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, 2019

Directors' Report on Operations, Separate Financial Statements

Contents

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SISAL GROUP

Directors' Report on Operations

Consolidated Financial Statements at December 31, 2019

Dear Shareholders,

We hereby submit for your attention the consolidated financial statements at December 31, 2019, which highlight a loss for the year pertinent to the Group headed by Sisal Group S.p.A. (hereinafter the "Parent" or the "company") of Euros 11,535 thousand.
In the same year depreciation, amortization and impairment losses of fixed assets were recorded for Euros 140,077 thousand and revenues and income totalled Euros 869,387 thousand. The income statement is also impacted by net finance expenses for Euros 74,825 thousand.

Key data

The following table shows the results for 2019 (figures in thousands of Euros) together with certain profitability KPIs adjusted to exclude the effects of non-recurring expenses of approximately Euros 19,8 million, mostly associated with reorganization costs, costs for acquisitions and start-up expenses associated with the Group's new foreign activities. Furthermore, with regards 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.

	2019	2018	Change	
Total Revenues and income	869,387	839,873	29,514	3.5%
EBITDA	239,810	227,843	11,967	5.3%
EBITDA Adjusted	259,650	233,398	26,252	11.2%
Operating profit/loss (EBIT)	85,438	108,800	(23,362)	-21.5%
Adjusted operating profit/loss	105,278	114,355	(9,077)	-7.9%
Profit (loss) before income taxes	10,613	51,539	(40,926)	-79.4%
Profit (loss) for the year	(13,638)	36,443	(50,081)	-137.4%

(1) the table reflects for both 2018 and 2019 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 one-off charge incurred by the company Sisal S.p.A. for the award of the NTNG concession, still pending. As further explained in paragraph 2.5 of the notes to the financial statements, the definition of EBITDA adopted by the Group does not include the effects of such reclassification.

(2) The 2019 results also reflect the adoption of the new international accounting standard IFRS 16, further explained below in this Report and in the Explanatory Notes.

Before analysing the main factors affecting the result for the year, an analysis of the main business developments of the Group's is included in the following section.

The Group's Business

The management of sustainability during 2019 continued and was developed as implemented in previous years. Particular attention was paid to the highly important issue of sustainability in all Group's activities. The Group has in fact continued to offer itself as a leader in the promotion of initiatives aimed at ensuring safe and informed gaming, using a structured model of responsible gaming inspired by international best practices. As proof of this, in 2019 the Group's companies developed new initiatives and projects on the subject of responsible gaming aimed at maintaining the three-year EL - European Lotteries and WLA - World Lottery Association certification at the highest level (Level 4) achieved in 2017 and valid until 2020. The certification process is guaranteed by an independent third party that verifies and evaluates during the three-year certification period the

Company's Responsible Gaming model, aimed, in particular, at the protection of the player, the promotion of a responsible gaming culture, the prevention of excessive gaming behaviour and the prohibition of minors from gambling.

All the activities carried out over the years by the Group are described in detail in the Sisal - Sustainability Report 2018, distributed in October 2019 as well as the previous versions of the same document; the specific activities carried out in 2019 will be the subject of a similar illustration.

With reference to the management of commercial activities, today the Group operates in Italy in the gaming and betting sector ("Games and Betting") with a wide range of products, both on the physical channel (or "retail channel") and online. Furthermore, since the beginning of the 2000s, leveraging on its widespread territorial presence, direct access to consumers and distribution and technological synergies with the Games and Betting business, the Group has launched a diversification strategy that has enabled it to establish itself as one of the leaders in the payment and other services sector ("Payments and Services"), and thanks also to this affirmation it was possible to carry out an important corporate and commercial integration operation with another leading operator in the sector during 2019, which is discussed in more detail in the following sections.

In the Games and Betting market, the Group offers a broad portfolio of products, which includes: (i) Entertainment Equipment (Slots and VLTs), (ii) betting, (iii) lotteries, (iv) online games (such as poker and casino games) and (v) bingo. The Group's offer is delivered through both the retail and online channels, using the "sisal.it" portal and the "mobile" applications. In particular, as at 31 December 2019, within the retail distribution network, the Group operates through 2,750 points of sale characterised by a series of formats identifiable with the brands owned by the Group ("Branded Channel") and through a network of 47,381 points of sale connected with the Group's IT systems and distributed nationwide ("Affiliated Channel"). The latter channel includes both points of sale whose prevalent offer is not linked to the Games and Betting or Payment and Services markets, such as bars and tobacconists, and points of sale whose prevalent activity is linked to the offer of Entertainment Equipment.

In the Payments and Services market, the Group manages the following activities: (i) payment of bills, utilities, fines, taxes, subscriptions, etc.; (ii) recharge of prepaid debit cards; (iii) recharge of telephone cards and TV cards for pay-per-view; and (iv) marketing of certain products such as gadgets and small toys. In particular, the Group distributes its services and products both through the Branded and Affiliated Channels - and through the online portal sisalpay.it.

During 2019, the Group reached and signed an important and strategic agreement with Banca 5 S.p.A., a bank of Intesa Sanpaolo Group, to create, through a partnership, a leading group in the payment services sector distributed on the digital channel and in proximity channels in Italy.

To this end, a complex corporate reorganisation has been undertaken within the Group to separate the activities relating to payment services, to be carried out with Banca 5 as a minority shareholder, from the activities related to the Gaming sector, wholly owned by the Group.

