously reported under the item “Depreciation, amortization, provisions, impairments losses and reversals of property, plant and equipment and intangible assets" to the direct reduction of the item “Revenue”.

Therefore, the main indicators of the Group results (values in Euros thousands) are analysed in the following table, also through the comparison with the results of the previous year suitably adjusted only in relation to the items “Total Revenue and income” and “Depreciation, amortization, provisions, impairments losses and reversals of property, plant and equipment and intangible assets”, from a pro forma point of view, to reflect the adjustments deriving from the application of the new standard:

	2018	**2017 pro forma**	**Change**	
Total Revenues and income	845,374	819,996	25,378	3.1%
Purchases of materials, consumables and merchandise	12,244	14,418	(2,174)	-15.1%
Costs for services	455,681	455,734	(53)	0.0%
Costs for leased assets	22,555	22,273	282	1.3%
Personnel costs	91,725	87,954	3,771	4.3%
Other operating costs	38,504	36,364	2,140	5.9%
Provisions	2,060	1,963	97	4.9%
EBITDA	227,843	213,276	14,567	6.8%
Adjusted EBITDA	233,398	215,126	18,272	8.5%
Depreciation, amortization, impairment losses and reversals of the value of property, plant and equipment and intangible assets	113,805	100,861	12,944	12.8%
Operating profit/loss (EBIT)	108,800	100,428	8,372	8.3%
Adjusted operating profit/loss	114,355	102,278	12,077	11.8%
Net finance expenses and similar	57,261	57,037	224	0.4%
Profit (loss) before income taxes	51,539	43,391	8,148	18.8%
Profit (loss) for the year	36,443	27,325	9,118	33.4%

With reference to the situation illustrated above, note that total revenues and income of the Group recorded an increase of 3.1% in 2018 compared to 2017. This reflects the trends in the various product and business segments of the Group as detailed in the following table (in thousands of Euros):

	2018	2017 pro forma	Change	
NTNG	51,591	44,941	6,650	14.8%
Gaming machines	351,574	358,681	(7,107)	-2.0%
Bets and CPS	114,612	107,894	6,718	6.2%
Online games	81,091	71,909	9,182	12.8%
Revenue from Services and Products	149,957	143,525	6,432	4.5%
Points of sale revenues	84,892	83,403	1,489	1.8%
Other revenues and income	11,657	9,643	2,014	20.9%
Total Revenues and income	**845,374**	**819,996**	**25,378**	**3.1%**

Additional details on the main segment performances are as follows:

- in the "gaming segment", the result achieved by the NTNGs saw an increase in turnover of approximately 0.4%, confirming that the segment is essentially holding steady, particularly the SuperEnalotto game after the launch of its new formula in the previous years and also thanks to an average jackpot level higher than that recorded in 2017. The change in NTNGs revenues represented in the table reflects also and above all the different incidence of the reclassification on the basis of the new IFRS 15 standard mentioned above, net of which revenues for this segment would have grown by 0.5%.

  In the gaming machines segment the Group, at year end, recorded an overall growth of 2.2% in turnover compared to that registered in the previous year, achieving Euros 4,249 million compared to Euros 4,154 million in 2017 Turnover for VLTs recorded a further significant growth (+11.5%) compared to 2017 (Euros 2,314 million in 2018 compared to Euros 2,076 million in the previous year) thanks to a significant action on the offer mix and the continuous optimisation of distribution; the AWPs segment, however, recorded a decrease of 6.9% compared to 2017 (Euros 1,935 million in 2018 compared to Euros 2,078 million in 2017) also because of the further tightening of territorial regulations and the completion during the year of the reduction of the overall number of machines installed required by the current regulations, while during the year actions for the optimisation of the distribution and of the offer of new titles have continued, as well as the installation of owned machines at selected points with the objective to improve the average value of collection per machine. The overall reduction in revenue in the above-mentioned segment, from Euros 358.7 million in 2017 to Euros 351.6 million in 2018, with a drop of around Euros 7 million (equal to around -2%), reflects the above-mentioned dynamics in turnover and also the impact during the year of the increase in the tax incidence introduced by the “Dignity Decree”.

With reference to the betting and sports pool games (CPS) segment, which includes a considerable variety of gaming products, from the historic Totocalcio, to national horse-race betting (TRIS and similar), to fixed-odds tote racing and sports bets, up to the more recent “Virtual Races”, as a whole the Group turnover in this segment (retail channel only) was around Euros 816 million, recording a nearly 7% increase on the 2017 figure, and the turnover trend was reflected in higher revenues higher than 6% compared to a total pay-out level for the year, in particular in the fixed odds sports bet, only slightly higher than that in the previous year.

As for online games, (including online betting and bingo), while turnover grew by around 16.5%, revenues increased by around Euros 9 million, almost than 13% higher than in 2017. The fixed odds online sports betting channel recorded a turnover increase of around 13%. This development was associated in particular to the trend for live games, which encourage replays and the dissemination of the game on mobile devices. This trend, combined with the lower level of pay-outs, offered a final revenue figure up by around 15% on the 2017 result, equivalent to an increase in absolute values before promotions paid of around Euros 5 million. Also significant was the performance of the Casino & Quick Games segment (with Slot games being the main product) which recorded increases in turnover and gross revenues of approximately 19% and 21% respectively, consolidating their position as the Group’s leading product in the segment, in terms of revenues, after sports betting and virtual races. The overall growth of this segment was also sustained by the continuous renewal of the product portfolio, investments in new client acquisitions and the continuing development of ways to use the online games on mobile devices;

- in the segment of convenience payment services offered by retailers, gross revenues, relating mainly to existing contracts for the sale and/or distribution through the Sisal retailers network of mobile telephone top-ups and TV content cards, decreased in total by approximately 13% compared to a similar percentage decrease in turnover, mostly on account of the aggressive sales policies introduced in previous years by all the major operators in the telephony and media sector. As for the collection and payment services managed by Sisal Group S.p.A., since it is a qualified payment institution, during the year a further significant increase was recorded in the activity relative to collection and payment services, in particular in the Payments segment (bills, utilities, fines, etc.), whose overall growth, in terms of gross turnover, was of around 10%, corresponding to revenues of approximately Euros 119 million (+9%). Therefore, overall this segment generated gross revenues for the Group of about Euros 150 million (+4.5%), whereas the margin (revenues net of the fees paid to the retail network and payment Points) contributed by this segment in 2018 confirmed a further growth compared to the previous year of around Euros 73 million compared to approximately Euros 70 million in 2017, an increase of over 3%;

- other income relating to various contractual relationships with the retail network shows an increase of about Euros 1.5 million (+1.8% compared to 2017) as a result of the sales policies implemented during the year, as well as the further expansion of the NTNG distribution network and of that dedicated to services only, whose numbers respectively reached about 37,100 and 10,500 units at year end compared to about 36,700 and 8,000 units at year-end 2017;
- other revenues and income which include, among others, net prior period income, revenues relating to the new food & beverage initiative at Group-operated points of sale and other charges to third parties, there was an increase of approximately Euros 2 million (around +20.9% compared to 2017).

The change in operating costs, including depreciation, amortization and provisions, net of non-recurring expenses, led to an increase of around 2% compared to the previous year.
The main factors for this net increase have been, on the one hand, charges for amortization and depreciation, personnel costs and various management costs, overall up by about Euros 19 million, in consequence in particular of investments in intangible assets (such as software applications and concession rights), of the increase in the overall number of staff employed on average during the year and of non-deductible VAT charges and, on the other, the costs for services and consumables which decreased overall by over Euros 6 million.

However, as regards non-recurring expenses and income, compared to the approximately Euros 1.8 million in non-recurring expenses which affected the operating result in the previous year, mainly resulting from company and corporate reorganisation processes, 2018 recorded around Euros 5.6 million in net non-recurring expenses, essentially deriving from costs related to reorganisation, acquisitions and new business setup costs with particular reference to new activities initiated by the Group in Morocco.

The changes described above generated an increase in the gross profit margin, as previously defined, of just under 7% whereas the operating profit posted an increase of approximately Euros 8 million. Excluding the non-recurring income and expenses mentioned earlier, the gross profit margin rose by around 8.5%, while operating profit recorded an increase of around Euros 12 million (about +11.8% compared to operating profit in the previous year).

As for the net financial position, particularly in performance terms, 2018 saw continuous structural developments implemented in previous years, in parallel with the acquisition of Sisal Group business activities by Schumann S.p.A., later merged into the Parent in 2017. This transaction helped to significantly reduce the Group’s pre-existing debt position and at the same time extend the related due dates.

During the year the Group made total payments of interest and commissions to the lending banks, mainly in relation to the Super Senior Revolving Facility Agreement, and to noteholders of an amount of interest and commissions of approximately Euros 51.5 million, down by around Euros 3.5 million (-6%) on 2017, as a result of the optimisation of the use of revolving credit and its reduced cost in consequence of the better conditions of the group's leverage.

Additional finance expense totalling around Euros 16 million was accrued during the year but was not paid, mainly on the issued bonds that pay interest quarterly and semi-annually, respectively, on the floating-rate and fixed-rate bonds in January, April, July and October each year.

Also with a view to the events mentioned above, the key performance indicators relating to Net invested capital as well as some financial indicators, are summarized in the following table (in thousands of euros):

	2018	**2017**	**Change**
Net Invested Capital (NIC)	898,683	920,379	(21,696)
Funding by third parties	571,291	629,386	(58,095)
Shareholders' Equity	327,391	290,993	36,398
Debt-to-equity ratio	1.74	2.16	
Normalised ROI (EBIT / NIC)	12%	11%	

Net invested capital is the sum of the statement of financial position items related to trade receivables and payables, inventories, fixed assets, employee severance indemnities, provisions for risks and charges, other current and non-current assets and liabilities and restricted bank deposits, not taking into account the effect of the differences in timing in the settlement of the items relating to working capital for gaming and services for an amount equal to about Euros 69 million (about Euros 90 million at year-end 2017). As a consequence, the Funding by third parties represents the sum of the financial liabilities of the Group (for a total of approximately Euros 757 million) net of cash and cash equivalents adjusted of the amount related to the differences in timing.

The trend in Funding by third parties, that is, the Net Financial Position of the Group for all of 2018, reflects the significantly positive results achieved by operating activities which, also in relation to more sustainable financial leverage, allowed the Group to promptly fulfil its obligations, including payments for investments and acquisitions for approximately Euros 53 million.

Gaming concessions

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

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

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

By decision no. 11767/2017, published on November 22, 2017, the Court of Milan accepted there were partial grounds for the claim filed by Giovanni Baglivo, declared partial invalidity of the agreement contained in art. 8 of the Contract between the Concessionaire and the Point of Sale, particularly as regards certain services indicated in Annex 2 to the Contract.
In the opinion of the Court of Milan, in fact, provision of the aforementioned services should be considered included among those that Sisal is already expected to provide on the basis of commitments undertaken with AAMS when bidding for the tender and subsequent signing of the Agreement.
The challenged decision instead rejected the claim for partial invalidity of art. 8 of the Contract, in that it would qualify as a situation contrary to imperative regulations and unlawfulness of the proceedings due to violation of art. 3 of Italian Law 287/1990 and art. 102 of the TFEU on abuse of dominant position, alleging that the fact that Sisal holds a dominant position in the gaming and betting market could not be proved. Believing that the aforementioned decision is based on erroneous assessments in fact and in law, an appeal was filed with the Milan Court of Appeal. In the hearing of July 4, 2018, the Milan Court of Appeal postponed the hearing for the specification of conclusions to the hearing on May 29, 2019.
A second writ of summons with an identical content was served on August 30, 2018 by the company Bar Stadio Dragoni Jonathan e Simone s.a.s., the owner of the point of sale of the same name. In

relation to these proceedings, the first hearing has been set for the Civil Court of Milan on May 8, 2019.

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

a) concession duration of nine years, non-renewable;
b) selection based on the criterion of most economically advantageous bid and, with regard to price, based on an auction for bids starting at Euros 100 million;
c) payment of the price indicated in the bid by the bidder found to be in first place on the list, in the sum of 50 per cent on award and the remainder on actual take-up of the gaming service by the winning party;
d) premium for the concessionaire of 5 per cent of turnover on markdown of the bid;
e) express provision, in tender documents, of the negotiation practices or relationships permitted pursuant to article 2, paragraph 2, of Decree Law no. 40 of March 25, 2010, converted with amendments to Law no. 73 of May 22, 2010;
f) option of the winning concessionaire to use the telecommunications network for the direct or indirect provision of services other than gaming deposits, subject to authorization from the Customs and Monopolies Authority (ADM) based on their compatibility with such deposits;
g) mandatory technological upgrading of the network and gaming terminals system in accordance with quality standards that guarantee maximum safety and reliability, in line with the investment plan forming part of the technical bid;
h) mandatory annual payment by the concessionaire to the tax authorities of any amounts not invested pursuant to the plan referred to in point g) and of amounts debited in violation of the tender provisions pursuant to point e).

In compliance with the above-mentioned provisions, ADM initiated the selection procedure for the granting of the above-mentioned concession through publication of the tender notice on the OG/S 242 of December 15, 2018, setting the deadline for receipt of offers for March 5, 2019. Sisal S.p.A. has participated to this selection procedure and filed its offer in compliance with the condition and times set in order to obtain the award of the concession in question and therefore continue with the collection of relative games; the companies Lottomatica Holding S.r.l. and Italian GNTN Holding A.S. also participated to the procedure, filing their relative offers. In the meantime, Law 145/2018 – 2019 Budget Law – ruled that, in order to allow the completion of the selection procedure for the award of the new concession for national tote numerical games, the continuous management of games must be ensured by the current concessionary up to the award of the new concession and, in any case, not beyond September 30, 2019.

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

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

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

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

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

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

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

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

- During 2018 the Decree Law no. 87 of July 12, 2018, converted, with amendments, to Law no. 96 of August 9, 2018 introduced new regulations in the gaming sector with the declared objective of greater consumer protection and greater efficiency against compulsive gambling. It also determined an increase in the single tax on machines referred to in article 110, paragraph 6, letters a) and b), of the Law on public security, according to Royal Decree no. 773 of June 18, 1931 in two time instalments with effect from September 1, 2018 and May 1, 2019 for a total 0.50 percentage points for both types of machines; subsequently the 2019 Stability Law no. 145/2018 intervened imposing a further incremental change on the above-mentioned tax of 1.35% for machines referred to in letter a) and 1.25% for machines referred to in letter b) from January 1, 2019. The same regulation also required the percentage of the amounts staked earmarked for pay-out to be fixed at no less than 68% and 84% respectively for machines referred to in article 110, paragraph 6, letter a) and letter b), of the law referred to in the above-mentioned Royal Decree. Technical operations for the adjustments of the percentage of pay-out must be completed within eighteen months from the date the same law came into force.

- Subsequently, Law Decree no. 4 of January 28 2019, converted into Law no. 26 of March 28 2019 relating to games with cash payments came into effect, and introduced the following provisions in relation to entertainment equipment:

1. a further increase in the one-off taxes on the equipment described under article 110, paragraph 6, letter a) of the Consolidated Act on Public Security, pursuant to Royal Decree no. 773 of June 18 1931, which had already been increased by the Stability Law 2019 - Law 145/2018, and more specifically, leading to an increase under the above-mentioned Stability Law from 1.35 to 2.00;
2. provision for a fixed fee payment for distribution authorization provided by article 38 paragraph 4 of Law no. 388 of December 23 2000 - known as NOD - for the manufacturers and importers of entertainment equipment and contrivances pursuant to article 110, paragraph 6, letter a) of the Consolidated Act on Public Security, pursuant to Royal Decree no. 773 of June 18 1931, of 100 euros for each piece of equipment. Additionally, for 2019 only, the fixed fee payment provided for under article 24, paragraph 36 of Law-Decree no. 98, converted, with amendments, by Law no. 111 of 15 July 2011, for the issue of the above-mentioned NOE, was set as 200 euros for each piece of equipment;
3. for 2019 only, an increase in the payment of a once-off tax for entertainment equipment and contrivances pursuant to article 110 paragraph 6 of the Consolidated Text on the Laws of Public Security, pursuant to Royal Decree no. 773 of June 18 1931, due as the first, second and third advance on the sixth two-month period in accordance with article 39, paragraph 13-bis, of Law Decree no. 269 of September 30 2003, converted, with amendments, by Law no. 326 of November 24 2003 and article 6 of Departmental Decree of July 1 2010, published on the Official Gazette no. 169 of July 22 2010, of 10 per cent each; the fourth payment, due as the final payment, is reduced by the advance payments, including the above-mentioned increases.

Horse-racing and sports betting concession

- In reference to betting concessions that ended on June 30, 2016, but later extended by the Customs and Monopolies Authority by notices with protocol numbers 54917 of June 9, 2016 and 58554 of June 20, 2016, through Italian Law no. 205 of December 27, 2017, in order to comply with the principles according to which public concessions are awarded on the basis of competitive selection procedures with the need to achieve a correct distribution structure, in relation to betting concessions for sports events, including horse racing, and non-sporting events, including simulated events, also following the understanding reached at the unified Conference, the Customs and Monopolies Authority was appointed to award the related concessions, by a tender to be launched by September 30, 2019, under the conditions already envisaged in art. 1, paragraph 932 of Italian Law no. 208 of December 28, 2015. To this end, the existing concessions were extended to December 31, 2019, against payment of the annual fee of Euros 6,000.00 relating to the points of sale whose core business is the marketing of public gaming products and Euros 3,500.00 covering all fees for points of sale whose accessory business is the marketing of public gaming products. In implementation of the aforementioned legal provision, Sisal Entertainment S.p.A. arranged the renewal at the beginning of 2018 of 467 points of sale whose core business is the marketing of public gaming products and 1,475 points of sale whose accessory business is the marketing of those same gaming products, while, with reference to 2019, a similar procedure of renewal of the similar number of sales points is in progress.

- The above-mentioned 2019 Stability Law also established that "from January 1, 2019, the single tax pursuant to Legislative Decree no. 504 of December 23, 1998, is fixed as follows:

a) for remote skilled games with pay-out in cash and remote bingo games, at 25% of the amounts that, on the basis of the game regulation, are not returned to players;
b) for fixed-odd betting, excluding horse betting, at 20%, if collection is made through the retail network, and at 24%, if collection is made remotely, applied to the difference between amounts staked and corresponding pay-outs;
c) for fixed-odd bets on simulated events referred to in article 1, paragraph 88, of Law no. 296 of December 27, 2006, at 22% of collection net of the amounts that, on the basis of the game regulation, are not returned to players in pay-outs".

The concession-holding company of the Group, Sisal Entertainment S.p.A., has made the necessary adjustment to adapt to the regulation.

In reference to the horse-race betting concessions, by writ of summons dated August 3, 2017, Sisal Entertainment S.p.A. began dispute proceedings against the Customs and Monopolies Authority claiming compensation for damages resulting from breach by the awarding authority of obligations arising from concession agreement relations, particularly regarding the failure to implement and in any event late implementation of all types of bets, the failure to issue and/or late issue of regulatory provisions for the acceptance of online bets by the concessionaire, failure to protect the betting market from illegal and online activities and in any even the failure of the awarding authority to consolidate and maintain the market conditions promised in the concession agreement. With regard to this judgement a hearing has been set on May 5, 2020 for the specification of conclusions.

At the request for the minimum horse payments sent in 2018 and early 2019 by ADM to the concessionaire holders of "historic" concessions, a response was given by Sisal Entertainment S.p.A., referring to the proceedings taken before the Civil Court of Rome, challenging the validity of the payment request.

Principal risks and uncertainties to which the Group is exposed

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

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

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

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

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

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

Furthermore, as from 2006, the main Group companies have progressively adopted an organizational model that conforms to Legislative Decree 231/2001 on matters regarding their corporate administrative liability. In 2018, as in previous years, the Supervisory Body has not reported any significant inconsistencies or deviations from the models referred to above.

Other information

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

In particular, during the course of the years 2008 and 2009, two tax investigations of Sisal S.p.A. were conducted by the Lombardy Regional Office of the Revenues Agency, namely a general type of inquiry on the year 2005 and a partial type of inquiry on the year 2006. The latter, in particular, was aimed at checking income taxes, VAT and IRAP taxes on certain transactions carried out in that period specifically in reference to the merger between the company and the merged company Sisal S.p.A. (the company resulting from the merger took the name of Sisal S.p.A.) and the tax treatment of certain tax expenses related thereto. This investigation ended on October 22, 2009, with the preparation of a Note of Findings ("NoF") mainly containing objections to the pertinence of some expenses connected with the loan secured for the foregoing merger transaction which, in turn, can be traced to the extraordinary transaction for the acquisition of control of the Sisal Group during 2005. In particular, in that NoF, the investigators disputed the deductibility for IRES and IRAP tax purposes of costs amounting to about Euros 8.2 million incurred in 2006, and denied the deductibility of VAT amounting to about Euros 0.5 million in 2005 and about Euros 0.1 million in 2006.

Following this NoF, on December 17, 2009, the Milan 2 Local Office of the Revenues Agency notified the company of an assessment for the unlawful deduction of VAT amounting to Euros 530,000 in 2005, plus interest, and imposed fines of the same amount. During 2010, the company promptly appealed the assessment before the Milan Provincial Tax Commission, and the first hearing, also dealing with the matters illustrated below, was adjourned to the end of October 2012. After the hearing, the Tax Commission finally upheld the company's appeal on the merits; the counterparty appealed against the decision to the appropriate Regional Tax Commission (hearing in January 2014), which reversed the decision at first instance, ruling that said deduction related to costs not associated with activities designed to earn income for the Company. Last December, the Company, represented by Prof. Maisto, decided to appeal to the Court of Cassation on the grounds that said ruling is unfounded. In the meantime, following the decision of the Regional Tax Commission, the company was served with a provisional payment notice for the assessed tax, plus a 100% surcharge by way of penalty together with interest and enforcement fees, making a total of about Euros 1.3 million, which was duly paid in January 2015.

With reference to litigations, on the other hand, extensively covered in the financial statement disclosures of previous years, deriving from the access to the premises in May 2010 by the Milan Tax Police Unit, Complex Audits Division 2, and the subsequent audit by the Tax Revenues Agency - Lombardy Regional Office, Large Taxpayers' Office that began in September 2015 and mainly involving the claim of alleged non-deductibility of finance expenses deriving from leveraged buy-out

transactions which affected the Group in the period 2005-2006, it should be noted that the matter was definitely concluded with a settlement agreement reached in 2017.
With reference to the claim, on the other hand, raised by the aforementioned Tax Revenues Agency audit, of non-deductibility of VAT, which triggered notices of findings for the three-year period 2010-2012 for a total of approximately Euros 8.2 million in taxes and penalties, after unsuccessfully attempting to reach a settlement agreement, Sisal S.p.A. filed related appeals and the initial hearing in relation to the years 2010-2012 is still pending, having been postponed to May 2019. At year end the company was notified of a further assessment notice relating to the same question with regard to the year 2013 and in the meantime, contact continues with the Tax Revenues Agency which is, to our knowledge, in turn reviewing the whole issue internally with the involvement of the Central Directorate itself.

As regards further tax disputes triggered by the 2010 tax inspection of Sisal Entertainment S.p.A. by officials from the Lombardy Regional Office of the Tax Revenues Agency - Large Taxpayers' Office, extensively illustrated in the financial statements for the preceding years, which related to the allegedly unlawful deduction in the period in question and subsequent periods of allegedly excessive amounts of depreciation on "sub-section 6" gaming machines, due to the use of a fiscal depreciation rate (20%) considered inappropriate by the inspectors, the situation was finally defined by the company during the year 2017 through "scrapping" and at the start of 2018 also with the settlement for all the years up to and including 2012. Furthermore, in December 2018, the Company also received an assessment notice relative to the year 2013 (including the challenge of minor taxes paid of Euros 340 thousand in addition to fines and interests) against which the Company has put forward a settlement proposal at the beginning of 2019, a process which is still pending. Furthermore, still at the beginning of 2019, the company, with the support of its consultants, filed a technical file with the MEF – Tax Legislation Directorate – in order to definitely clarify the issue and receive confirmation of the correctness of its actions.

With reference to the outsourcing of the service for the execution and operation of the new automated management system through a telematic network of collection of public games in Morocco, Sisal S.p.A., which was awarded the relative tender at the start of the year, and the newly constituted Sisal Loterie Maroc Sarl, a fully-owned subsidiary, signed the relative agreement in July (for the overall duration of 10 years) and they have been assiduously involved in technological, commercial and organisational setting up procedures necessary for the operational start of the concession activities which started on January 1, 2019.

Moreover, in November 2014, assessments were begun at the Parent, Sisal S.p.A. and Sisal Entertainment S.p.A. by the Financial Intelligence Unit of Bank of Italy (UIF) pursuant to art. 47 and

53, paragraph 4, of Legislative Decree 231/2007, to verify compliance with the provisions concerning anti-money laundering and anti-terrorism financing, in respect of reports of suspect transactions. The company functions involved offered the maximum collaboration to the UIF officers who concluded the inspection phase at the company in February 2015. After completion of the inspection activities, the UIF issued a final report indicating areas for improvement of operations, of which interested parties were promptly informed and reviews undertaken. At the same time, 5 positions were notified for which, according to the tax authority, suspicious transaction reports considered due in relation to the circumstances of the cases in question were either delayed or not issued. With respect to the penalty proceedings, the Group companies promptly arranged the filing of deductive pleadings by the legal deadlines, requesting a hearing in order to further discuss the reasons for failure to submit suspicious transaction reports. Lastly, in 2018, partially upholding defence briefs prepared, the MEF has reduced the penalties previously set at 40% of the settlement amount to 10% of the same amount for an overall countervalue of around Euros 150 thousand promptly paid at year end.

Additionally, on 28 March 2019, the Bank of Italy gave formal information of the results of the inspections carried out between September and December 2018 in relation to the Special Purpose Equity activities carried out in the Parent Company. The final result was positive, with different assessments made by the Supervisory Authorities while also indicating the areas that needed to be adjusted and improved, in relation to which the Company immediately got to work to make the necessary changes, most of which had already been concluded as of today's date. No reasons for apply sanctions were found.

Lastly, note the dispute pending with INPS arising from the dispute concerning an assessment report of the social security institution in relation to the legal grading of employees used by Sisal Entertainment S.p.A. to carry out business activities. The Injunction Order served following the audit was appealed against before the competent Court with the aim of clarifying the fairness of the company's actions. On October 30, 2018 the Milan Tribunal ruled on the company's position rejecting the appeal filed and substantially accepting the Institute's request. Sisal Entertainment S.p.A. will lodge an appeal by April 29, 2019. It is specified that this dispute and relative position relates only to national contributions.

Information regarding human resources and the environment

The Group has 1,957 employees at December 31, 2018. No cases of death and/or serious work accidents or occupational diseases were recorded among employees or former employees, or any cases of mobbing.

As regards the question of any impact on the environment caused by the Group' activities, during the year no cases of damage to the environment occurred for which Group companies could be held responsible nor were any fines or penalties imposed on them for environmental violations or damage. As regards policies for the disposal and recycling of refuse and/or waste from business activities, the only procedures in place were those for the disposal of packaging, electronic components and/or consumables from electronic equipment (such as photocopier toner) through specialized firms. In 2018, additional companies were selected whose disposal processes are particularly environment-friendly and in some cases these processes give rise to the production of new raw materials for other processing. Personnel training continued to be provided by specialist companies to provide the skills to better put waste disposal procedures into practice. Where necessary, special containers were installed that clearly indicate the CER (European Waste Certification) waste disposal codes so as to avoid errors during disposal. Arrangements were also made for a more thorough classification of material for disposal, including the certification of certain types of materials according to their correct CER codes. The CER certification places Group companies in a position of safety as regards the accuracy of obligations to be complied with at the time of disposal. The Group is adopting an integrated management system applicable to all group companies; in particular, the office in Rome (via Sacco e Vanzetti 89) has acquired the ISO:14001:2015 "environmental management system" and ISO:50001:2011 "Energy management systems" certifications. The above-mentioned integrated management system adopts and implements the directives included in the individual management systems acquired by the Group companies.

Development and investment activities

Again in 2018, the Group further and significantly increased levels of investments in property, plant and equipment and intangible assets, for a total of around Euros 95 million, recording an increase of approximately Euros 35 million (around +58%) on the total for the entire previous year.

As for property, plant and equipment, approximately Euros 46 million was invested by the Group, of which approximately Euros 25 million relating to purchases or technological updates of gaming machines and terminals for gaming and services.
Furthermore, around Euros 11 million were invested during the year in plant systems, restructuring and furniture in the main operating centres of the Group and especially in the points of sale network, made up of the horse and sports betting agencies and WinCity. Investments of over Euros 9 million were also made for central and peripheral hardware and for sundry equipment.

As regards investments in intangible assets and rights, 2018 saw a significant increase in investments in particular in relation to software applications and user licenses for over Euros 38 million (essentially doubled compared to the corresponding figure for 2017), in addition to around Euros 9 million invested in concession rights, mainly relative to procedures to extend concessions relating to collection for public games.

Transactions with parent companies

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

Transactions with related parties

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

Number and nominal value of treasury shares

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

Significant events occurring after the end of the year

In line with consolidated procedure, in March 2019 the Group approved its economic and financial budget for the current year.
At the beginning of the year the Parent and the main subsidiaries also approved the adaptation of their Organizational Model and ethical code pursuant to Decree 231/10; the amendments related in particular to the General Part, the Mapping of Powers and the Disciplinary System with the objective of adapting the model to the main regulatory developments and of best organising its structure, with the objective of implementing its efficiency and compliance to best practices also endorsed by the most recent regulations.

In terms more strictly related to business activities, in January 2019 conferment by the minority shareholder Games Lodi S.p.A. in the newly constituted subsidiary Network Italia S.r.l. was finalised of the business unit constituted by around 200 AWPs so that the company could start full operation; at the beginning of March the acquisition of 100% of the share capital of the company Elmea S.r.l., concluded in December 2018, became fully effective following the completion of the demerger of a business unit of the same company, also operating in the market of amusement machines management, necessary condition to finalise the operation.
Further acquisitions are in progress in the betting and amusement machines management sectors

concerning some business units; the conclusion of these transactions should be finalised within the first half of 2019, as soon as the relative due diligence activities have been completed.

It is reported that in March the acquisition by Sisal S.p.A. was finalised of 30% of the share capital of the company MyCicero S.r.l., with registered office in Senigallia, operating in the field of on-line infomobility services (e.g. sale of parking tickets, local public transport, trains and buses) and development for third-parties of web portals and mobility and events apps; the acquisition, researched and set up already during 2018, was finalised for a countervalue of around Euros 3.5 million and is motivated by strategic and synergic considerations in relation to the Group's business, in particular in relation to the Payment Services segment, to the extent of anticipating the option for Sisal to exercise within 5 years one or more options to purchase shares held by the current majority shareholder up to reaching 100% of the company's share capital.

Additionally, activities aimed at planning and launching the online gaming in Spain continued in the first few months of 2019. Sisal Entertainment S.p.A took part in the call for bids promoted by the applicable Spanish authorities at the end of 2018, and they should issue the provisional licenses needed to begin the activities and subsequently obtain definitive approval by the first half of this year.

Lastly, starting from January 1, 2019, the multiannual relationship linking the Parent to Poste Italiane S.p.A. in relation to the receipt and payment service linked to the prepaid PostePay card came to an end; the Company has already reacted to this loss by exploring and forging new commercial relationships in the reference market.

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

Outlook

The total gaming market value is expected to stand at around Euros 105 billion in 2019, down by approximately 1.2% on the 2018 market forecast. With regard to this, it is highlighted that the reduction is due mainly to the expected contraction of the amusement machine sector (-1.9%), following the further tightening of local regulations on point of sales' distances and opening times as well as the 35% reduction in the number of AWP machines implemented in 2018.

The turnover for betting and pools games is expected to decrease slightly (-5%) in the retail network, mainly due to the steady downwards trend for horse betting and the absence in 2019 of significant international events (such as football World and European tournaments and Olympics games);

turnover for lotteries is also expected to decrease slightly (-3.2%) with a total volume of approximately Euros 18 billion.

Lastly, 2019 is forecast overall to be one of growth in turnover achieved through the online channel (+2.2%), in particular thanks to the online Slot machines market, whereas in reference to the Payments market the total market value for the current year is anticipated to be around Euros 86 billion, a growth of 2.4% compared to 2018.

Considering the complex performance of reference markets, it is forecast that in 2019 the Group's turnover, revenue and operating profitability might reflect a reduction compared to the significant values recorded in the previous year, as a consequence of the negative impact of regulatory changes that will penalise some of the Group's businesses, in particular the increase in taxation on amusement machines, retail betting and online gaming as well as the effects of the already mentioned “Dignity Decree”, with reference in particular to the severe limitation of promotional and publicity activities in the gaming market. These negative impacts will be partially offset, with particular reference to overall profitability, by the positive performance of the Group's businesses and by further actions aimed at improving efficiency of company cost structures.

Furthermore, during 2019 investments in property, plant and equipment and intangible assets mainly in relation to concession renewals, the technological segregation of the business from payment services and generally the intensification of digitisation of Group's activities will remain high. These investments will be funded by operating management cash flows and, as necessary, by already available credit facilities.