As required by applicable international accounting standards, the structure of the operating segments has also been updated to align with this new vision of the Group's business, which has therefore been reorganized on the basis of the following four, partly new, operating segments:

- “**Retail**': responsible for the management and development of activities relating to entertainment equipment, fixed-odds betting and traditional sports betting competitions, as well as activities linked to the management of the GNTN turnover of which the group is the exclusive concessionaire. This division manages the "physical" sales outlets distributed throughout Italy for both the Branded and Affiliate channels.

- "**Online Gaming**": in charge of managing the activities carried out in the sector of online gaming and betting through the portal "sisal.it" and through the mobile phone channel. The Group's online offering is among the widest in the market and includes the entire product portfolio available under current regulations, including online betting and online games of poker, casino, lotteries and bingo.

- "**International**": dedicated to the international development of the Group, which is currently operational, although in the start-up phase, in Morocco, Turkey and Spain. The Group is present in these markets with products ranging from online offerings to lotteries, betting and slot machines.

- **Payments and Services**: including Istituto di Moneta Elettronica, deals with the development and commercialization via Retail and Online of (1) Bill Payments which include payments related to Utilities, payments of taxes and duties related to Public Administration, payments to ACI, etc; (2) Prepaid Cards which include prepaid card top-ups (including the SisalPay card); revenues from SisalPay card activations and related fees; (3) Telco Top Ups which include telephone top-ups; (3) Other Payments which include other services including Trenitalia ticketing, Pin Amazon etc. The business unit distributes its services and products both through the Branded and Affiliate Channels and through the online portal sisalpay.it.

The tables below show revenues and ‘adjusted’ EBITDA for each business unit for the years ending December 31, 2019 and 2018.

Business units *(in Euros millions)*	31.12.2019	31.12.2018
Retail	550.8	565.9
Online Gaming	97.7	82.3
International	4.6	0
Payments and Services	215.9	190.3
Other revenues	0.4	1.4
Total revenues	**869.4**	**839.9**

Business Units *(in Euros millions)*	31.12.2019	31.12.2018
Retail	154.3	133.0
Online Gaming	48.8	37.0
International	(2.3)	0
Payments and Services	63.3	66.2
Total business unit EBITDA	264.1	236.2
Items with different classification	(4.5)	(2.8)
Total EBITDA adjusted	**259.6**	**233.4**

Retail: the Retail results in 2019 were mainly affected by the positive performance in the Betting and Lottery segments (growth in turnover and related revenues and margins), while the ADI segment suffered a contraction in revenues and, to a lesser extent, in gross profitability, due to the increase in related taxation and the impact of local regulations on opening hours and store location, partially offset by a reduction in payout. As a percentage of total revenues, Adjusted EBITDA for Retail Gaming in 2019 amounted to 28.1% compared to 23.5% in 2018.

Online Gaming: the excellent results of the Online Gaming segment in 2019, which follow an already very positive performance in the previous year, were driven by the solid performance of most of the Group’s main products and in particular the Slots Games, Quick Games as well as sports betting, especially in terms of volumes collected. As a percentage of total revenues, Adjusted EBITDA for Online Gaming in 2019 amounted to 50.1% compared to 45% in 2018, which also absorbed the effect of the growth in expenses relating to the distribution and promotional network, which also led to a further significant increase in the average number of players active on the platforms managed by the Group, with a positive impact on turnover and revenues.

International: the results of this segment, which was not in place in 2018, essentially reflect the start of the game collection activities by the Group's licensee in Morocco. In this context, the Group recorded approximately Euros 4.6 million in revenues with a negative gross margin of approximately Euros 2.3 million attributable to start-up costs incurred for the launch of the activities in the above mentioned foreign territories.

Payments and Services: the results of the Payments and Services Business Unit in 2019 mainly reflect a different product mix compared to 2018, with a significant growth in bill payments and an equally significant contraction in financial services-prepaid cards segment following the termination, at the beginning of the year, of the contract for the Postepay pre-paid card. These trends were reflected on the one hand in an increase in revenues, but on the other in a decrease in gross margins, mainly due to the different incidence of the remuneration of the distribution chain. As a percentage of total revenues, Adjusted EBITDA for Payments and Services in 2019 amounted to approximately 29.4%, down approximately 5.4 percentage points compared to for 2018, as a result of the trends described above and also the start-up costs of the new "Digital Payments", as well as the launch of a new rechargeable card under the SisalPay brand, which reached almost one hundred thousand activations during the year; excluding such non-recurring costs, Adjusted EBITDA 2019 shows a decrease of approximately 1.3% compared to the same figure in 2018.
The Group operates through a distribution network of 55,448 points of sale at December 31, 2019 across two different retail channels: the Branded Channel and the Affiliated Channel, as well as through the Online Channel.

Branded Channel

The Branded Channel at 31 December 2019 includes 2,750 points of sale directly identifiable with the Group’s own brands. This channel includes two types of points of sale:

- points of sale dedicated to gaming activities managed directly by the Group. This category includes the 30 WinCity gaming halls directly managed by the Group and the 392 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 1,375 Matchpoint

betting corners and (ii) the 953 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 typically allow better performances 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 31 December 2019 includes a network of 52,698 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 channel includes both points of sale such as bars, tobacconists and newsagents, 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 11,075 "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) which, at the end of the

2019, increased by approximately 5,300 points of sale previously pertaining to Banca 5 network, operating in the distribution of the related services.

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);

- the **"Addressable" Services Market including, since the the end of 2019, the simple transactional services** thanks to the launch of the first "proximity banking" reality following the agreement between the Sisal Group (through SisalPay) and Intesa San Paolo Group (through Banca 5). The perimeter of the reference market has therefore been expanded by including not only the payment of bills (net of bank domiciliations), bills, taxes and penalties and local public transport, mobile phone top-ups and subscriptions, prepaid card top-ups, but also transfers, withdrawals, MAV, F24, etc. The market analyses were carried out by processing data from a study by the Digital Innovation Observatory of the Politecnico di Milano, "Quantification of the payment market in Italy".