Milan, April 18, 2019

* * *

On behalf of the Board of Directors

The Chairman

Mr Aurelio Regina

SISAL GROUP S.p.A. (with a sole shareholder)

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

Statement of Consolidated Comprehensive Income

(in Euros thousands)	Note	Year ended December 31 2018	2017
Revenues	8	724,161	724,622
Fixed-odds betting income	9	114,046	102,973
Other income	10	7,167	4,388
of which non-recurring	*44*	*-*	*205*
Total Revenues and income		**845,374**	**831,983**
Purchases of materials, consumables and merchandise	11	12,244	14,418
of which non-recurring	*44*	*166*	*-*
Costs for services	12	455,681	455,734
of which relative to related parties	*43*	*2,270*	*2,738*
of which non-recurring	*44*	*5,072*	*1,158*
Costs for leased assets	13	22,555	22,273
of which non-recurring	*44*	*24*	*-*
Personnel costs	14	91,725	87,954
of which relative to related parties	*43*	*3,716*	*4,118*
of which non-recurring	*44*	*172*	*729*
Other operating costs	15	38,504	36,364
of which non-recurring	*44*	*121*	*169*
Depreciation, amortization, impairments and reversals of the value of property, plant and equipment and intangible assets	16	115,865	114,812
Operating profit (loss), EBIT		**108,800**	**100,428**
Finance income and similar	17	25	198
Finance expenses and similar	18	56,686	57,185
Share of profit/(loss) of companies accounted for using the equity method	18a	600	50
Profit (loss) before income taxes		**51,539**	**43,391**
Income taxes	19	15,096	16,066
Profit (loss) for the year		**36,443**	**27,325**
Profit (loss) for the year pertaining to non-controlling interests		80	76
Profit (loss) for the year pertaining to the group		**36,363**	**27,249**
Other components of the Statement of Comprehensive Income:			
Entries that will not be reclassified subsequently to the income statement:			
Actuarial profit (loss) on defined benefits plans for employees		147	(146)
Tax effect		(35)	35
Overall profit (loss) for the year		**36,555**	**27,214**
Overall profit (loss) for the year pertaining to non-controlling interests		80	76
Overall profit (loss) for the year pertaining to the group		36,475	27,138
Basic and diluted earning (loss) per share	20	0.35	0.27

Statement of Consolidated Financial Position

(in Euros thousands)	Note	Year ended December 31 2018	2017
Non-current assets			
Property, plant and equipment	21	108,740	96,577
Goodwill	22	569,275	569,275
Intangible assets	23	497,523	521,550
Equity investments in associates		-	-
Deferred tax assets	24	17,515	13,596
Other assets	25	20,844	22,713
Total non-current assets		**1,213,897**	**1,223,711**
Current assets			
Inventories	26	11,760	10,024
Trade receivables	27	145,529	181,341
Current financial assets	28	-	-
Taxes receivable	29	77	268
Restricted bank deposits	30	201,552	155,478
Cash and cash equivalents	31	254,892	211,402
Other assets	32	61,028	45,683
Total current assets		**674,838**	**604,196**
Total assets		**1,888,735**	**1,827,907**
Equity			
Share capital		102,500	102,500
Statutory reserve		200	200
Share-premium reserve		94,484	94,484
Other reserves		66,426	66,443
Results carried forward		62,684	26,209
Total Group equity		**326,294**	**289,836**
Equity pertaining to non-controlling interests		1,097	1,157
Total equity	**33**	**327,391**	**290,993**
Non-current liabilities			
Long-term debt	34	701,499	696,721
Provision for employee severance indemnities	36	8,381	8,757
Deferred tax liabilities	23	127,636	132,915
Provisions for risks and charges	37	15,477	13,409
Other liabilities	38	709	1,182
Total non-current liabilities		**853,702**	**852,984**
Current liabilities			
Trade payables and other payables	39	334,756	330,481
Short-term debt	34	40,287	37,902
Short-term portion of long-term debt	34	15,577	15,916
Taxes payable	40	10,942	8,436
Other liabilities	41	306,080	291,195
of which relative to related parties	*43*	*1,616*	*1,842*
Total current liabilities		**707,642**	**683,930**
Total liabilities and equity		**1,888,735**	**1,827,907**

CASH FLOW STATEMENT

(in Euros thousands)	December 31 2018	December 31 2017
Profit (loss) before income taxes	**51,539**	**43,392**
Depreciation and amortization	100,380	99,296
Amortization of a one-off GNTN concession fee	4,870	0
Impairment losses on current assets	13,426	13,395
Impairment of property, plant and equipment and intangible assets	0	157
Results of assets valued with the NE method	0	50
Employee provisions, other provisions and other non-cash items	3,020	2,228
Finance (income) expenses	56,661	56,986
Cash flows (uses) generated by current operations	**229,896**	**215,504**
Change in trade receivables	22,386	(16,086)
Change in inventories	(1,736)	(853)
Change in trade payables	(30,392)	49,176
Change in other assets and liabilities	(11,274)	5,204
Income taxes paid	(21,599)	(6,675)
Cash flows (uses) generated by business operations	**187,281**	**246,270**
Investments in intangible assets	(48,103)	(20,395)
Investments in property, plant and equipment	(45,332)	(39,309)
Investments in non-current financial assets	0	(50)
Variations of other activities	(272)	0
Acquisitions net of acquired cash and cash equivalents	(300)	0
Purchase of minority interests	(144)	0
Cash flows (uses) generated by investment activities	**(94,151)**	**(59,754)**
Raising of medium/long term loans	0	0
Repayments of medium/long term loans	(273)	(642)
Net change in leasing financing	(98)	(524)
Raising of short-term loans	17,307	14,671
Repayments of short-term loans	(15,000)	(69,000)
Share capital increases pertaining to the Group	0	0
Net interest paid	(51,576)	(54,800)
Cash flows (uses) generated by financial activities	**(49,640)**	**(110,295)**
Increase (decrease) in liquid funds in cash and at banks	**43,490**	**76,221**
Liquidity at the start of the year	**211,402**	**135,181**
Liquidity at the end of the year	**254,892**	**211,402**

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

Statement of changes in consolidated equity

(in Euros thousands)	Notes	*Share capital*	*Statutory reserve*	*Share-premium reserve*	*Other reserves*	*Results carried forward*	*Total Group equity*	*Non-controlling interests*	Total equity
Net equity at December 31, 2016	**33**	**9,920**	**-**	**289,580**	**-**	**(36,802)**	**262,698**	**1,081**	**263,779**
Merger by incorporation of Schumann S.p.A. in Sisal Group S.p.A.		92,580	200	(195,096)	66,443	35,873	-	-	-
Actuarial profit (loss) on defined benefits plans for employees		-	-	-	-	(111)	(111)	-	(111)
Profit (loss) for the year		-	-	-	-	27,249	27,249	76	27,325
Overall profit (loss) for the year		**-**	**-**	**-**	**-**	**27,138**	**27,138**	**76**	**27,214**
Transactions with shareholders	**33**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net equity at December 31, 2017	**33**	**102,500**	**200**	**94,484**	**66,443**	**26,209**	**289,836**	**1,157**	**290,993**
Network Italia S.r.l. acquisition		-	-	-	-	-	-	4	4
Buy-back of non-controlling interests		-	-	-	-	-	-	(144)	(144)
Exchange adjustment reserve of Sisal Loterie Maroc		-	-	-	(17)	-	(17)	-	(17)
Actuarial profit (loss) on defined benefits plans for employees		-	-	-	-	112	112	-	112
Profit (loss) for the year		-	-	-	-	36,363	36,363	80	36,443
Overall profit (loss) for the year		**-**	**-**	**-**	**-**	**36,475**	**36,475**	**80**	**36,555**
Transactions with shareholders	**33**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net equity at December 31, 2018	**33**	**102,500**	**200**	**94,484**	**66,426**	**62,684**	**326,294**	**1,097**	**327,391**

SISAL GROUP

Notes

to the Consolidated Financial Statements

at December 31, 2018

1. General information

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

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

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

These consolidated financial statements were approved by the Board of Directors of Sisal Group S.p.A. on April 18, 2019.

2. Summary of accounting policies

2.1 Basis of preparation

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

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

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

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

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

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

2.2 Going concern

Also taking the above into account, 2018 closed with a profit of Euros 36,443 thousand, consolidated equity at December 31, 2018 was equal to Euros 327,391 thousand and net working capital at the same date was a negative Euros 231,832 thousand.

The 2018 result was affected by net non-recurring expenses of approximately Euros 5.6 million, mainly relating to the start-up process of game collection in Morocco from 1 January 2019 for approximately Euros 2.3 million, to business reorganization processes for approximately Euros 1.5 million and new business start-ups in the services sector for Euros 0.8 million.

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

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

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

	At December 31			
(in Euros thousands and as percentage of total debt and equity)	**2018**		**2017**	
Long-term debt	701,499		696,721	
Short-term debt and current portion of long-term debt	55,864		53,818	
Funding from third parties	**757,363**	**69.8%**	**750,539**	**72.1%**
Equity	327,391	**30.2%**	290,993	**27.9%**
Total debt and equity	**1,084,754**	**100.0%**	**1,041,532**	**100.0%**

As illustrated in the Directors' Report, note in particular the 3.1% increase in Group revenues and income compared to 2017 (adjusted on a pro-forma basis to reflect the adoption of the new accounting standard IFRS 15), mainly the result of a significant improvement in the online and NTNG games, and the respective 8.5% and 11.8% growths in EBITDA and EBIT, for both years after taking into account the impact of non-recurring expenses.

With regard to the overall value of the gaming market, a slight reduction is expected in 2019 due mainly to the expected contraction of the gaming machine sector, following the further tightening of local regulations on point of sales' distances and opening times as well as the 35% reduction in the number of AWP machines implemented in 2018, and the betting and pools games segments following a substantial decline of the horse betting segment and the absence in 2019 of important international events (football World Cup and/or European tournaments and Olympic Games). To partially offset this, a growth is expected in the Payments and online Slot machines sector.

Considering the complex performance of reference markets, it is therefore forecast that in 2019 the Group's turnover, revenue and operating profitability might reflect a reduction compared to the significant values recorded in 2018, as a consequence of the negative impact of regulatory changes that will penalise some of the Group's businesses, in particular the increase in taxation on gaming machines, retail betting and online gaming as well as the effects of the already mentioned “Dignity Decree”, with reference in particular to the severe limitation of promotional and publicity activities in the gaming market. These negative impacts will be partially offset, with particular reference to overall profitability, by the positive performance of the Group's businesses and by further actions aimed at improving efficiency of company cost structures.

With reference, moreover, to the tender procedure pertaining to the GNTN concession, whose related notice was at last issued in December 2018, Sisal S.p.A. submitted its bid on 5 March 2019, within the terms prescribed by the related specifications, as a result of the intense work of the involved corporate structures and of the multi-year history of success in the management of the product in question, whose original conception and launch, as well as the subsequent upgrading activities, are a part of the Group’s historical capital of knowledge and competencies. It is based on this wealth and capabilities that the Group believes it meets every requirement to be awarded the future concession. Moreover, in the unthinkable situation that this might not happen, the consolidated diversification of the Group’s activities in the gaming sector and the more recent but now confirmed sector of community-led services is the guarantee of a capacity, also confirmed by the rising economic results of the last few years, to continue to be a leading player in the reference markets.

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

2.3 Scope of consolidation and consolidation principles

The consolidated financial statements include the financial statements of the Parent and the financial statements of its subsidiaries, approved by their relative boards. The companies included in the scope of consolidation at December 31, 2018 and 2017 are reported as follows:

Companies included in the scope of consolidation			
			% Direct and Indirect ownership at December 31
Name	**Headquarters**	**Share capital**	**2018**
Sisal Group S.p.A. (Parent)	Milan	€ 102,500,000	-
Sisal Pay S.p.A.	Milan	€ 50,000	100.00%
Sisal Pay Servizi S.p.A.	Milan	€ 50,000	100.00%
Sisal S.p.A.	Milan	€ 125,822,467	99.83%
Sisal Point S.p.A.	Milan	€ 600,000	99.83%
Sisal Loterie Maroc S.a.r.l.	Casablanca	€ 8,887	99.83%
Sisal Entertainment S.p.A.	Milan	€ 2,131,622	99.83%
Acme S.r.l.	Milan	€ 20,000	99.83%
Friulgames S.r.l.	Milan	€ 100,000	99.83%
Network Italia S.r.l.	Milan	€ 1,360,000	99.71%

Companies included in the scope of consolidation			
			% Direct and Indirect ownership at December 31
Name	**Headquarters**	**Share capital**	**2017**
Sisal Group S.p.A. (Parent)	Milan	€ 102,500,000	-
Sisal S.p.A.	Milan	€ 125,822,467	99.81%
Sisal Point S.p.A.	Milan	€ 600,000	99.81%
Sisal Entertainment S.p.A.	Milan	€ 2,131,622	99.81%
Acme S.r.l.	Santorso (VI)	€ 20,000	99.81%
Friulgames S.r.l.	Milan	€ 100,000	99.81%

Note that in 2018 the following companies were incorporated:

Sisal Loterie Maroc S.a.r.l. with registered office in Casablanca in Morocco for the management, from January 1, 2019, of the gaming collection in Morocco, directly controlled by Sisal S.p.A.;

Network Italia S.r.l. with registered office in Milan, for the management of gaming collection through gaming machines (AWPs), whose share capital is paid in an amount equal to 99.71% at the close of the 2018 financial year by Sisal Entertainment S.p.A..The remaining interest is held by the company operating in the same sector, Games Lodi S.p.A.; following the total transfer of the business unit by the minority shareholder in January 2019, the controlling interest held by Sisal Entertainment S.p.A. is equal to 60%.

Sisal Pay S.p.A. and Sisal Pay Servizi S.p.A. with registered office in Milan, constituted following the Group's reorganisation in the sectors of payment services and marketing of telephone top-ups and television content services currently under development. At the balance sheet date, the aforementioned companies were not operational.

For additional details on the main changes in the scope of consolidation during the year under examination see Note 6 “*Business combinations*”.

Below a brief description of the criteria used for the consolidation of subsidiaries and associates.

Subsidiaries

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

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

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

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

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

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

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

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

Associates

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

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

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

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

2.4 Accounting policies

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

Leased assets

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

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

INTANGIBLE ASSETS

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

(a) Goodwill

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

(b) Other intangible assets with a finite useful life

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

Class of intangible asset	Useful life in years
Patent rights and intellectual property	3-5
Concessions	Period of concession
Software user licenses	Period of utilization on a straight-line basis
Retail network and NTNG and services contract network	11-20
Sisal brand	20
Customer Relationship (Online)	13 equal to the on line period of concession

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

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

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(a) Goodwill

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

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

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

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

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

(b) Property, plant and equipment and intangible assets with a finite useful life

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

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

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

TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS

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

Impairment losses on receivables are recognised according to the expected credit loss method, in accordance with the provisions of standard IFRS 9. In particular, the reduction in value of trade receivables and on contract assets is performed through the simplified approach, which requires the estimation of loss expected throughout the life of the receivables at the time of initial recognition and in subsequent valuations. For each segment of customers, the estimation is mainly carried out through the determination of the average expected irrecoverability, based on statistical and historical indicators, possibly adjusted using prospective elements. For some categories of receivables characterised by distinctive risk elements specific valuations are, however, carried out on individual credit positions.

If in subsequent periods the reasons for the impairment cease to exist, the asset value is reinstated up to the amount that would have been recognized had amortized cost been applied.

Financial assets, relating to non-derivative financial instruments, with fixed or determinable payments and fixed maturity dates, which the Company intends and has the ability to hold until maturity are classified as “hold to collect” assets.

Such assets are measured at amortized cost using the effective interest method, adjusted by impairment losses, if any. Whenever there are impairment losses, the same principles as described above for loans and receivables are applied.

Other financial assets, including investments in other companies, classified as “hold to collect and sell” assets are measured at fair value, if determinable, and profits and losses deriving from variation in fair value are attributed directly to other components of comprehensive income until they are disposed of or impaired. At that point, the other components of comprehensive income previously recognised in equity are attributed to the income statement for the period.

Dividends received by investments in other companies are included under the item financial income.

INVENTORIES

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

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

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

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

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

CASH AND CASH EQUIVALENTS

Restricted bank deposits are separately reported from ordinary cash and cash equivalents since they are mainly related to the gaming cash flows which have to be mandatorily segregated for the payment of winnings as well as the restricted liquidity deriving from funds received from customers in compliance with the directive known as PSD2, as part of the services rendered by the Parent Company in its capacity as payment institution.

Cash and cash equivalents include cash and available bank deposits and other forms of short-term investments, with original due dates equal to or less than three months. Cash and cash equivalents are recorded, according to their nature, at their nominal amount or at amortized cost.

DEBT AND OTHER FINANCIAL LIABILITIES

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

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

FOREIGN CURRENCY TRANSLATION

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

TRANSLATION OF THE FINANCIAL STATEMENTS INTO A CURRENCY OTHER THAN THE EURO

The assets and liabilities of foreign companies in currencies other than the Euro which are included in the scope of consolidation are translated using the exchange rates prevailing at the date of the financial statements, shareholders' equity items are translated using the historical exchange rates, while the related revenue and expenses are converted at the average exchange rates of the year.
The translation exchange differences resulting from the application of this method are classified as a shareholders' equity item, until the entire equity investment is sold, i.e. when the equity investment ceases to be qualified as a subsidiary undertaking.
The financial statements used for the translations are those expressed in the functional currency of the foreign undertaking.

The Euro/Dirham exchange rates applied in reference to the financial statement balances of the subsidiary undertaking Sisal Loterie Maroc S.a.r.l. are as follows:
Exchange rate at December 31, 2018: 10.939
Average exchange rate in 2018: 11.082

EMPLOYEE BENEFITS

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

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

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

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

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

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

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

PROVISIONS FOR RISKS AND CHARGES

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

RECOGNITION OF REVENUES

The method for recognising revenues, based on standard IFRS 15, is divided into five steps:

▪ the identification of the contract with the customer: the standard's provisions are applicable to each individual contract, except in the cases where the standard itself requires the entity to consider several contracts jointly and consequently provides for their relative recognition;

▪ the identification of the separate performance obligations, or contractual promises to transfer goods and/or services contained in the contract;

▪ the determination of the transaction price. In case of variable compensation, this must be estimated by the entity to the extent in which it is highly probable that when the uncertainty associated with the variable compensation is subsequently resolved it does not cause a significant downward adjustment of the amount of cumulative revenues recognised;

▪ the allocation of the transaction price to the separate performance obligations identified, on the basis of the relative stand-alone sale price of each product or service;

▪ the recognition of revenue at the time and/or to the extent in which the relative separate performance obligation is satisfied;

Revenues are recognized initially at the fair value of the consideration received.