The period analysed is from 2016 to 2019 for the gaming market and from 2017 to 2019 for the "Addressable" Services Market.
The aggregate of the two markets in 2019 reached a value of more than Euros 365 billion, with the "Addressable" Services Market reaching about 70% of the total.

Compared to 2018, the Games Market in 2019 grew by 3.5%, while the Services Market is substantially stable.
Even considering the medium-term trends, the Addressable Services Market shows overall a stable situation, but with significant performance deviations in the main sectors that make it up, while the Gaming Market recorded 4.9% growth.

The data in the following charts are expressed in millions of Euros, unless otherwise stated.
The data relative to the gaming market for the year 2019 are estimates based on ADM data.

	2016	2017	2018	2019	CAGR 2016/2019
Total Gross Gaming Market Revenue*	95.7	101.6	106.7	110.4	4.9%
Total Addressable Services Market		255.6	255.2	255.8	0.0%
Total Addressable Market		357.2	361.9	366.2	1.3%

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

Gaming Market in Italy: the scenario
2016–2019 trend

The total turnover of the gaming market increased with a CAGR of 4.9% mainly due to the following two factors:

1) A significant increase in the pay-out, which exceeds, in 2019, the value of 91 billion euros, with a weight on total turnover of 82.6%, up 3.7% compared to 2018. This indicator was also positive for the average period, recording a CAGR of + 5.8%;

2) A significant increase in the online market which reached a turnover of over Euros 36.4 billion, a CAGR of 22.8%, with a 33% share of total turnover. In 2019, compared to the previous year, growth of 19.8% was achieved. It should also be noted that, for this sector, the weight of the pay-out is 94.6%.

Expenditures showed an increase of 0,8% while payables to tax authorities recorded a CAGR of 1.8%.

	2016	2017	2018	2019	CAGR 2016/2019
Total revenue*	**95.7**	**101.6**	**106.7**	**110.4**	**4.9%**
pay out*	**77.0**	**82.9**	**87.9**	**91.2**	**5.8%**
Actual public expenditure*	**18.8**	**18.7**	**18.8**	**19.2**	**0.8%**
Tax Authorities	*10.3*	*9.9*	*10.0*	*10.8*	**1.8%**

	2016	2017	2018	2019
Total revenue*	**100.0%**	**100.0%**	**100.0%**	**100.0%**
pay out*	**80.4%**	**81.6%**	**82.4%**	**82.6%**
Actual public expenditure*	**19.6%**	**18.4%**	**17.6%**	**17.4%**
Tax Authorities vs. Actual expenditure	**54.8%**	**52.7%**	**53.1%**	**56.4%**

* 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 +11.1%), due to expansion of the operators offering this product, as well as of the product mix itself, increasingly rich and well-structured, and the Online Gaming segment (CAGR of +19.8%).

	2016	2017	2018	2019	CAGR 2016/2019
Lotteries	**20.1**	**19.4**	**20.1**	**20.4**	**0.6%**
Bets and CPS	**5.1**	**6.2**	**6.5**	**7.0**	**11.1%**
Gaming machines	**49.4**	**48.9**	**48.6**	**46.5**	**-2.0%**
Online Gaming	**21.2**	**26.9**	**31.4**	**36.4**	**19.8%**
Total Gaming Market	**95.7**	**101.6**	**106.7**	**110.4**	**4.9%**

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

In 2019 this KPI reached Euros 19.2 billion with a positive CAGR of 0.8% for the period 2016-2019.

The gross market turnover was driven by a steady increase in the amount of the pay-out. Consequently, the percentage rate of actual expenditure by the public to gross turnover shows a steady decrease from approximately 19.6% in 2016 to 17.4% in 2019.