In compliance with the provisions of standard IFRS 15, revenues relative to game services for which Sisal considers itself to be the “principal" player are recognised:

- gross of the remuneration component recognised to the supply chain (agencies, operators and retailers) and of any relative concession fees;
- net of tax collected and winnings paid.

Similarly, with reference to the NTNG concession, in the context of which Sisal is the “agent”, revenues are recognised as equal to the transaction premiums due to the agent. The residual balance of the upfront fee paid by the Company in relation to the NTNG concession is classified under the item "Other assets", because of its early reduction of future premiums relating to the Company.

The revenues accrued by the Company in the resale of telephone top-ups and television content are recognized in an amount equal to the difference between the sale price and the nominal cost of the cards. The cost relating to the purchase thereof is therefore recognized as an adjustment to the gross revenue recorded, operating the Company as an "agent".
In the case of contracts in which different separate performance obligations are identified, the allocation of transaction prices to the identified performance obligations will be made on the basis of the relative stand-alone sales prices of each good or service included in the contract.

FIXED-ODDS BETTING INCOME

The turnover connected with fixed-odds betting is recognized initially as a financial liability in accordance with the provisions of IFRS 9 at the date the bet is accepted. Subsequent changes in the amount of the financial liability are recognized in the income statement under "Fixed-odds betting income" until the date of the event on which the bet was accepted.

COST OF GOODS PURCHASED AND SERVICES PERFORMED

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

INCOME TAXES

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

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

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

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

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

EARNINGS PER SHARE

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

2.5 Accounting standards/interpretations approved but not yet in force

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

New Standards / Interpretations endorsed by the EU	Date of application
IFRS 16 (Leases)	01/01/2019
Amendments to IFRS 9: Prepayment features with negative compensation	01/01/2019
IFRIC 23 – Uncertainty over Income Tax Treatments	01/01/2019

The valuation by the Group regarding the impact forecast of the above-mentioned standards is in progress.

IFRS 16 “Leases”

On January 13, 2016 the IASB published the new accounting standard IFRS 16 “Leases”, which establishes the principle for the recognition, valuation and presentation of lease contracts for both parties involved in this type of contracts, the tenant or lessee and the lessor.

The new standard, which replaces the previous IAS 17 standard and its relative interpretations, introduces a single accounting model for the lessee. There are, however, no significant impacts on the accounting treatment of leases by the lessor.

For lease contracts that fulfil the requirements of the new standard, IFRS 16 requires the recognition in the statement of financial position of a financial liability, represented by the actual value of future payments, counterbalanced by the entry in the assets of the “right of use of the leased asset”.

The new standard, approved by the European Commission with EC Regulation no. 2017/1986 of October 31, 2017, is applied retrospectively starting from January 1, 2019; the Group intends to apply the simplified retrospective method with the recognition, for leases previously classified in accordance with IAS 17 as operating leases, of the lease payables and the corresponding value of the right of use measured on residual contractual payments at the date of transition. On the basis of analyses currently underway, the greatest impacts are anticipated in contracts relating to buildings, contracts relating to property agencies, contracts relating to its own shops and technological sites, car hire and machinery. The Group does not anticipate the application of the provision of the new standard to small value contracts and those contracts whose duration is less then twelve months.

The main effects on the Group's financial statements are summarised as follows:

▪ in the statement of financial position, higher non-current assets for recognition of “right of use of the leased asset” corresponding to the higher financial payables;

▪ in the income statement, the different nature and classification of expenses (amortization of the “right of use of the asset” and “financial charges for interest” with respect to “cost for use of third-party assets - operating leases fees”, in compliance with IAS 17) with consequent positive impact on the gross operating profit. Furthermore, the combination between the amortization for constant portions of the “right of use of the asset” and the effective interest rate method applied to lease payables involve, with respect to IAS 17, greater charges to the income statement in the first years of a lease contract and decreasing charges in last years;

▪ in the statement of cash flows, financial flows connected to contracts subject to the application of the above-mentioned standard, previously classified under financial flows of operating activities, will be classified under financial flows of financing activities.

The Group is still working on the measurement of the impact of the new standard on its financial and capital structure; on the basis of the results of preliminary valuations carried out, the Group estimates that the adoption of the new standard involves, at first application stage, an impact on the item Financial liabilities of less than Euros 100 million and an impact on EBITDA of less than Euros 25 million in the year 2019.

Accounting standards/interpretations issued by the IASB not yet approved

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

- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Improvements to IFRS (2015–2017 cycle)
- Amendments to IAS 19: Plan amendment, curtailment or settlement
- Amendments to References to the Conceptual Framework in IFRS Standards
- IFRS 17: Insurance contracts

- Amendments to IFRS 3 Business Combinations
- Amendments to IAS 1 and IAS 8: definition of material

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

2.6 Adoption of the new standards IFRS 9 and IFRS 15

IFRS 15 “Revenue from contracts with customers”

The regulatory provisions of IFRS 15 “Revenue from Contracts with Customers” and “Clarifications to IFRS 15” issued by the IASB respectively on September 11, 2015 and April 12, 2016, were endorsed by Regulations 2016/1905 and 2017/1987, issued by the European Commission on September 22, 2016 and October 31, 2017. The provisions of the standard are effective from January 1, 2018.

In particular, the main issues covered by the standard, reported below, were analysed with reference to revenues for the year:

(i) identification of the performance obligations and allocation of the transaction price to the same;

(ii) identification of timings to satisfy the performance obligations (over time or at a point in time);

(iii) valuation of the supply of goods and/or services as principal or agent;

(iv) valuation of any presence of significant financial components;

(v) at the time of recognition of the revenue, evaluation of the probability that the company will receive the compensation in exchange of the provision/service rendered to the customer.

No significant impacts are identified at this stage of first application and therefore management did not deem it necessary to recognise amendments to opening balances of the equity as at January 1, 2018, in accordance with the transitional provisions of the new standard.

However, it has been deemed opportune to carry out the following reclassification in the financial statements:

- In reference to the statement of financial position, the residual balance of the upfront fee paid by the Company in relation to the NTNG concession has been reclassified from the item “Other assets” to the item “Other non-current assets”, because of its early reduction of future premiums relating to the Company, in light of the provisions introduced by the new standard;
- consequently, in reference to the income statement, the portion of the upfront fee accrued for the year, currently recognised under the item “Depreciation, amortization, impairments and reversals of the value of fixed assets” is reclassified as a direct reduction of the item “Revenues”.

IFRS 9 “Financial Instruments”

By regulation no. 2016/2067, issued by the European Commission on November 22, 2016, the regulatory provisions of IFRS 9 - Financial Instruments, issued by the IASB on July 24, 2014, were endorsed, together with the related Basis for Conclusions and Application Guidance, replacing all previous versions of the standard issued. The provisions of these documents will replace those contained in IAS 39 – “Financial Instruments: Recognition and Measurement”.

The new provisions: (i) amend the classification categories for financial assets and envisage that this classification is based on contractual cash flows of the asset and on the company's business model; (ii) also eliminate the compulsory unbundling of derivatives embedded in the financial assets; (iii) identify a new impairment model using forward-looking data with a view to earlier recognition of impairment losses on receivables than in the "incurred loss" model, which postpones recognition of the loss to the time of the loss event in reference to financial assets measured at amortized cost, to financial assets designated at fair value in other comprehensive income, receivables on leases, and assets deriving from contracts and certain commitments to disburse loans and financial guarantees; (iv) introduce a substantial review of the qualification of hedging transactions to guarantee that these are aligned with the risk management strategies of the companies and founded on a more principle-based approach.
The provisions of the standard are effective from January 1, 2018.

No significant impacts are identified at this stage of first application and therefore management did not deem it necessary to recognise amendments to opening balances of the equity as at January 1, 2018, in accordance with the transitional provisions of the new standard.

Impact of the new accounting standards (IFRS 15) on items of the income statement and statement of financial position

To allow comparability of the financial results of the year 2018 with the corresponding period for the previous year, "comparable" economic data and "comparable" asset balances are shown below, prepared in compliance with the previous accounting standards (IAS 18, IAS 11 and relative Interpretations).

Impact of the new accounting standards (IFRS 15) on items of the income statement and statement of financial position

amounts in Euros thousands	2018	Comparable 2018	Impact of new standards
Revenues	724,161	729,031	(4,870)
Fixed-odds betting income	114,046	114,046	
Other income	7,167	7,167	-
Total Revenues and income	**845,374**	**850,244**	**(4,870)**
Purchases of materials, consumables and merchandise	12,244	12,244	-
Costs for services	455,681	455,681	-
Costs for leased assets	22,555	22,555	-
Personnel costs	91,725	91,725	-
Other operating costs	38,504	38,504	-
Depreciation, amortization, impairments and reversals of the value of property, plant and equipment and intangible assets	115,865	120,735	(4,870)
Operating profit (loss), EBIT	**108,800**	**108,800**	**-**
Finance income and similar	25	25	-
Finance expenses and similar	56,686	56,686	-
Share of profit/(loss) of companies accounted for using the equity method	600	600	
Profit (loss) before income taxes	**51,539**	**51,539**	**-**
Income taxes	15,096	15,096	-
Profit (loss) for the year	**36,443**	**36,443**	**-**

amounts in Euros thousands	2018	Comparable 2018	Impact of new standards
Property, plant and equipment	108,740	108,740	-
Goodwill	569,275	569,275	-
Intangible assets	497,523	498,292	(769)
Equity investments in associates	-	-	-
Deferred tax assets	17,515	17,515	-
Other assets	20,844	20,075	769
Total non-current assets	**1,213,897**	**1,213,897**	**-**
Inventories	11,760	11,760	-
Trade receivables	145,529	145,529	-
Current financial assets	-	-	-
Taxes receivable	77	77	-
Restricted bank deposits	201,552	201,552	-
Cash and cash equivalents	254,892	254,892	-
Other assets	61,028	61,028	-
Total current assets	**674,838**	**674,838**	**-**
Total assets	**1,888,735**	**1,888,735**	**-**
Share capital	102,500	102,500	-
Statutory reserve	200	200	-
Share-premium reserve	94,484	94,484	-
Other reserves	66,426	66,426	-
Results carried forward	62,684	62,684	-
Equity pertaining to non-controlling interests	1,097	1,097	-
Total equity	**327,391**	**327,391**	**-**
Long-term debt	701,499	701,499	-
Provision for employee severance indemnities	8,381	8,381	-
Deferred tax liabilities	127,636	127,636	-
Provisions for risks and charges	15,477	15,477	-
Other liabilities	709	709	-
Total non-current liabilities	**853,702**	**853,702**	-
Trade payables and other payables	334,756	334,756	-
Short-term debt	40,287	40,287	-
Short-term portion of long-term debt	15,577	15,577	-
Taxes payable	10,942	10,942	-
Other liabilities	306,080	306,080	-
Total current liabilities	**707,642**	**707,642**	-
Total liabilities and equity	**1,888,735**	**1,888,735**	-

The change in the items “Intangible assets” and “Other current assets” of the statement of financial position, and, similarly, in the items “Revenues” and “Depreciation, amortization, provisions and impairment losses” in the income statement relates to the reclassification of the NTNG concession, because of its early reduction of future premiums relating to the Company, in the light of the provisions introduced by the new standard in the context of the valuation of the roles of agent and principal, as illustrated in the above-mentioned note.

3. Management of financial risks

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

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

MARKET RISK

Foreign exchange rate risk

The Group is active on the Italian market and is therefore exposed to exchange rate risk to a limited extent, solely in reference to insignificant amounts for the import of spare parts for gaming equipment purchased in currencies other than the Euro (mainly USD and GBP), as well as investments made in Morocco (the local currency is the DIRHAM) in relation to the management of the previously mentioned start-up Sisal Loterie Maroc S.a.r.l..

Interest rate risk

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

In particular, the Group normally looks for short-term debt to finance its working capital requirements and for medium-and long-term financing to support investments related to its operations and extraordinary transactions. The financial liabilities which expose the Group to interest rate risk are mainly medium- and long-term indexed loans at variable rates of interest. Specifically, on the basis of the analysis of the Group’s indebtedness, approximately 47% of the debt at December 31, 2018 is at floating rates.

See Note 34 for additional details.

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

The analysis performed related mainly to the following:

- cash and cash equivalents, excluding restricted cash deposits used for the payment of winnings and to the liquidation of any withdrawals from deposits relating to online games and the settlement of debts to Service partners;
- short-term and medium- and long-term debt, including the related derivative financial instruments, where existing.

Regarding cash and cash equivalents, reference was made to the average balance and the average interest rate thereon for the year, while for short-term and medium- and long-term debt the effect was calculated at the reporting date of the consolidated financial statements. This analysis also included financial payables contracted at fixed rates, as they represent a hedge of interest rate risk even though they are not affected by it, for Euros 356,661 thousand in 2018, and Euros 398,835 thousand in 2017, whilst no tax impact was considered.

		2018			
		Income Statement		Equity	
(in Euros thousands)	**At December 31, 2018**	**+1% profit / (loss)**	**-1% profit / (loss)**	**+1% profit / (loss)**	**-1% profit / (loss)**
Net financial debt	(502,470)	(2,424)	-	(2,424)	-
Total	**(502,470)**	**(2,424)**	**-**	**(2,424)**	**-**

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

Bookmaker risk

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

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

LIQUIDITY RISK

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

At December 31, 2018 credit facilities agreed but not used for approximately Euros 85 million were in place, attributable to a revolving credit facility for a total of Euros 125 million. The facility will expire in September 2022.

Set out below are the cash flows expected in future years for the repayment of financial liabilities subdivided by repayment date at December 31, 2018 and 2017.

	2018				
		Financial Liabilities Disbursements Analysis			
(in Euros thousands)	**At December 31, 2018**	**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	**757,363**	55,864	-	725,000	-
Trade payables	**334,756**	276,916	57,845	-	-
Other payables	**301,299**	162,473	138,684	142	-
Total	**1,393,418**	**495,253**	**196,529**	**725,142**	**-**

	2017				
		Financial Liabilities Disbursements Analysis			
(in Euros thousands)	**At December 31, 2017**	**To three months**	**More than three months to one year**	**More than one year to five years**	**More than five years**
Bank debt and payables to other lenders	**750,539**	53,635	183	325,030	400,000
Trade payables	**330,481**	264,872	63,436	2,436	-
Other payables	**287,829**	152,848	134,839	142	-
Total	**1,368,849**	**471,355**	**198,458**	**327,608**	**400,000**

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

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

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

CREDIT RISK

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

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

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

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

Current trade receivables at December 31, 2018 and 2017 are analysed by macro class of homogeneous risk in the following table:

	At December 31	
(in Euros thousands)	**2018**	**2017**
Receivables from Public Authorities	33,103	29,365
Receivables from points of sale (outlets) and shops	197,530	219,709
Receivables from Betting Agencies	4,219	6,110
Receivables from Network	15,674	19,849
Other receivables	24,241	18,705
Provision for impairment of receivables	(76,157)	(68,731)
Total	**198,610**	**225,007**

- *Receivables from Public Authorities* mainly include receivables from the Customs and Monopolies Authority for games managed according to the regulations of the specific concessions and receivables from the Public Administration for reimbursement requests already forwarded at year end, to be settled shortly thereafter; no credit risk is believed to exist on these positions;

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

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

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

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

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

Risk exposure

Exposure to credit risk at December 31, 2018 and 2017, analysed by reference to the ageing of receivables, is as follows:

		Ageing of Receivables			
(in Euros thousands)	**At December 31, 2018**	**current**	**past due up to 90 days**	**past due 90-180 days**	**past due more than 180 days**
Trade receivables	221,579	125,569	5,247	3,605	87,158
Provision for impairment of receivables	(76,050)	(720)	(2,912)	(1,717)	(70,701)
Net value	**145,529**	**124,849**	**2,335**	**1,888**	**16,457**
Other receivables	53,188	52,918	-	-	271
Provision for impairment of receivables	(107)	(55)	-	-	(52)
Net value	**53,081**	**52,862**	**-**	**-**	**219**
Total	**198,610**	**177,711**	**2,335**	**1,888**	**16,676**

(in Euros thousands)	At December 31, 2017	Ageing of Receivables current	past due up to 90 days	past due 90-180 days	past due more than 180 days
Trade receivables	249,971	154,405	7,141	4,024	84,401
Provision for impairment of receivables	(68,630)	(457)	(2,450)	(2,016)	(63,707)
Net value	**181,341**	**153,948**	**4,691**	**2,008**	**20,694**
Other receivables	43,768	43,497	-	-	271
Provision for impairment of receivables	(102)	(50)	-	-	(52)
Net value	**43,666**	**43,447**	**-**	**-**	**219**
Total	**225,007**	**197,395**	**4,691**	**2,008**	**20,913**

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

CAPITAL RISK

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

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

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

CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities by category at December 31, 2018 and 2017 are presented in the following table:

	At December 31, 2018					
(in Euros thousands)	**Loans and receivables**	**Investments held to maturity**	**Financial assets or liabilities at fair value**	**Total financial assets or liabilities**	**Non-financial assets and liabilities**	**TOTAL**
Current financial assets						-
Trade receivables	145,529			145,529		145,529
Other assets (current and non-current)	73,925			73,925	7,947	81,872
Restricted bank deposits	201,552			201,552		201,552
Cash and cash equivalents	254,892			254,892		254,892
Total assets	**675,898**			**675,898**	**7,947**	**683,845**
Debt (current and non-current)	757,363			757,363		757,363
Trade payables and other payables	334,756			334,756		334,756
Other liabilities (current and non-current)	301,299			301,299	5,490	306,789
Total liabilities	**1,393,418**			**1,393,418**	**5,490**	**1,398,908**

	At December 31, 2017					
(in Euros thousands)	**Loans and receivables**	**Investments held to maturity**	**Financial assets or liabilities at fair value**	**Total financial assets or liabilities**	**Non-financial assets and liabilities**	**TOTAL**
Current financial assets						-
Trade receivables	181,341			181,341		181,341
Other assets (current and non-current)	66,380			66,380	2,016	68,396
Restricted bank deposits	155,478			155,478		155,478
Cash and cash equivalents	211,402			211,402		211,402
Total assets	**614,601**			**614,601**	**2,016**	**616,617**
Debt (current and non-current)	750,539			750,539		750,539
Trade payables and other payables	330,481			330,481		330,481
Other liabilities (current and non-current)	287,829			287,829	4,548	292,377
Total liabilities	**1,368,849**			**1,368,849**	**4,548**	**1,373,397**

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

For short-term trade receivables and payables and other receivables and payables, the carrying amount is considered to be a reasonable approximation to fair value. At December 31, 2018, the market price of the senior secured notes (level 1 in the fair value hierarchy) was a total of approximately Euros 725.8 million compared to a face value of Euros 725 million.

FAIR VALUE MEASUREMENT

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

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

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

There were no assets and liabilities that are measured using the fair value method at December 31, 2018 and 2017.

4. Use of estimates

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

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

Goodwill

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

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

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

Impairment loss/reversal of fixed assets

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

Deferred tax assets

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

Provisions for risks

The Group accrues in these provisions the probable liabilities relating to litigations and controversies with staff, suppliers, and third parties and in general expenses arising from any commitments. The quantification of such allocations 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

Impairment losses on receivables are recognised in the financial statements according to the expected credit loss method, in accordance with the provisions of IFRS 9. In particular, the impairment on trade receivables and on contract assets is carried out through the simplified approach, which provides for estimating the expected loss throughout the life of the receivable at the time of the initial recognition and in the subsequent valuations. For each client segment, the estimate is carried out mainly through the determination of the average expected non-collectability, based on historical-statistical indicators, which may be adjusted using prospective elements. For some categories of receivables characterised by peculiar risk elements, instead, specific valuations are carried out on the individual credit positions.

5. Concessions and litigation

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

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

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

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

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

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

Believing that the aforementioned decision is based on erroneous assessments in fact and in law, an appeal was filed with the Milan Court of Appeal. In the hearing of July 4, 2018, the Milan Court of Appeal postponed the hearing for the specification of conclusions to the hearing on May 29, 2019.

- A second writ of summons with an identical content was served on August 30, 2018 by the company Bar Stadio Dragoni Jonathan e Simone s.a.s., the owner of the point of sale of the same name. In relation to these proceedings, the first hearing is scheduled for the Civil Court of Milan on May 8, 2019.

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

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

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

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

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

    e) express provision, in tender documents, of the negotiation practices or relationships permitted pursuant to article 2, paragraph 2, of Decree Law no. 40 of March 25, 2010, converted with amendments to Law no. 73 of May 22, 2010;

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

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

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

In compliance with the above-mentioned provisions, ADM initiated the selection procedure for the granting of the above-mentioned concession through publication of the tender notice on the OG/S 242 of December 15, 2018, setting the deadline for receipt of offers for March 5, 2019. Sisal S.p.A. has participated to this selection procedure and filed its offer in compliance with the condition and times set in order to obtain the award of the concession in question and therefore continue with the collection of relative games; the companies Lottomatica Holding S.r.l. and Italian GNTN Holding A.S. also participated to the procedure, filing their relative offers. In the meantime, Law 145/2018 – the 2019 Budget Law – ruled that, in order to allow the completion of the selection procedure for the award of the new concession for national tote numerical games, the continuous management of games must be ensured by the current concessionary up to the award of the new concession and, in any case, not beyond September 30, 2019.

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

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

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

By notice published in the Official Journal of the European Union on August 8, 2011, ID 2011 – 111208, AAMS initiated the procedure for the grant of the "Concession for the activation and operation of the network for online management of legal gaming through gaming machines, as specified in art. 110, paragraph 6, of the Consolidated Law Enforcement Act (TULPS), and of the associated activities and functions". Sisal Entertainment S.p.A. took part in said selection procedure, together with 12 other candidates, and was awarded the new concession. Twelve out of the thirteen candidates, excluding BPlus S.p.A., signed the new agreement on March 20, 2013. This concession has a nine-year duration expiring March 30, 2022. Again in the gaming machine sector, by Directors' Decrees of October 12, 2011 and December 16, 2011, the ADM identified public gaming measures useful to ensure the higher revenues specified by art. 2, paragraph 3, of Decree Law 138 of August 13, 2011, converted with amendments to Law 148 of September 14, 2011, and introduced an additional fee for the gaming machine sector, amounting to 6% of the winnings exceeding the sum of Euros 500 on the machines referred to in art. 110, paragraph 6, letter b) of the Consolidated Law Enforcement Act (TULPS) (Video Lottery Terminals or VLTs). In particular, in order to apply said additional fee, concessionaires belonging to the online gaming network were required to ask the ADM, by January 20, 2012, to commence the compliance check necessary to upgrade the gaming systems, and should have delivered all the necessary documentation and hardware and software components.

As it is objectively impossible to implement the terms of the said Directors' Decrees without prior modification of the gaming systems software, all concessionaires have appealed to the Lazio Regional Administrative Tribunal against the said decrees, requesting their suspension. On January 25, 2012 the

Lazio Regional Administrative Tribunal confirmed the suspension of said decrees, which had already been granted following an ex parte application.

Said Fiscal Decree Law stated that the taxation was postponed until September 1, 2012.

The Lazio Regional Administrative Tribunal, to which the concessionaires also appealed against the terms of the Fiscal Decree Law, ruled in its Order of July 26, 2012 that the issue of constitutional legitimacy raised by the concessionaires regarding said Fiscal Decree Law was relevant and not manifestly groundless, and ordered the corresponding proceedings to be suspended and the file sent to the Constitutional Court. At the hearing held on June 10, 2014, the Court ruled that the issue of constitutionality of the Law was groundless; consequently, and also on the basis of new instructions issued by the ADM by decree dated June 6, 2014, but taking effect on the 15th day after the date on which the Constitutional Court’s judgment was filed, the concessionaires are now able to charge the additional fee in dispute. By Italian Decree Law no. 50 of April 24, 2017, converted with amendments and additions to Law no. 96 of June 21, 2017, the taxes on part of the winnings exceeding Euros 500.00 have increased from 6% to 12%.

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

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

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

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

In view of the unfairness of the terms of the Stability Law 2015 and the alleged lack of constitutional legitimacy of the Law, Sisal Entertainment S.p.A. - in a manner similar to that applied also by the other concessionaires - appealed to the Lazio Regional Administrative Tribunal, which considered the exceptions to constitutional legitimacy raised by Sisal Entertainment S.p.A. to be acceptable and remanded proceedings to the Constitutional Court. The Constitutional Court, with decision published on June 13, 2018, returned the case to the Lazio Regional Administrative Tribunal to newly assess, after the entry into force of art. 1, paragraph 921 of the 2016 financial law, the manifestly unfounded issue of constitutional legitimacy raised with regard to art. 1, paragraph 649, of Law no. 190 of December 23, 2014. The hearing in front of the Lazio Regional Administrative Tribunal is scheduled for May 22, 2019.

The 2016 Stability Law again acted upon this matter through an overall review of the above-mentioned fee decrease. In particular, on the one hand it repealed the previous regulations from January 1, 2016 (replaced by increasing the taxes applied on the total amounts played through gaming machines), and on the other hand for the previous period of application of the measure adopted a rule that, though stated to be an interpretation, seems instead to have a strong novation effect. Specifically, it introduces the criterion of distribution within the network of the reduction applied under the 2015 Stability Law, anchoring it to the participation of each to the distribution of the fee, based on related contractual arrangements and taking into account their duration in 2015. After further legal and regulatory study, the

Group's concessionaire therefore reached the conclusion that the new legislation mentioned above, remedying the problem of non-quantification of the reduced fee for internal distribution among individual network operations related to each concessionaire, decreed autonomy and independence not only in terms of fee-related items but also of the related payables due from individual operators. Given the above, Sisal Entertainment S.p.A. is not bound to what is due from its network operators under the 2015 Stability Law and is paying to the related amounts ADM when and to the extent they are collected.

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

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

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

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

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

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

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

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

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

The 2019 Stability Law – Law no. 145/2018 – intervened providing a further variation of the measures for the collection of the single tax on machines referred to in *article 110, paragraph 6, letters a) and b), of the Law on public security, according to Royal Decree no. 773 of June 18, 1931*, already previously modified in 2018 by *article 9, paragraph 6, of Decree Law no. 87 of July 12, 2018*, converted, with modifications, by *Law no. 96 of August 9, 2018*, imposing a further incremental change respectively of 1.35% for machines referred to in letter a) and 1.25% for machines referred to in letter b) from January 1, 2019. The same regulation also required the percentage of the amounts staked earmarked for pay-out to be fixed at no less than 68% and 84% respectively for machines referred to in *article 110, paragraph 6, letter a) and letter b), of Consolidated Law referred to by Royal Decree no. 773 of June 18, 1931*. Technical operations for the adjustments of the percentage of pay-out must be completed within eighteen months from the date the same law came into force.

The same law also envisaged that "In order to apply the regulations of local authorities disciplining the operating timetable of machines referred to by article 110, paragraph 6, letters a) and b), of the Consolidated Law on public security, referred to in *Royal Decree no. 773 of June 18, 1931*, or to monitor the respect and application of the relative measures:

a) from July 1, 2019, the Customs and Monopolies Authority, through SOGEI S.p.A., makes available to local authorities the operating timetable of machines referred to by the quoted *article 110, paragraph 6, letter b), of the Consolidated Law referred to by Royal Decree no. 773 of 1931*; the implementation regulation of this letter shall be established with provision from the Director of the Customs and Monopolies Authority, to be issued within sixty days from the date of application of this law;

b) the technical production specifications of machines referred to by the quoted *article 110, paragraph 6, letter a), of the Consolidated Law referred to by Royal Decree no. 773 of 1931* which allow remote access public gaming, to be issued with Decree of the Ministry of Economy and Finance in pursuant to *article 1, paragraph 943, of Law no. 208 of December 28, 2015*, must include the memorisation, storage and transmission to the remote system of the operating timetable of the same machines. This data is made available to local authorities by the Customs and Monopolies Authority, through SOGEI S.p.A.. The Ministry of Economy and Finance notifies the European Commission of the Decree, pursuant to *Directive (EU) 2015/1535 of the European Parliament and of the Council of September 9, 2015*, within sixty days of the date of application of this law".

Subsequently, on the matter of gaming with cash prizes, Law Decree no. 4 of 28 January 2019, converted into Law no. 26 of 28 March 2019, introduced the following prescriptions with regard to entertainment and leisure equipment:

1. provision of an additional increase in the single tax (PREU) on the equipment per Article 110.6.a), of the consolidated law on public safety, per Royal Decree no. 773 of 18 June 1931, already increased by the 2019 stability law - Law no. 145/2018 and, specifically, bringing the increase prescribed by the aforementioned stability law from 1.35 to 2.00;
2. provision for the release of the distribution authorisations prescribed by Article 38.4 of Law no. 388 of 23 December 2000 - "NOD" - to manufacturers and importers of entertainment equipment and devices per Article 110.6.a), of the consolidated Law on public safety, per Law Decree no. 773 of 18 June 1931, of the payment of an on-off consideration of 100 Euro for each individual device. In addition, solely for the year 2019, the one-off consideration prescribed by Article 24.36 of Law Decree no. 98 of 6 July 2011, converted, with amendments, by Law no. 111 of 15 July 2011, for the release of the "NOEs", was set to Euro 200 for each individual device;

3. solely for the year 2019, increase of the payments by way of single tax of the entertainment apparatuses and devices per Article 110.6 of the consolidated Law on public safety, per Royal Decree no. 773 of 18 June 1931, due as first, second and third advance relating to the sixth two-month period in accordance with Article 39.13-*bis*, of Law Decree no. 269 of 30 September 2003, converted, with amendments, by Law no. 326 of 24 November 2003 and of Article 6 of directorate decree of 1 July 2010, published in the Official Journal no. 169 of 22 July 2010, in the proportion of 10 percent each; the fourth payment, due by way of settlement, is reduced by the payments made as advances, inclusive of said increases.

The Group's concessionary company has initiated the activities necessary to implement the adjustments required by the regulations in the times and manner indicated.

Horse-racing and sports betting concession

- In reference to betting concessions that ended on June 30, 2016, and later extended by the ADM by notices with protocol numbers 54917 of June 9, 2016 and 58554 of June 20, 2016, through Italian Law no. 205 of December 27, 2017, and lastly with Law 145 of December 30, 2018, in order to comply with the principles according to which public concessions are awarded on the basis of competitive selection procedures with the need to achieve a correct distribution structure, in relation to betting concessions for sports events, including horse racing, and non-sporting events, including simulated events, also following the understanding reached at the unified Conference, the Customs and Monopolies Authority was appointed to award the related concessions, by a tender to be launched by September 30, 2019, under the conditions already envisaged in art. 1, paragraph 932 of Italian Law no. 208 of December 28, 2015. To this end, the existing concessions were extended to December 31, 2019, against payment of the annual fee of Euros 6,000.00 relating to the points of sale whose core business is the marketing of public gaming products and Euros 3,500.00 covering all fees for points of sale whose accessory business is the marketing of public gaming products. In implementation of the aforementioned legal provision, in 2019 Sisal Entertainment S.p.A. arranged the renewal of 467 points of sale whose core business is the marketing of public gaming products and 1,475 points of sale whose accessory business is the marketing of public gaming products.

The 2019 Stability Law - Law no. 145/2018 - also established that “from January 1, 2019, the single tax pursuant to *Legislative Decree no. 504 of December 23, 1998*, is fixed as follows:

a) for remote skilled games with pay-out in cash and remote bingo games, at 25% of the amounts that, on the basis of the game regulation, are not returned to players;

b) for fixed-odd betting, excluding horse betting, at 20%, if collection is made through the retail network, and at 24%, if collection is made remotely, applied to the difference between amounts staked and corresponding pay-outs;

c) for fixed-odd bets on simulated events referred to in *article 1, paragraph 88, of Law no. 296 of December 27, 2006*, at 22% of collection net of the amounts that, on the basis of the game regulation, are not returned to players in pay-outs".

The company has made the necessary adjustments to adapt to the regulation.

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

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

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

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

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

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

Again in reference to the horse-race betting concessions, by writ of summons dated August 3, 2017, Sisal Entertainment S.p.A. began dispute proceedings against the ADM claiming compensation for damages resulting from breach by the awarding authority of obligations arising from concession agreement relations, particularly regarding the failure to implement and in any event late implementation of all types of bets, the failure to issue and/or late issue of regulatory provisions for the acceptance of online bets by the concessionaire, failure to protect the betting market from illegal and online activities and in any event the failure of the awarding authority to consolidate and maintain the market conditions promised in the concession agreement. With regard to this judgement, a hearing has been set on May 5, 2020 for the specification of conclusions.

Sisal Entertainment S.p.A. provided a timely response to the request for minimum horse-race betting payments sent in 2018 and also at the beginning of 2019 by ADM to concession holders of "historical" concessions, noting the challenged decision of the Rome Civil Tribunal and contesting the legitimacy of this payment request.

With note of January 23, 2018, Sisal Entertainment communicated to the Betting and Sport Tote Game Office, Central Management of Taxes and Games Monopoly of ADM, to have paid, in compliance with current provisions on concessions and regulatory provisions of art. 1, paragraph 1048, of Law no. 205 of December 27, 2017, the concession fees due for the current half year, solely for rights active as at December 31, 2017, for which the gaming collection activity continues for 2018. In the circumstances, Sisal represented not to have made payments "*for fees relating to concessions 4300 and 4802, having partially used in compensation the respective credit amount due; however, further residual credits, for Euros 1,042,848.17 relative to concession 4300 and of Euros 179,334.53 relative to concession 4802, remain.* This communication was followed up by the response of the above-mentioned Office, with note R.U. no. 50383 of March 22, 2018, according to which there is no "*credit right for concessionaries with fees due over one percent of the net change in the previous year*". Therefore, according to the Betting Office's interpretation, it is not allowed, pursuant to the agreement, to "*use the countervailable amount not used in the first half year for lack of capacity of due fees in periods subsequent to those identified by the agreements".* With the consequence that, so the above-mentioned note specifies, "*the countervailable amount in January not used because of insufficient or absence of due fees"* is cancelled. This is so because the countervailable amount does not refer "*to the amounts actually paid and therefore representing an excess of payment identified as usable credit*"; it is in fact "*an amount that refers to fees due and these are assessed and adjusted to exclusively reduce the fee for the first half of the following year".* ADM in fact believes that fees paid by concessionaries to the same ADM in relation to such agreements must not necessarily be the same or less of an amount corresponding to 1% of the annual turnover of the concessionary. Sisal interprets this in a different way, by attributing to the 1%, identified by the text of the agreement, the maximum amount attributable to the annual value of concession fees. In order to see its theory recognised, SISAL made recourse to the Lazio Regional Administrative

Tribunal against ADM’s above-mentioned note. With regard to these proceedings, the initial hearing is still pending.