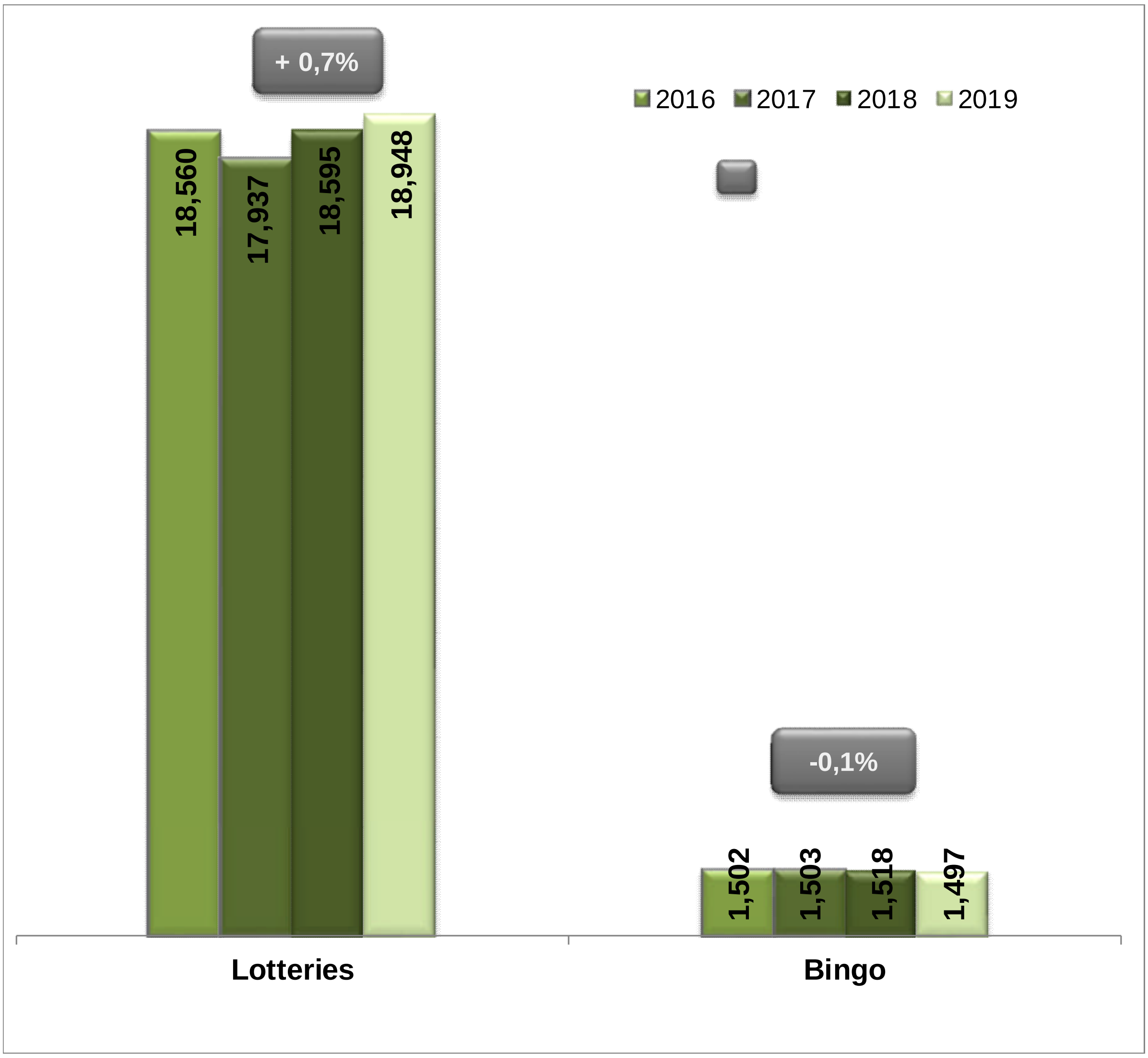
	2016	2017	2018	2019	CAGR 2016/2019
Lotteries	6.6	5.7	5.8	5.9	-3.7%
Bets and CPS	0.9	1.1	1.2	1.3	10.7%
Gaming machines	10.2	10.4	10.2	10.2	-0.1%
Online Gaming	1.0	1.4	1.6	1.8	21.8%
Total Gaming Market	18.8	18.7	18.8	19.2	0.8%

Business and Product Analysis - Turnover

Lottery & Bingo

The Lotteries segment recorded a growth rate over the reference period of +0.7%, reaching a value of Euros 18.9 billion in 2019, the higher value in the four-year period analysed.

Bingo records a CAGR down 0.1% again in the period 2016-2019.



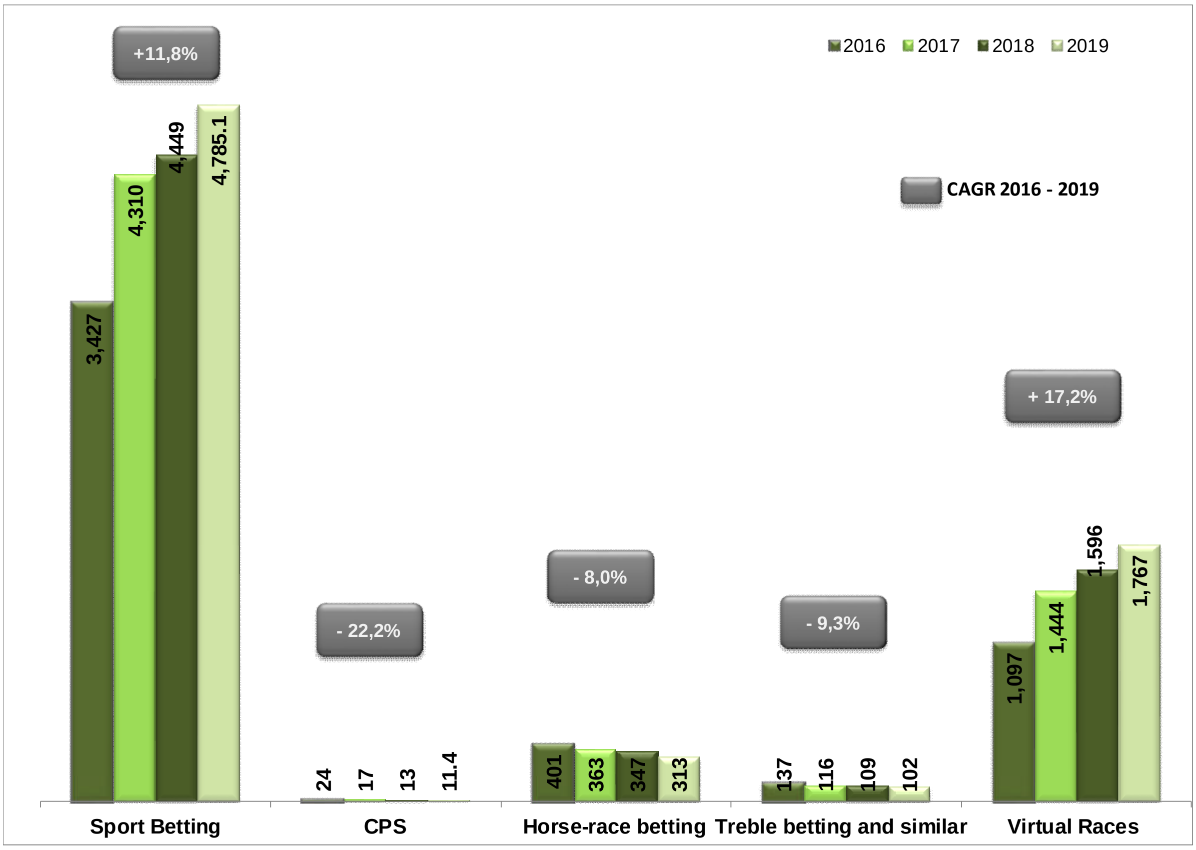
(in Euros millions)