National agreement on instant-win scratch cards (Gratta &Vinci)

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

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

In view of the above, opposing the aforementioned extension, Sisal S.p.A. filed a specific appeal with the Lazio Regional Administrative Tribunal. At the end of the merits hearing, the Regional Administrative Tribunal rejected the appeal with decision published on October 4, 2018. Believing this decision to be inadequate and in some ways illogical, Sisal appealed against this decision to the State Council, which scheduled a hearing for the related discussion on June 20, 2019.

Other disputes and proceedings in progress

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

With reference to litigations, extensively covered in the financial statement disclosures of previous years, deriving from the access to the premises of Sisal S.p.A. in May 2010 by the Milan Tax Police Unit, Complex Audits Division 2, and the subsequent audit by the Tax Revenues Agency - Lombardy Regional Department, Large Taxpayers Office that began in September 2015 and mainly involving the claim of alleged non-deductibility of finance expenses deriving from leveraged buy-out transactions which affected the Group in the period 2005-2006, after several formal attempts to define/settle the above-mentioned findings (issued for the total value of around Euros 45 million in taxes and penalties in addition to interests) and to follow up the activation of relative disputes through the filing of appeals with the competent Tax Courts, it should be noted that the matter was definitely concluded with a settlement agreement reached in 2017.

With reference to the claim, on the other hand, raised by the aforementioned Tax Revenues Agency audit, of non-deductibility of VAT, which triggered notices of findings for the three-year period 2010-2012 for a total of approximately Euros 8.2 million in taxes and penalties, after unsuccessfully attempting to reach a settlement agreement, Sisal S.p.A. filed related appeals and the initial hearing in relation to the years 2010-2012 is scheduled for May 2019. At year end the company was notified of a further assessment notice relating to the same question with regard to the year 2013 and in the meantime, contact continues with the Tax Revenues Agency which is, to our knowledge, in turn reviewing the whole issue internally with the involvement of the Central Directorate itself.

As regards further tax disputes triggered by the 2010 tax inspection of Sisal Entertainment S.p.A. by officials from the Tax Revenues Agency - Lombardy Regional Department, Large Taxpayers Office, extensively illustrated in the financial statements for the preceding years, which relate to the allegedly unlawful deduction in the period in question and subsequent periods of allegedly excessive amounts of depreciation on “Paragraph 6” gaming machines, due to the use of a fiscal depreciation rate (20%) considered inappropriate by the inspectors, the current situation was finally defined by the company during 2017 through “scrapping” and at the start of 2018 also by a settlement on all years in questions up to and including 2012; furthermore, in December 2018, the Company also received an assessment notice relative to the year 2013 (including the challenge of minor taxes paid of Euros 340 thousand in addition to fines and interests) against which the Company has put forward a settlement proposal at the beginning of 2019, a process which is still pending. Furthermore, still at the beginning of 2019, the company Sisal Entertainment S.p.A., with the support of its consultants, filed a technical file with the MEF – Tax Legislation Directorate – in order to definitely clarify the issue and receive confirmation of the correctness of its actions.

Moreover, in November 2014, assessments were begun at the Parent, Sisal S.p.A. and Sisal Entertainment S.p.A. by the Financial Intelligence Unit of Bank of Italy (UIF) pursuant to art. 47 and 53, paragraph 4 of Legislative Decree 231/2007, to verify compliance with the provisions concerning anti-money laundering and anti-terrorism financing, in respect of reports of suspect transactions. The company functions involved offered the maximum collaboration to the UIF officers who concluded the inspection phase at the company in February 2015. After completion of the inspection activities, the UIF issued a final report indicating areas for improvement of operations, of which interested parties were promptly informed and reviews undertaken. At the same time, 5 positions were notified for which, according to the tax authority, suspicious transaction reports considered due in relation to the circumstances of the cases in question were either delayed or not issued. With respect to the penalty proceedings, the Group companies promptly arranged the filing of deductive pleadings by the legal deadlines, requesting a hearing in order to further discuss the reasons for failure to submit suspicious transaction reports.

Lastly, in 2018, partially upholding defence briefs prepared, the MEF has reduced the penalties previously set at 40% of the settlement amount to 10% of the same amount for an overall countervalue of around Euros 150 thousand promptly paid at year end.

With regard to relationships with the Supervisory Authority of the Group Payment Institute, it is also opportune to note that in September 2018 an inspection by Bank of Italy was started of the Destined Assets activities carried out within the Company; the inspection was of a general nature but also focused on the profiles of new operations for which the Company was recently authorised and those implementing the new PSD2 regulation whose best operating guidelines the Company has assiduously worked to conform to. The inspection was concluded in December 2018 and the final report has not yet been presented to the Company, but the inspection team, at the end of the activities, shared the outcomes of the inspection with the management which has already been active on the areas for improvement identified.

Lastly, note the dispute pending with INPS arising from the dispute concerning an assessment report of the social security institution in relation to the legal grading of employees used by Sisal Entertainment S.p.A. to carry out business activities. The Injunction Order served following the audit was appealed against before the competent Court with the aim of clarifying the fairness of the company’s actions. On October 30, 2018 the Milan Tribunal ruled on the company's position rejecting the appeal filed and substantially accepting the Institute’s request. Sisal Entertainment S.p.A. will lodge an appeal by April 29, 2019. It is specified that this dispute and relative position relates only to national contributions.

6. Business combinations

2018

At the start of 2018, the acquisition of a business unit of the Turin-based company Gionet S.r.l. was completed; the business unit produces and markets cash-management software and it allows to integrate the cash register functionality in the new SisalPay terminals, in line with the strategy to expand the range of the services rendered by the Group in this business line. The transaction took place on the basis of a price of 100 thousand Euro already paid as an advance upon executing the agreement (December 2017) in addition to a variable price component subject to earn out mechanism up to a maximum of 950 thousand Euro, to be paid upon attainment of the business targets defined by the parties.

In October 2018, the group company Sisal Entertainment S.p.A. completed the acquisition from the company Flash Bet S.r.l. of a business unit that collects bets on horse races and sports for a price of 450 thousand Euro, of which 250 thousand Euro were already paid during the year. The business unit mainly comprises rights for horse racing and sports-related bets and the related agreements in force with the points of sale. The transaction entail the recognition of intangible assets “Concessions, licences, trademarks and similar rights”, for Euro 450 thousand.

2017

There were no business combinations during the 2017 financial year.

7. Operating segments

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

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

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

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

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

The four operating segments are described as follows:

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

- ***Lottery*** is responsible for operating the exclusive concession for national tote number games (“NTNG”), of which the most popular products are SuperEnalotto, WinForLife, SiVinceTutto and EuroJackpot. The NTNG games are managed through the Branded and Affiliated Channels as well as the Group’s web portals and 13 online games portals operated by third parties and connected to the Group’s NTNG online platform. The Lottery segment also manages the points of sale of the Affiliated Channel that are not managed by the Retail Gaming segment.

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

- **"*Payments and Services*"**: is responsible for the management of: *(i)* payment of bills, utilities, fines, taxes, subscriptions etc.; *(ii)* top-up of prepaid debit cards; *(iii)* mobile phone top-ups and pay-for-view TV cards and also *(iv)* marketing of some products such as gadgets and mini-toys. The operating segment distributes the products and services of the Group through both the Branded and Affiliated Channels - the latter also including the 10,527 Service Only points of sale as at December 31, 2018 - through the web portal sisalpay.it.

The following tables illustrate: i) Revenues and income; ii) Revenues and income net of revenues paid back to the revenue chain; and iii) EBITDA of the operating segments identified according to the change in the management and monitoring of the Group's business for the years ended December 31, 2018 and 2017:

	Year ended December 31			
	2018		2017	
(in Euros thousands)	**Revenues and income**	**EBITDA**	**Revenues and income**	**EBITDA**
Retail Gaming				
Revenues	292,037		282,695	
Supply chain/other revenues	185,254		196,133	
Total	**477,291**	**84,460**	**478,828**	**74,834**
Lottery				
Revenues	97,382		95,536	
Supply chain/other revenues	(4,614)		436	
Total	**92,768**	**48,529**	**95,972**	**42,292**
Online Gaming				
Revenues	107,095		88,970	
Supply chain/other revenues	(24,032)		(16,539)	
Total	**83,063**	**36,989**	**72,431**	**31,164**
Payments and Services				
Revenues	113,085		109,799	
Supply chain/other revenues	77,737		73,283	
Total	**190,822**	**66,232**	**183,082**	**68,750**
Other revenues	**1,430**		**1,669**	
Total Revenues/adj. EBITDA of the operating segments	**845,374**	**236,210**	**831,983**	**217,040**

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

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

Starting from 1 January 2019, the Group also manages, through the newly established company Sisal Loterie Maroc S.a.r.l, public gaming in Morocco as a result of the award of the related convention of the total duration of 10 years.

In 2018, since actual management has not yet started, this new business line is not an operating segment. The costs incurred, mainly connected with the start-up activities of the technological, commercial and organisational set-up, necessary for the operational start of the concession activities, are included under "net non-recurring expenses" and "items with different classification".

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

(in Euros thousands)	2018	2017
Total operating segments	**236,210**	**217,040**
Net non-recurring expenses	(5,555)	(1,850)
Items with different classification	(2,812)	(1,914)
One-off NTNG amortization	(4,870)	0
Amortization of intangible assets	(67,211)	(65,624)
Depreciation of property, plant and equipment	(33,168)	(33,672)
Other impairment losses on fixed assets	0	(157)
Impairment losses on current assets	(13,794)	(13,395)
Operating profit (loss), EBIT	**108,800**	**100,428**

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

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

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

8. Revenues

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	2018	2017
Gaming and betting revenues	489,692	491,781
One-off NTNG amortization	(4,870)	-
Payments and other services revenues	149,957	143,525
Points of sale revenues	84,892	84,062
Revenues from third parties	4,490	5,254
Total	**724,161**	**724,622**

Gaming and betting revenues are analysed as follows:

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
NTNG	60,216	58,454
Gaming machines	351,574	358,731
Horse-race betting	6,041	7,131
Big bets revenues	9	14
Virtual races revenues	27,104	27,093
Sports pools	275	385
Online game	44,473	39,973
Total	**489,692**	**491,781**

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

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

Group revenues are essentially achieved in Italy.

9. Fixed-odds betting income

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Fixed-odds sports betting income	110,799	100,894
Fixed-odds horse-race betting income	3,016	1,751
Reference horse-race betting income	231	328
Total	**114,046**	**102,973**

10. Other income

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Income arising from changes in estimates	6,509	3,976
Other sundry income	658	412
Total	**7,167**	**4,388**

11. Purchases of materials, consumables and merchandise

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Gaming materials purchases	6,191	5,828
Spare parts purchases	3,379	4,592
Sundry materials purchases	3,188	3,309
Warehousing	211	152
Change in inventories	(725)	537
Total	**12,244**	**14,418**

12. Costs for services

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Marketing and commercial expenses	26,909	26,013
Other commercial initiatives	6,126	5,557
Other commercial services	1,342	1,799
Commercial services	**34,377**	**33,369**
Sales channel - Gaming	243,397	248,650
Sales channel – Payment services	77,529	73,313
Consulting	13,485	12,646
Other	86,893	87,756
Other services	**421,304**	**422,365**
Total	**455,681**	**455,734**

It is noted that the fees paid to the audit firm for audit of the annual financial statements of the Parent (included in these consolidated financial statements and some non-recurring activities) amount to (net of VAT) approximately Euros 496 thousand (Euros 559 thousand in 2017). In addition, fees paid to the audit firm for auditing procedures of a recurring nature carried out principally in connection with the various obligations required for the NTNG concession amount to Euros 62 thousand.

It is also noted that the compensation due to the statutory auditors of the Parent for carrying out their functions, also in other consolidated companies, amounts to a total of Euros 241 thousand.

13. Lease and rent expenses

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Building leases	18,902	18,269
Other rentals and operating leases	3,653	4,004
Total	**22,555**	**22,273**

14. Personnel costs

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Salaries and wages	63,900	62,136
Social security contributions	21,844	19,807
Employee severance indemnities	5,199	4,806
Other personnel costs	782	1,205
Total	**91,725**	**87,954**

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

	Year ended December 31	
Number of employees	**2018**	**2017**
Executives	47	42
Management staff	147	136
White-collar	1,645	1,553
Blue-collar	70	65
Total	**1,909**	**1,796**

15. Other operating costs

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Other taxes and duties	3,145	2,767
Gifts and donations	1,309	945
Gaming concession fees	20,984	20,488
Sundry operating costs	13,066	12,164
Total	**38,504**	**36,364**

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

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

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Amortization of intangible assets	67,211	65,624
Depreciation of property, plant and equipment	33,168	33,672
Other impairment losses on fixed assets	-	157
Impairment losses on current assets	13,426	13,395
Allocations and releases to provisions for risks and charges	2,060	1,964
Total	**115,865**	**114,812**

Amortization of intangible assets includes Euros 23,944 thousand (Euros 15,410 thousand in 2017) as the higher amortization deriving from the purchase price allocation procedure carried out in 2017, partially offset by the reclassification of the portion attributable to the exercise of the upfront fee of the NTNG concession following to the adoption of the IFRS 15 principle mentioned above for Euros 4,870 thousand.

17. Finance income and similar

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Finance income bank accounts	9	11
Finance income guarantee deposits	7	81
Other finance income	9	106
Total	**25**	**198**

18. Finance expenses and similar

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Interest and other finance expenses - third parties	56,620	57,212
Exchange gains/losses realized	11	(26)
Exchange gains/losses unrealized	55	(1)
Total	**56,686**	**57,185**

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

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

At December 31, 2018, charges of Euros 600 thousand were recorded.

The Parent retains an indirect interest in the associate Sistema S.r.l. through the subsidiary Sisal Entertainment S.p.A. which, given the results and difficulties encountered in recent years, had already recorded an impairment loss for the residual value of the investment in the company in question in the previous year. The charge for the year is related to the commitment to cover losses of the related entity in function of the economic results and the financial situation of the same at December 31, 2018.

19. Income taxes

Income taxes comprise the following:

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Current taxes	24,909	25,093
Current income tax relating to prior years	(587)	(1,343)
Deferred tax assets and liabilities	(9,182)	(7,015)
Deferred tax assets related to prior years	(44)	(669)
Total	**15,096**	**16,066**

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

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Profit (loss) before income taxes	51,540	43,392
Nominal tax rate	24%	24%
Theoretical tax using the nominal tax rate	12,370	10,414
Dividend income	(171)	-
40% super-depreciation of property, plant and equipment	(1,433)	(885)
Aid to economic growth (ACE)	(400)	-
Prepaid taxes not recorded on tax losses	-	3,389
Other changes	1,061	872
IRES tax	**11,427**	**13,790**
IRAP tax	**4,299**	**4,288**
Current and deferred income tax adjustments related to prior year	(630)	**(2,012)**
Total effective tax expense	**15,096**	**16,066**

20. Earnings per share

The calculation of earnings per share is presented in the table below, comparing the Sisal Group at December 31, 2018 compared to December 31, 2017:

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Number of shares outstanding (in thousands)	102,500	102,500
Profit (loss) attributable to owners of the parent	36,363	27,249
Basic gain (loss) per share (in Euro)	0.35	0.27
Diluted gain (loss) per share (in Euro)	0.35	0.27

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

21. Property, plant and equipment

The composition and changes in this item are as follows:

(in Euros thousands)	January 1, 2018	Investments	Depreciation, amortization and impairment losses	Disinvestments	Reclassifications	December 31, 2018
Land and buildings:						
Original cost	50,152	3,670	-	(1,774)	-	52,047
Accumulated depreciation	(28,030)	-	(3,616)	1,756	-	(29,890)
Impairment losses	-	-	-	-	-	-
Net book value	**22,122**	**3,670**	**(3,616)**	**(18)**	**-**	**22,157**
Plant and equipment:						
Original cost	35,618	4,978	-	(2,214)	-	38,383
Accumulated depreciation	(27,935)	-	(2,875)	2,189	-	(28,621)
Impairment losses	(1)	-	-	-	-	(1)
Net book value	**7,683**	**4,978**	**(2,875)**	**(25)**	**-**	**9,761**
Industrial equipment:						
Original cost	359,717	34,604	-	(20,469)	-	373,852
Accumulated depreciation	(300,434)	-	(24,247)	19,376	-	(305,304)
Impairment losses	(1,744)	-	-	1,026	-	(719)
Net book value	**57,539**	**34,604**	**(24,247)**	**(67)**	**-**	**67,829**
Other assets:						
Original cost	33,581	2,309	-	(12,227)	-	23,664
Accumulated depreciation	(24,196)	-	(2,430)	12,100	-	(14,526)
Impairment losses	(152)	-	-	7	-	(145)
Net book value	**9,233**	**2,309**	**(2,430)**	**(120)**	**-**	**8,993**
Property, plant and equipment under construction:						
Original cost	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Net book value	**-**	**-**	**-**	**-**	**-**	**-**
Total:						
Original cost	479,069	45,561	-	(36,684)	-	487,945
Accumulated depreciation	(380,594)	-	(33,168)	35,421	-	(378,341)
Impairment losses	(1,898)	-	-	1,033	-	(865)
Net book value	**96,577**	**45,561**	**(33,168)**	**(230)**	**-**	**108,740**

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

"*Industrial and commercial equipment*" includes assets under finance leases whose net value was Euros 680 thousand (Euros 1,762 thousand at December 31, 2017).