Betting physical channel

The Sports Betting segment, physical channel, shows an average overall growth of + 11.8% in the period 2016-2019. The last year's total turnover amounted to almost Euros 4.8 billion, an increase of + 7.5% compared to 2018.

The horse-riding segment and the traditional Totocalcio sector (referred to here as CPS: contests for sports predictions), on the other hand, are going through a deep market crisis that has been going on for several years, registering strong decreases in the reference period.

Virtual Races is the other sector that has benefited from the expansion of the number of operators that has characterized the betting sector; in fact, in 2019 this sector showed a significant growth of more than 17%.in the CAGR.



(in Euros millions)

Adi (Slot and VLT)

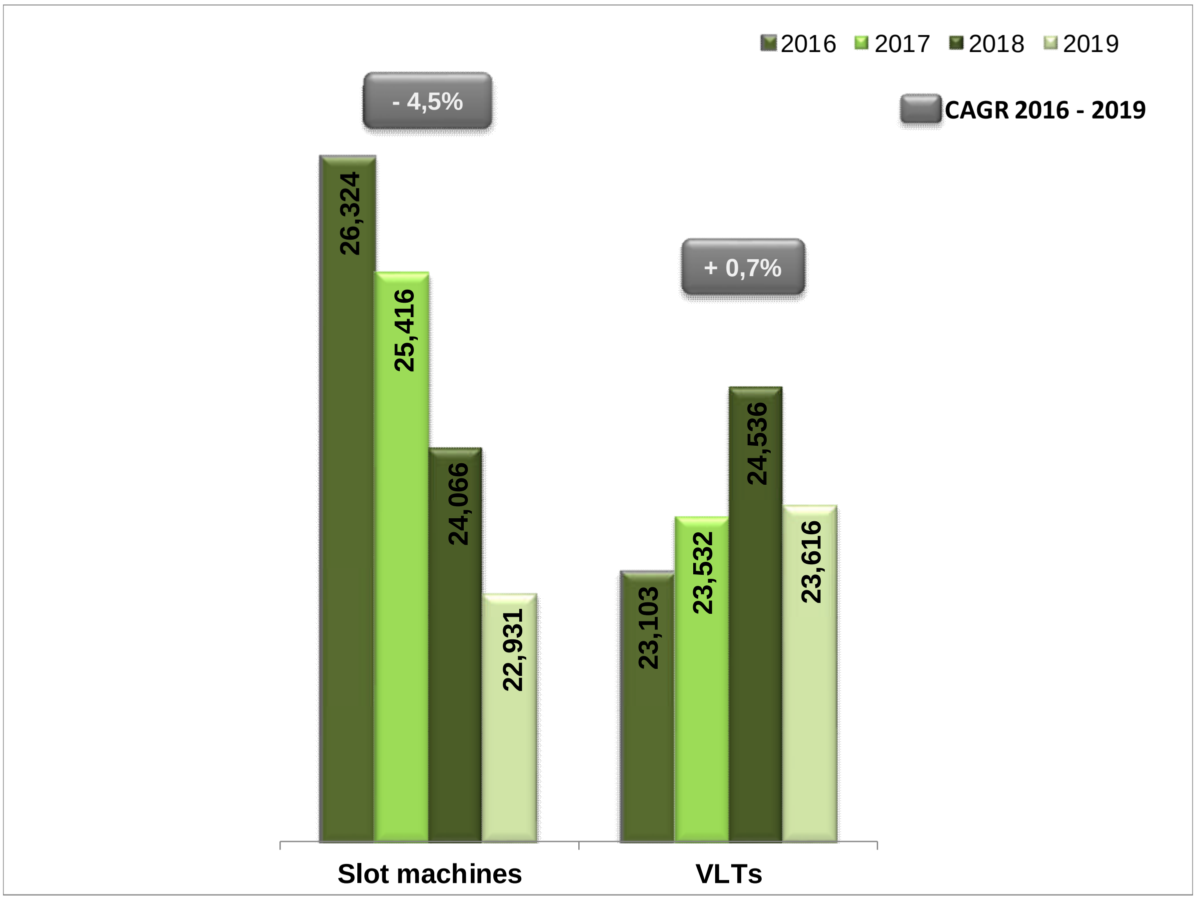
At the end of 2019, the ADI sector accounted for 42.2% of the entire gaming market in Italy.

Total gross turnover amounted to approximately Euros 46.6 billion with a slightly decreasing CAGR (- 2.0%).

VLTs have a positive CAGR of + 0.7%, while Slots have a negative CAGR of 4.5%.

It should be noted that, both products in 2019, compared to the previous year, showed a sharp slowdown in the turnover, 4.7% for Slots and 3.7% for LVTs.

Among the elements that have affected the performance of the sector should be mentioned the sharp reduction in AWPs in Italy, the different regional laws regulating the market of entertainment equipment and the tax tightening that in 2019 represents 70% of the expenditure of the Slots and about 61% of VLT.



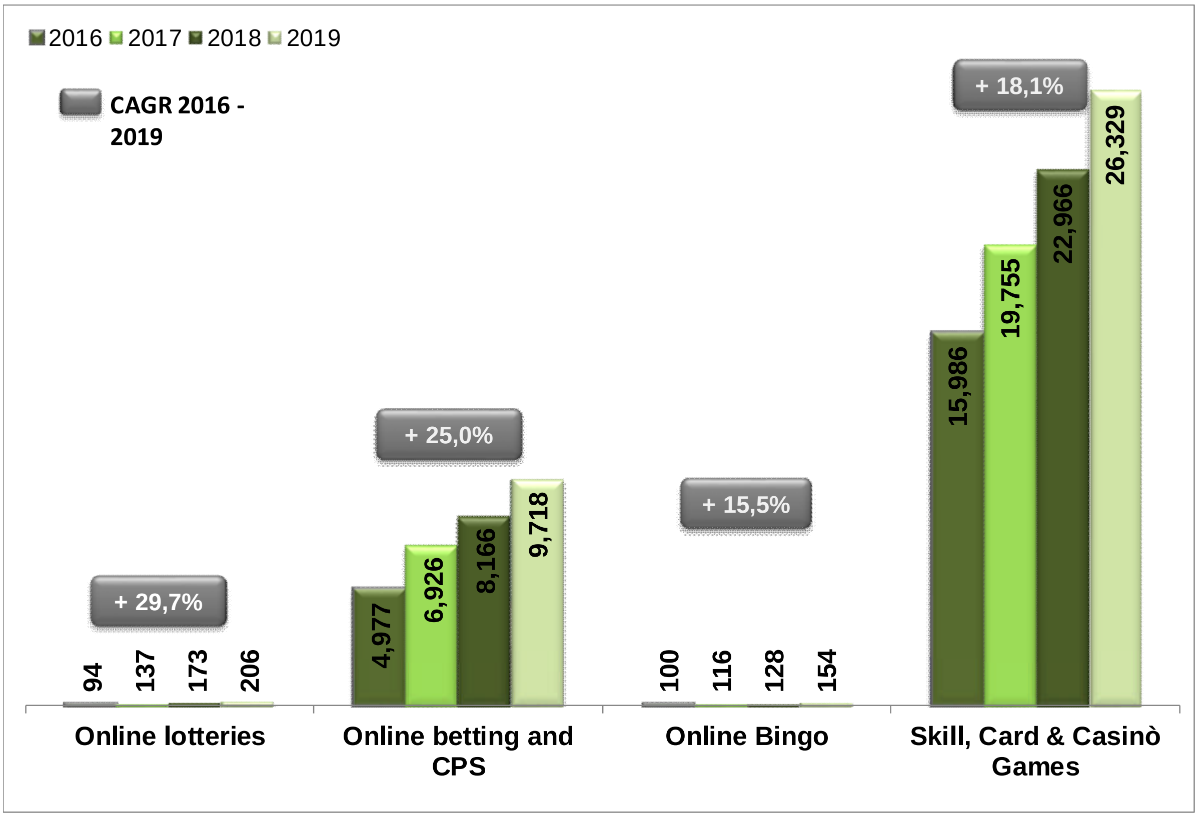
(in Euros millions)

Online market

Online Gaming shows a positive trend, with a +19.8% 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. All this is accompanied by an increasing diffusion of applications for smartphones and tablets that increase their usability.

The CAGRs for these two segments were strongly positive, recorded as +25% for Betting and +18.1% 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 +29.7%, even if at values that are not yet significant.



(in Euros millions)

In this dynamic market context, the Group's total turnover for the year 2019 in the above mentioned segments (almost Euros 9.7 billion) grew by approximately 10% compared to the previous year, with an overall growth in market share from 8.3% in 2018 to 8.8% at the end of 2019.

This trend reflected in particular the positive performance of the lotteries sector (mainly due to the SuperEnalotto) and sports betting, the strong growth of the online sector as well as the increased market share of the ADI sector.

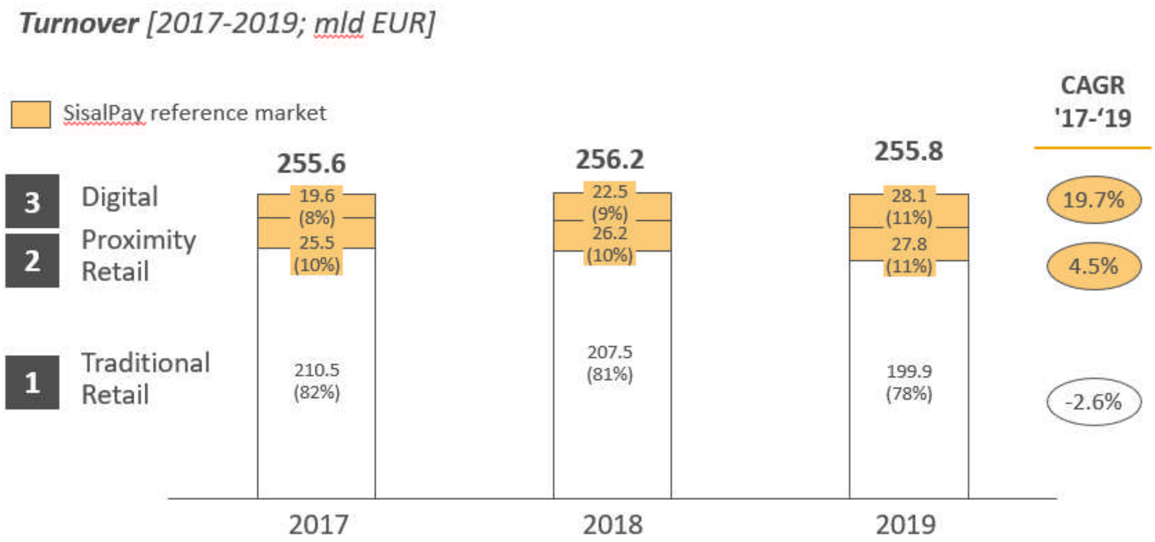
Simple Payment and Transactional Services Market