2018

Investments made in 2018 totalled approximately Euros 45.6 million and regard mainly:

- investments in gaming and services equipment for approximately Euros 20.6 million;
- investments in hardware for the management of business operations for approximately Euros 8.9 million;
- investments in plant, furniture and restructuring work of offices and points of sale of around Euros 11 million;
- investments in gaming machines for approximately Euros 5.3 million.

2017

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

- investments in gaming and services equipment for approximately Euros 16.6 million;
- investments in hardware for the management of business operations for approximately Euros 6.6 million;

- investments in plant, furniture and restructuring work of offices and points of sale of around Euros 5.2 million;
- investments in gaming machines for Euros 10.3 million.

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

Information on outstanding finance leases at December 31, 2018 and 2017 is reported in the following table:

(in Euros thousands)	**Net book value at December 31, 2018**	**Leasing instalments 2018**	**Residual Debt at December 31, 2018**	**Residual leasing instalments at December 31, 2018**
POS G.T. (Industrial equipment)	300	-	-	-
HW (Industrial equipment)	45	104	30	34
POS G.T. (Industrial equipment)	335	-	-	-
Total	**680**	**104**	**30**	**34**

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

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

22. Goodwill

At December 31, 2018, goodwill amounted to Euros 569,275 thousand, calculated following the acquisition of Sisal Group S.p.A., finalized on December 14, 2016 for a total of Euros 459 million.

The Group is currently organized into four operating segments: Retail Gaming, Lottery, Online Gaming and Payments and Services.

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

In particular:

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

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

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

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

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

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

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

As is highlighted in Note 7, starting from 1 January 2019, the Group also manages, through the newly established company Sisal Loterie Maroc S.a.r.l., public gaming in Morocco as a result of the award of the related convention of the total duration of 10 years. In 2018, the necessary investments connected with the start-up activities of the technological, commercial and organisational set-up, required for the operational start of the concession activities, were made.

This new business line is a CGU but has no associated goodwill.

Goodwill at December 31, 2018 is allocated to the different operating segments as follows:

	At December 31,
(in Euros thousands)	**2018**
Retail Gaming	120,256
o/w: Retail	*74,281*
Network	*39,963*
Providing	*6,012*
Lottery	50,138
Online Gaming	90,502
Payments and Services	308,379
Total	**569,275**

The value of Goodwill, in line with the requirements of the relevant accounting standards, was subjected to an impairment test. The cash flows were measured to determine the recoverable value, equal to the value in use of the CGUs identified by applying the discounted cash flows method.

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

The growth rate used to estimate cash flows beyond the explicit projected period was determined on the basis of market data and information available to Company management according to reasonable projections of estimated sector growth in the long term and is equal to 0% in line with last year financial statements.

The rate used to discount cash flows to present value is equal to a WACC of 7.8% (7,7% at December 31, 2017), derived from the weighted average cost of capital of 10.6% (inclusive of a Market Risk Premium of 9.0%) and the after-tax cost of debt of 5.1%. These assumptions were applied indiscriminately to each CGU.

As already highlighted in note 2.2 "Going Concern" the company Sisal S.p.A. is participating in the procedure relating to the exclusive management of the NTNG concession. The Group, strengthened by the multi-year success story in the management of the products in question, believes it has all the credentials to win the future concession. Therefore, the cash flow projections considered in the impairment exercise of the "Lottery" cash generating unit envisage the assumption of maintaining the management of the games and products related to this concession. In addition to the goodwill of Euros 50 million, the Lottery CGU also includes other intangible assets, in particular the valuation of the concession for a net residual value of approximately Euros 34 million.

The recoverable amount of the operating segments at December 31, 2018, is higher than the relative carrying amount.

23. Intangible assets

The composition and changes in this item are as follows:

(in Euros thousands)	January 1, 2018	Effect of IFRS 15 application	Investments	Depreciation and amortization and impairment losses	Disinvestments	December 31, 2018
Industrial patents and intellectual property rights:						
Original cost	94,289	-	33,923	-	(8,667)	119,545
Depreciation and amortisation fund	(76,977)	-	-	(19,749)	8,654	(88,071)
Impairment losses	(6)	-	-	-	6	-
Net value	**17,306**	**-**	**33,923**	**(19,749)**	**(6)**	**31,474**
Concessions, licences, trademarks and similar rights:						
Original cost	879,346	(101,500)	12,704	-	(9,563)	780,986
Depreciation and amortisation fund	(499,072)	95,861	-	(34,332)	9,515	(428,028)
Impairment losses	(47,667)	-	-	-	-	(47,667)
Net value	**332,607**	**(5,639)**	**12,704**	**(34,332)**	**(48)**	**305,291**
Other intangible assets:						
Original cost	225,039	-	2,200	-	(1,356)	225,884
Depreciation and amortisation fund	(53,924)	-	-	(13,131)	1,350	(65,705)
Impairment losses	-	-	-	-	-	-
Net value	**171,115**	**-**	**2,200**	**(13,131)**	**(6)**	**160,179**
Intangible assets in progress and advances:						
Original cost	522	-	183	-	(127)	579
Depreciation and amortisation fund	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Net value	**522**	**-**	**183**	**-**	**(127)**	**579**
Total:						
Original cost	1,199,196	(101,500)	49,010	-	(19,712)	1,126,995
Depreciation and amortisation fund	(629,973)	95,861	-	(67,212)	19,519	(581,804)
Impairment losses	(47,673)	-	-	-	6	(47,667)
Net value	**521,550**	**(5,639)**	**49,010**	**(67,212)**	**(187)**	**497,523**

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

Concessions reflects the reclassification under *other non-current assets* of the net book value as at December 31, 2017 relative to the one-off payment made by Sisal S.p.A. for the award of the NTNG concession about to expire, in compliance with the already mentioned new accounting standard IFRS15.

2018

In 2018, investments in intangible assets amounted to approximately Euros 49 million, composed mainly as follows:

- Purchase and development of software for the management of business operations for approximately Euros 25.4 million;
- acquisition and renewal of concession rights mainly in relation to horse-race and sport betting for approximately Euros 8.4 million;
- purchase of software user licenses for approximately Euros 3.8 million;
- internal capitalization of new software applications for around Euros 8.5 million.

The increases also include, in the "Concessions, Licenses, Trademarks and similar rights" line, the accounting effects of the acquisition of the Flashbet branch consisting mainly of rights for horse and sports games and the related contracts in force with the points of sales for a value of Euros 450 thousand and in the line "Industrial patent and intellectual property rights", the accounting effects of the acquisition of the Gionet branch for a value of Euros 271 thousand.

2017:

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

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

24. Deferred tax assets and liabilities

This item can be broken down as follows:

	At December 31	
(in Euros thousands)	**2018**	**2017**
Deferred tax assets	**17,515**	**13,596**
Deferred tax liabilities	**(127,636)**	**(132,915)**
Net amount	**(110,121)**	**(119,319)**

Net changes in this item are as follows:

	Deferred tax assets and liabilities
(in Euros thousands)	
At December 31, 2016	**(117,502)**
Charge/release to income statement	7,684
Charge/release to statement of comprehensive income	35
Use of losses for tax consolidation	(9,536)
At December 31, 2017	**(119,319)**
Charge/release to income statement	9,233
Charge/release to statement of comprehensive income	(35)
At December 31, 2018	**(110,121)**

Deferred tax assets are summarized in the following table:

	At December 31			
(in Euros thousands)	**2018**		**2017**	
	Temporary differences (Amount)	Tax effect	Temporary differences (Amount)	Tax effect
Allocation to provision for impairment of receivables	51,166	12,280	49,378	11,851
Allocation to provision for risks and charges	14,614	4,028	13,843	3,776
Severance indemnity discounted and deducted out of books	4,405	194	1,917	460
Depreciation and amortization	15,687	4,018	12,565	3,269
Other temporary differences	5,386	1,431	3,963	951
Total deferred tax assets	**91,258**	**21,951**	**81,666**	**20,307**
Amount offset against deferred tax liabilities	(21,460)	(4,436)	(26,217)	(6,711)
Total deferred tax assets	**69,798**	**17,515**	**55,449**	**13,596**
Tax losses for which deferred tax assets have not been recorded	38,587	9,261	38,587	9,261

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

Tax losses excluded from deferred tax asset computation refer mainly to the tax losses recorded by the former Parent, Schumann S.p.A., before the completion of the reverse merger in the Company. Following the merger between Schumann S.p.A. and the Company, the latter applied for a ruling from the relevant Central Division of the Tax Revenues Agency to obtain recognition of all the losses; the competent Tax Revenues Agency, with the reply provided to the ruling request, recognised the tax relevance of the aforementioned losses, but their non-portability within the tax consolidation of which the Company is the consolidating entity and therefore, it was prudentially decided not to recognise deferred tax assets.

To this value are added Euro 2,014 thousand, already existing at December 31, 2016, relating to the tax losses of the year ended at 31 October 2006, preceding the establishment of the tax consolidation with the Company in the capacity of consolidating entity, for which it was not deemed advisable to allocate deferred tax assets in relation to the probability, insofar as it is currently known, of realising future taxable income in view of which the aforesaid temporary deductible difference can be used.

Deferred tax liabilities are summarized in the following table:

	At December 31			
(in Euros thousands)	**2018**		**2017**	
	Temporary differences (Amount)	Tax effect	Temporary differences (Amount)	Tax effect
Amortization/depreciation deducted out of books	32,771	9,242	33,650	9,489
Business combinations	435,260	122,743	461,250	130,073
Other temporary differences	310	86	265	64
Total deferred tax liabilities	**468,341**	**132,071**	**495,165**	**139,626**
Amount offset against deferred tax assets	(21,460)	(4,436)	(26,217)	(6,711)
Total deferred tax liabilities	**446,882**	**127,636**	**468,948**	**132,915**

25. Other non-current assets

The item totals approximately to Euro 20,844 thousand (Euro 22,713 thousand at December 31, 2017) and mainly comprises receivables from tax authorities requested for refund, i.e. Euro 14,965 thousand of which in particular VAT receivables relating to the years 2008 and 2007 (respectively equal to Euro 6,305 thousand and Euro 100 thousand, net of the partial refund that took place during the year, i.e. Euro 3,800 thousand.

The item also includes Euros 2,280 thousand related to the valorisation of certain guarantees provided by previous shareholders in the acquisition process as well as the reclassification related to the application of the new accounting standard IFRS 15 already mentioned in paragraph 2.6 of these notes to the financial statements for Euros 769 thousand.

26. Inventories

This item is composed as follows:

	At December 31	
(in Euros thousands)	**2018**	**2017**
Play slips	363	315
Rolls of paper for gaming terminals	951	681
VLT tickets	13	9
Spare parts (repairs)	3,365	3,116
Spare parts (consumables)	1,329	1,343
Food & Beverage	4	42
Materials, auxiliaries and consumables	**6,025**	**5,506**
Top-up and scratch cards	194	315
Virtual top-ups	5,541	4,197
Mini-toys	-	5
Finished gaming machines inventory	-	1
Finished gaming machines and merchandise	**5,735**	**4,518**
Total	**11,760**	**10,024**

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

(in Euros thousands)	**Provision for inventory obsolescence**
December 31, 2016	**3,597**
Net provisions	(749)
Usage	732
December 31, 2017	**3,580**
Net provisions	262
Usage	(605)
December 31, 2018	**3,237**

27. Trade receivables

This item is composed as follows:

	At December 31	
(in Euros thousands)	**2018**	**2017**
Receivables from points of sale	120,371	148,529
Trade receivables from gaming machines network	13,774	18,150
Trade receivables from betting agencies	4,218	6,110
Trade receivables from third parties	3,772	3,830
Other trade receivables from third parties	384	473
Doubtful receivables	79,060	72,879
Provision for impairment of trade receivables	(76,050)	(68,630)
Total	**145,529**	**181,341**

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

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

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

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

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

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

(in Euros thousands)	**Provision for impairment of trade receivables from gaming machines network**
December 31, 2016	**(69,394)**
Net provisions	(13,324)
Usage	14,088
December 31, 2017	**(68,630)**
Net provisions	(13,712)
Usage	6,292
December 31, 2018	**(76,050)**

The increases recorded in 2018 and 2017 reflect the trend in debtor insolvency (particularly with reference to the outlet points of sale). The decrease in the periods under review refers mainly to the write-off of doubtful positions no longer considered recoverable.

28. Current financial assets

There is no balance for this item in either 2018 or 2017.

29. Taxes receivable

This item is composed as follows:

	At December 31	
(in Euros thousands)	**2018**	**2017**
Receivables for IRES tax from tax authorities	14	113
Receivables for IRAP tax from tax authorities	63	155
Total	**77**	**268**

Receivables for IRES and IRAP taxes from Tax Authorities are shown net of advance payments made during the year and reflect, respectively, the receivable positions of Acme S.r.l. for IRES taxes and Sisal S.p.A. for IRAP taxes.

30. Restricted bank deposits

Restricted bank deposits mainly include the balances of the accounts for the payment of winnings, including the amounts deposited for the special winnings of the Vinci per la Vita – Win for Life games and for the so-called SuperStar Reserve Fund which comprises the difference between the prize money available and the winnings payable calculated for each single game, in addition to the bank balances of the deposits made by the Group's online game players and the restricted bank deposits deriving from funds received from customers in compliance with the so-called PSD2 directive, in relation to services rendered by the Parent in its role of Payment Institute.

These deposits are managed by the Group but their use is restricted to payment of the cumulative winnings on the relative games and the payment of any winnings from online games as well as the liquidation of payables to so-called service partners.

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

31. Cash and cash equivalents

This item is composed as follows:

	At December 31	
(in Euros thousands)	**2018**	**2017**
Bank and postal accounts	248,738	203,768
Cash and cash equivalents in hand	6,154	7,634
Total	**254,892**	**211,402**

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

32. Other current assets

This item is composed as follows:

	At December 31	
(in Euros thousands)	**2018**	**2017**
Receivables from the Public Administration	33,103	29,365
Other receivables from tax authorities	7,947	2,016
Prepaid expenses	6,518	2,717
Other receivables from third parties	13,098	11,238
Other receivables from employees	469	449
Provision for impairment of other receivables	(107)	(102)
Total	**61,028**	**45,683**

Other receivables from third parties, equal to Euros 13,098 thousand (Euros 11,238 thousand at December 31, 2017), mainly include Euros 6,767 thousand for the policy activated by the company in relation to national tote numerical games, so-called Win for life Vinci Casa, launched in July 2014.

The item also includes payments on account made, amounting to Euro 1,910 thousand for acquisitions of certain companies, still being completed. In particular:
- Euro 1,410 thousand as advance payment made by Sisal Entertainment S.p.A. for the acquisition of the company Elmea S.r.l., the transfer of show control is subordinated to certain conditions precedent. The acquisition was completed in the early months of 2019.
- Euro 1,500 thousand as an advance payment made by Sisal Group S.p.A. for the acquisition of the company Qui Financial Services S.p.A. In December 2018 the Company, within the corporate project for the reorganisation of the payment services, participated in the public tender for the acquisition of the majority investment of the company IMEL Qui Financial Services S.p.A. owned mainly by the Qui! Group S.p.A. bankruptcy., for a total number of shares of 1,197,859 representing 98.23% of the share capital. The Company was provisionally awarded the tender for a price, already paid upon awarding the contract, of Euro 1.5 million; subsequently, the currently ongoing authorisation procedure with the Bank of Italy, necessary for the completion of the acquisition, was initiated.

Receivables from the Public Administration are mainly composed of receivables for security deposits with the AAMS, under the concessions relating to collections from legal gaming through gaming machines, equal to Euros 23,682 thousand (Euros 20,744 thousand at December 31, 2017).

Other receivables from tax authorities mainly refer to receivables for VAT totalling Euros 7,900 thousand (Euros 1,620 thousand at December 31, 2017).

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

33. Equity

Share capital

The share capital of the Company at December 31, 2018, fully subscribed and paid-in, is composed of 102,500,000 ordinary shares of par value Euro 1 each.

Non-controlling interests

The minority interests are tied to the presence, in the composition of the share capital of the subsidiary Sisal S.p.A., of preferred shares held by outlets and former outlets thereof.

In early 2018, the Group started a reacquisition operation that will be completed in 2019 with the exercise of the option to redeem the residual preferred shares not yet bought back on the basis of the option granted in this sense by the Bylaws of the subsidiary.

34. Long-term debt

Long-term debt of the Group at December 31, 2018 and 2017, shown net of transaction charges in accordance with IFRS, is presented as follows:

	At December 31	
(in Euros thousands)	**2018**	**2017**
Super Senior Revolving Facility	**38,217**	**35,272**
Senior Secured Notes	**719,116**	**714,867**
Loans from other banks	-	273
Payables to other lenders - leasing contracts	30	127
Other loans from third parties	**30**	**400**
Total	**757,363**	**750,539**
of which current	*55,864*	*53,818*
of which non-current	*701,499*	*696,721*

Existing debt at December 31, 2018, including the current portion, totals around Euros 757 million (Euros 751 million at December 31, 2017).