The market for collection and payment services on physical and online channels, i.e. the total amount paid by Italians net of bank transfers and withdrawals, reached euros 255.8 billion in 2019.
The NewCo's aggressive market can be divided into 3 sub-markets: Traditional Retail, Proximity Retail and Digital.
The Traditional Retail market is represented by all payments and simple transactional transactions that are made through physical channels (e.g. post offices, bank counters, etc.), net of tobacconists, bars and newsagents whose turnover is related to the Proximity market.

The Digital channel, on the other hand, concerns the collection derived from web, online and mobile platforms.

78% of the market's turnover of the aggrieved market for simple payment and transactional services comes from the Traditional Retail channel, which in 2019 reached Euros 199.9 billion and shows an average annual growth rate of -2.6%.

The Retail Proximity and Digital channels, on the other hand, in the three-year period 2017-19 have a positive growth trend, collecting Euros 27.8 and Euros 28.2 billion in 2019 respectively.



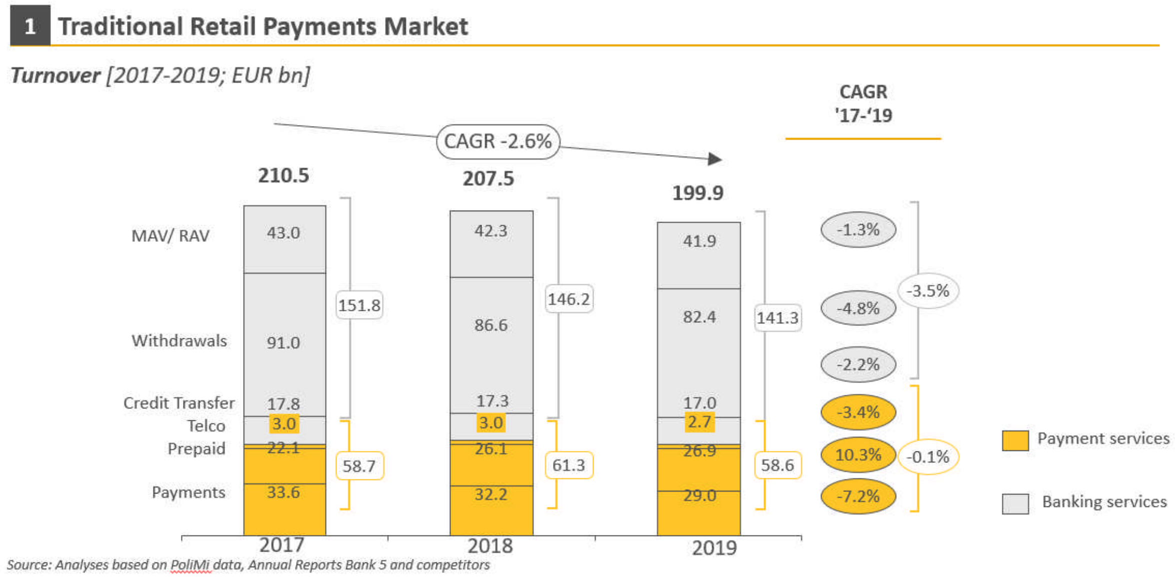
Source: Analyses based on PoliMi data, Annual Reports Bank 5 and competitors

By analyzing in detail the Traditional Retail Market in its different segments, it is evident the increasing importance that the Prepaid sector is acquiring over time. In 2019, in fact, it reached about Euros 27 billion in turnover, with a CAGR '17-'19 of + 10.3% due to the increasing diffusion of prepaid cards and their use mainly for online purchases.

The Telco segment, however, continues its downward trend due to a deep discontinuity of supply by the main operators of telephony to the public. The segment's inflows in 2019 reached almost Euros 2.7 billion with a CAGR '17-'19 of -3.4%.

Payments are also decreasing (CAGR '17-'19 - 7.2%), reflecting a substantial increase in direct debits and the shift of some payments to other channels such as Digital or Proximity retail. In addition, a slight decrease in the average ticket should also be taken into account, which is the result of strong competition in the fixed telecom sector and the efficiency of the energy bill.

Finally, in 2019, the Banking segment (transactional banking services) raised Euros 141.3 billion in the physical market, also showing an average annual growth rate of -3.5% (CAGR 17-19) in favour of the Digital and Proximity segment.



In 2019, the collection of basic payment and transactional banking services in the bar, tobacco and newsagents channel (Proximity Retail) amounted to approximately Euros 28 billion, up from previous years with a CAGR '17-'19 of 4.5%.