The net debt is essentially divided equally between fixed rate and floating rate. The fixed-rate debt amounts to around Euros 401 million (Euros 399 million at December 31, 2017) and refers entirely to the SSN. The floating-rate debt totals around Euros 356 million (Euros 352 million at December 31, 2017), of which approximately Euros 318 million (Euros 316 million at December 31, 2017) relating to the FRN bond issue and Euros 38 million (Euros 36 million at December 31, 2017) in bank debt or similar (including the debt to leasing companies).

A description follows of the most significant outstanding debt.

Bond issues and revolving credit facilities

At the end of 2018, the Sisal Group had two outstanding bond issues for a total of Euros 725 million, of which Euros 325 million at floating rate (FRNs) and Euros 400 million at fixed rate (Senior Secured Notes).

The FRN amounting to Euros 325 million offers quarterly coupon payments of interest (due January 31, April 30, July 31 and October 31) and repayment of the principal in a lump sum on July 31, 2022. The floating-rate interest is calculated on the 3-month Euribor rate plus 6.625% spread.
The SSN amounting to Euros 400 million offers semi-annual coupon payments of interest (due January 31 and July 31) and repayment of the principal in a lump sum on July 31, 2023. The interest is calculated at a fixed annual rate of 7%.
Furthermore, the Group opened a Super Senior Revolving Facility (ssRCF) with a bank pool for a total of Euros 125 million with expiry in September 2022 and interest calculated on the basis of the periodic Euribor rate plus a spread of 3.50% subject to the reduction of margin in function of the achievement of specific financial ratios (in 2018 the spread dropped to 3%).

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

At the end of 2018 the ssRCF facility was in use for a total of Euros 15 million, exclusively by the parent Sisal Group S.p.A., while the overdraft facility of Euros 25 million was used in full at year end.

At year end, therefore, the available credit facility amounted to approximately Euros 85 million with exclusive reference to the ssRCF facility.

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

		Residual Debt at December 31			
(in Euros thousands)	**Type**	**2018**	**2017**	**Due**	**Repayments**
SSN (fixed rate)	Bullet	400,000	400,000	July 31, 2023	when due
FRN (floating rate)	Bullet	325,000	325,000	July 31, 2022	when due
Senior Secured Revolving Credit Facility	Revolving facility	15,000	23,000	January 2019	when due
Senior Secured Revolving Credit Facility	Overdraft	24,978	14,671	n.a.	when due
Total gross of transaction charges		**764,978**	**762,671**		
Matured interest		**15,856**	**15,777**		
Transaction charges connected to loans		**(23,501)**	**(28,309)**		
Total		**757,333**	**750,139**		

The loan agreements in place do not envisage maintenance covenants, but in any event require compliance with a series of financial covenants on the ssRCF facility such as the guarantor coverage test and quarterly calculation of the leverage ratio, which also determines the applicable margin on the facility. Furthermore, in reference to the loan agreements, the Group is in any event required to satisfy a series of restrictions which, amongst others, place limits on: *i)* entering into merger, spin-off, corporate restructuring and joint venture transactions, *ii)* carrying out acquisitions or investments, *iii)* carrying out acts disposing of all or part of its assets and *iv)* increasing financial debt. Exceptions to these restrictions are permitted, on authorization from the lending banks and by the noteholders.

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

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

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

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

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

Other loans from third parties

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

	At December 31	
(in Euros thousands)	**2018**	**2017**
Mortgages and other loans from third parties	-	273
Payables to leasing companies	30	127
Other loans from third parties	**30**	**400**

"*Mortgages and other loans from third parties*" refer mainly to the short-term portion of a pre-existing medium-/long-term loan recorded by Friulgames S.r.l. which was fully repaid in 2018.

"*Payables to leasing companies*" refer to the contract signed in 2013 by Sisal S.p.A. to purchase hardware, for a total debt at December 31, 2018 of Euros 30 thousand.

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

	At December 31	
(in Euros thousands)	**2018**	**2017**
Minimum lease payments due		
Within 12 months	30	104
Between 1 and 5 years	-	30
After 5 years	-	-
Future finance expenses	-	(7)
Present value of payables to leasing companies	**30**	**127**

35. Net financial debt

The net financial debt of the Group at December 31, 2018 and 2017, determined in conformity with paragraph 127 of the recommendations contained in ESMA Document no. 81/2011, implementing Regulation (EC) 809/2004 is presented as follows:

		At December 31	
	(in Euros thousands)	**2018**	**2017**
A	Cash	6,154	7,634
B	Other liquid assets	248,738	203,768
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**254,892**	**211,402**
E	**Current financial receivables**	**-**	**-**
F	Current financial payables	15,000	23,007
G	Current portion of medium-/long-term debt	15,576	15,916
H	Other current financial payables	25,287	14,895
I	**Current financial debt (F+G+H)**	**55,864**	**53,818**
J	**Net current financial debt (I-E-D)**	**(199,029)**	**(157,584)**
K	Medium/long-term debt	-	-
L	Notes issued	701,499	696,691
M	Other non-current financial payables	-	30
N	**Non-current financial debt (K+L+M)**	**701,499**	**696,721**
O	**Net financial debt (J+N)**	**502,470**	**539,137**

36. Provision for employee severance indemnities

The changes in this item are the following:

	Year	
(in Euros thousands)	**2018**	**2017**
Beginning balance	**8,756**	**9,486**
Current costs	232	126
Finance expenses	129	138
Actuarial (gains) losses	(147)	146
Contributions made - Benefits paid	(592)	(1,140)
Change in scope of consolidation	3	-
December 31	**8,381**	**8,756**

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

Details of the financial and demographic assumptions used in the actuarial calculations for the years 2018 and 2017 are as follows:

	2018	**2017**
Discount rate	1.6%	1.5%
Inflation rate	1.5%	1.5%
Future salary increase rate	2.5%	2.5%
Estimated mortality rate	ISTAT2014 table reduced by 80%	ISTAT2014 table reduced by 80%
Estimated disability rate	CNR tables reduced by 70%	CNR tables reduced by 70%
Probability of resignation/retirement (annual)	3%	3%

There are no plan assets servicing the defined benefit plans.

37. Provisions for risks and charges

The changes in this item are the following:

(in Euros thousands)	**Provision for risks and other charges**	**Provision for technological updates**	**Losses on investments provisions**	**Total**
December 31, 2016	**15,566**	**126**	**-**	**15,692**
Net provisions	1,863	(100)	200	1,963
Usage	(4,246)	-	-	(4,246)
December 31, 2017	**13,183**	**26**	**200**	**13,409**
Net provisions	1,877	182	600	2,659
Usage	(591)	-	-	(591)
December 31, 2018	**14,469**	**208**	**800**	**15,477**

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

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

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

At the same time, it should be mentioned that at year-end 2018 there are certain tax audits and inspections in progress; however, it is believed, at this time, that there will be no further additional costs to the Group other than those already recognized in the financial statements.

38. Other non-current liabilities

This item, totalling Euros 709 thousand (Euros 1,182 thousand at December 31, 2017), refers to the long-term component of the debt deriving from the settlement agreement between Sisal S.p.A. and the Tax Revenues Agency in relation to the non-deductibility for IRES tax purposes of finance expenses in 2006.

39. Trade payables and other payables

This item is composed as follows:

	At December 31	
(in Euros thousands)	**2018**	**2017**
Payables to suppliers	117,472	94,221
Payables to partners for services	215,728	234,290
Payables to gaming machines and POS operators	994	1,071
Trade payables to concessionaires	545	596
Other trade payables	17	303
Total	**334,756**	**330,481**

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

Payables to gaming machines and POS operators mostly include the amount due to operators based on turnover.

40. Taxes payable

This item is composed as follows:

	At December 31	
(in Euros thousands)	**2018**	**2017**
Payables for IRAP tax	314	1,163
Payables for IRES tax	10,628	7,273
Total	**10,942**	**8,436**

At December 31, 2018 the Group recorded a net payable for IRES based on the national tax consolidation, in reference to the tax consolidation headed by Sisal Group S.p.A.

41. Other current liabilities

This item is composed as follows:

	At December 31	
(in Euros thousands)	**2018**	**2017**
Payables on games	91,418	89,985
Payables for winnings	174,462	166,616
Payables to employees	15,029	13,414
Other current liabilities	9,334	6,635
Payables to social security agencies	9,205	8,321
Other taxes payable	5,490	4,548
Payables to collaborators	1,142	1,676
Total	**306,080**	**291,195**

The main items forming other current liabilities are analysed below.

Payables on games

Payables on games refer to the following:

	At December 31	
(in Euros thousands)	**2018**	**2017**
Payables to tax authorities on games	68,737	68,905
NTNG subscribers	3,243	2,861
Payables for online games	11,538	10,858
Payables for guaranteed minimum	3,905	3,905
Payables for betting management	3,995	3,456
Payables on games	**91,418**	**89,985**

The *Payables to tax authorities on games* mainly include: *i)* tax claimed on NTNG games relating to the last two weeks of the year; *ii)* payables for the PREU tax and concession fees on the turnover from gaming machines, for the last two months of the year, and *iii)* taxes relating to the turnover for the month of December on sports pool games, horse and sports betting and online games.

NTNG subscribers include the payable for subscriptions to SuperEnalotto and the additional SuperStar game, SiVinceTutto SuperEnalotto, Vinci per la vita - Win for life, and Eurojackpot games.

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

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

Gambling and Betting Services mainly reports the value of amounts received for bets which pertain to the following year and payables to tax authorities for the anticipated winnings.

Payables for winnings

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

Payables for winnings can be analysed as follows:

	At December 31	
(in Euros thousands)	**2018**	**2017**
Payables for SuperEnalotto-SuperStar winnings	128,911	143,230
Payables for Win for Life winnings	20,685	17,976
Payables for Si Vince Tutto-SuperEnalotto winnings	492	318
Payables for Tris games and horse betting winnings	182	182
Payables for CONI games	45	155
Payables for VLT winnings	4,157	3,961
Payables for Eurojackpot winnings	19,873	725
Payables for Play Six winnings	46	37
Payables for bet winnings	71	32
Total payables for winnings	**174,462**	**166,616**

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

Payables to employees

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

Other current liabilities

The item principally includes payables for guarantee deposits received from the network and for non-deductible VAT on invoices to be received.

Other taxes payable

Other taxes payable are detailed as follows:

	At December 31	
(in Euros thousands)	**2018**	**2017**
Payables for IRPEF payroll tax	2,691	2,674
Payables for equalization tax	30	29
Payables for VAT	346	76
Sundry taxes payable	2,423	1,769
Total	**5,490**	**4,548**

Sundry taxes payables mainly refer to the short-term component deriving from the settlement agreements signed by Sisal S.p.A. and Sisal Entertainment S.p.A. in 2017 to finalize a number of disputes with the Tax Revenues Agency and tax payables on property owned or leased by the Group.

42. Commitments

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

	At December 31	
(in Euros thousands)	**2018**	**2017**
Customs and Monopolies Authority	196,106	211,501
Payments and services	166,353	165,882
Other guarantees provided	19,030	2,925
Tax revenues agency	136	581
Total	**381,625**	**380,889**

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

Other guarantees provided refer mainly to guarantees issued in relation to concession fulfilments required by the competent authorities in relation to international gaming businesses started by the Group.

Moreover, to guarantee the debt deriving from the financing contracts signed as part of the acquisition in 2016 by the shareholder CvC of the majority interest in Sisal Group S.p.A., the Group pledged the shares held in Sisal Group S.p.A., Sisal S.p.A. and Sisal Entertainment S.p.A. in favor of the lenders.

At the financial statements reference date, the Group has commitments to third parties, by virtue of currently extant lease agreements totalling approximately Euro 90 million.

43. Related party transactions

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

The balances referring to related party transactions in the statement of financial position at December 31, 2018 and 2017 are detailed in the following table:

(in Euros thousands)	**Parent companies**	**Senior Management**	**TOTAL**	**TOTAL ITEM IN FINANCIAL STATEMENTS**	**PERCENTAGE OF TOTAL ITEM**
Other current liabilities					
At December 31, 2018	-	1,616	1,616	306,080	**0.5%**
At December 31, 2017	-	1,842	1,842	291,195	**0.6%**

The effects of related party transactions on the income statement for the years ended December 31, 2018 and 2017 are detailed in the following table.

(in Euros thousands)	**Parent companies**	**Senior Management**	**TOTAL**	**TOTAL ITEM IN FINANCIAL STATEMENTS**	**PERCENTAGE OF TOTAL ITEM**
Costs for services					
Year ended December 31, 2018	-	2,270	2,270	455,681	**0.5%**
Year ended December 31, 2017	-	2,738	2,738	455,734	**0.6%**
Personnel costs					
Year ended December 31, 2018	-	3,716	3,716	91,725	**4.1%**
Year ended December 31, 2017	-	4,118	4,118	87,954	**4.7%**

Senior Management

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

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

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Salaries and wages	3,460	3,837
Employee severance indemnities	256	281
Total	**3,716**	**4,118**

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

44. Significant non-recurring events and transactions

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

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

The impacts of non-recurring events and transactions relating to the year 2018 and 2017 are as follows:

At December 31, 2018					
(in Euros thousands)		**Equity**	**Profit (loss) for the year**	**Carrying amount of net financial debt**	**Cash flows**
Book value	***(a)***	**327,391**	**36,443**	**502,470**	**254,892**
Costs for acquisitions		(907)	(907)		(224)
Costs for mergers		0	0		(521)
Costs for company reorganizations		(1,538)	(1,538)		(1,065)
Costs for start-up of digital business services		(811)	(811)		(130)
Costs for start-up of Morocco business		(2,299)	(2,299)		(1,340)
Total effects	***(b)***	**(5,555)**	**(5,555)**	**-**	**(3,280)**
Notional book value	***(a-b)***	**332,946**	**41,998**	**502,470**	**258,172**

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

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

	Year ended December 31	
(in Euros thousands)	**2018**	**2017**
Other income	**-**	**205**
Costs for acquisitions	-	205
Costs for materials	**(166)**	**-**
Costs for start-up of Morocco business	(166)	-
Costs for services	**(5,072)**	**(1,157)**
Costs for acquisitions	(877)	(171)
Costs for mergers	-	(729)
Costs associated with company reorganization projects	(1,334)	(257)
Costs for start-up of Morocco business	(2,080)	-
Costs for start-up of digital business services	(781)	-
Costs for leased assets	**(24)**	**-**
Costs for start-up of Morocco business	(24)	-
Personnel costs	**(172)**	**(729)**
Costs associated with company reorganization projects	(172)	(729)
Other operating costs	**(121)**	**(169)**
Costs for acquisitions	(30)	(12)
Costs for mergers	-	(152)
Costs associated with company reorganization projects	(32)	(5)
Costs for start-up of Morocco business	(29)	-
Costs for start-up of digital business services	(30)	-
Impact on Operating profit (loss) (EBIT)	**(5,555)**	**(1,850)**
Profit (loss) before income taxes	**(5,555)**	**(1,850)**
Impact on profit (loss) for the year	**(5,555)**	**(1,850)**

45. Law 124/2017

Paragraph 125 of Law 124/2017 of August 4, 2017 introduced, starting from the 2018 financial year, the obligation for companies that receive grants, contributions, paid positions and in any case economic advantages of any kind from the public administrations and the subjects of referred to in the first period 33 of the same paragraph, to publish these amounts in the notes to the financial statements.
In line with the interpretations provided by the main trade associations, including ASSONIME, the directors have not identified contributions and economic advantages from public administrations or similar subjects, falling within the cases referred to by the above provisions, received by the Group during the 2018 financial year ".

46. Significant events occurring after the end of the year

In line with consolidated procedure, in March the Group approved its economic and financial budget for the current year.
Following the award by Societé de Gestion de la Loterie National S.A., of the offer of Sisal S.p.A. for the outsourcing of the service to establish and perform gaming collection in Morocco, starting on January 1, 2019, the same collection service started as planned, managed by the Group's company Sisal Loterie Maroc S.a.r.l., constituted for this purpose in 2018.

In January 2019 the conferment was finalised by the minority shareholder Games Lodi S.r.l. in the newly constituted subsidiary Network Italia S.r.l. of the business unit constituted by around 200 AWPs so that

the company could start full operation.
Furthermore, at the beginning of March the acquisition was completed of 100% of the share capital of the company Elmea S.r.l., also operating in the market of gaming machines management.
Further acquisitions are in progress in the betting and gaming machines management sectors concerning some business units.

It is also reported that in March the acquisition by Sisal S.p.A. was finalised of 30% of the share capital of the company MyCicero S.r.l., with registered office in Senigallia, operating in the field of on-line infomobility services (e.g. sale of parking tickets, local public transport, trains and buses) and development for third-parties of web portals and mobility and events apps.

Lastly, starting from January 1, 2019, the multiannual relationship linking the Parent to Poste Italiane S.p.A. in relation to the receipt and payment service linked to the prepaid PostePay card came to an end; the Company has already reacted to this loss by exploring and forging new commercial relationships in the reference market.

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

Milan, April 18, 2019

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On behalf of the Board of Directors

The Chairman

Mr Aurelio Regina