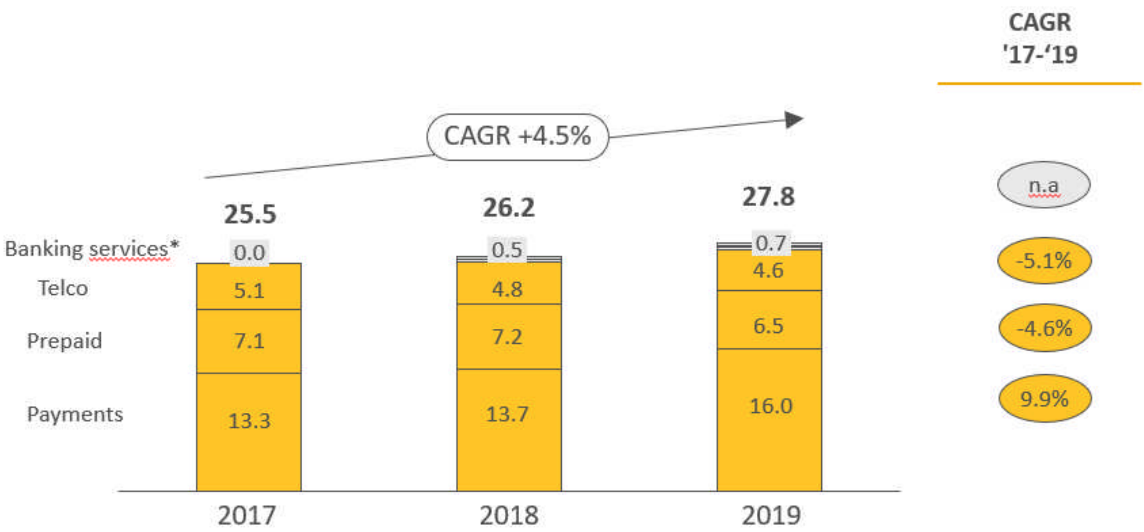
This growth is mainly driven by a growth in Payments, which in this channel grew by an average of 9.9% per year in the three-year period '17-19, reaching Euros 16 billion in turnover in 2019, thanks to the simplicity, convenience and speed of the service offered.

The Telco and Prepaid segments show a slightly downward trend, likely attributable to a change in the Italians' habits with regard to telecom and to changes in partnership agreements of players operating in the prepaid cards sector. In 2019, mobile phone top-ups and subscriptions reached Euros 4.6 billion, while prepaid cards collected Euros 6.5 billion.

Simple banking transactions, however, have been provided in the tobacco channel since 2018 by Banca 5, which decides to invest in this precious strategic asset. In 2019 these transactions generated more than Euros 735 million.

2 Proximity Retail Market

Turnover [2017-2019; EUR bn]

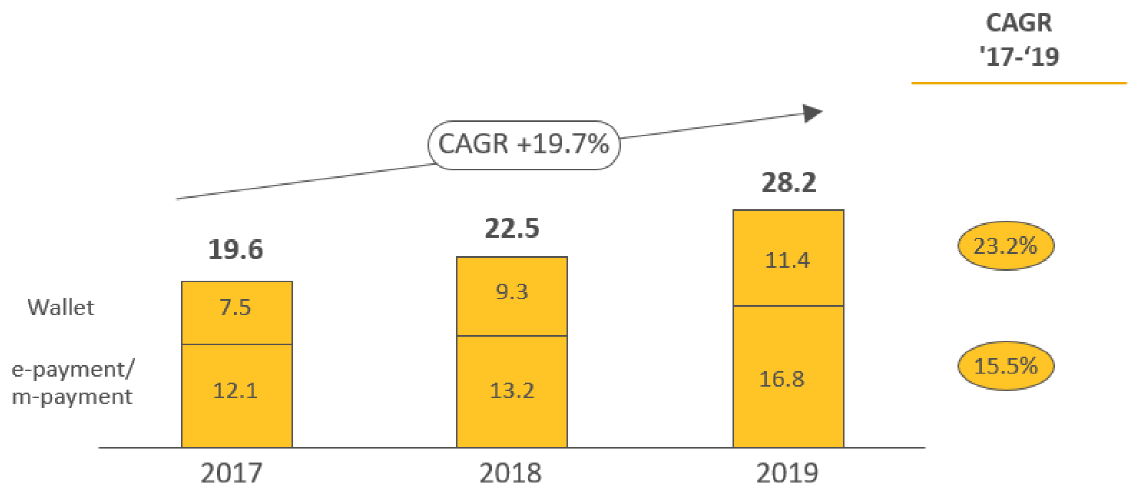


Source: Analyses based on PoliMi data, Annual Reports Bank 5 and competitors
*Note: * Banking services include MAV and RAV, Loans and Transfers*

Finally, the Group's reference market also includes turnover from online and mobile payments such as bills, taxes, penalties and local public transport (Digital Payment Market). In 2019, this channel recorded more than Euros 28 billion, showing a growing trend with an average annual rate of 19.7%. This trend is driven not only by an increase in E-payment and M-payment but also by a growth contribution of the Wallet sector, a sign of a progressive digitalization of some payment services.

3 Digital Payments Market

Turnover [2017-2019; EUR bn]



Source: Analyses based on PoliMi data, Annual Reports Bank 5 and competitors

In the Group, Payments and basic transactional banking transactions are managed by the Company SisalPay S.p.A., licensed to operate as "Istituto di Moneta Elettronica", on the basis of the applicable authorization received from the Bank of Italy, while telephone and media top-ups are distributed through the subsidiary SisalPay Servizi S.p.A..

Overall, the Group generated a total of approximately Euros 9 billion in 2019 through its local networks and online platform. The company's market share, calculated in relation to the market figure of the "addressable" services (Traditional, Proximity and Digital Market), stood at approximately 3.6% at the end of 2019 (5.6%, taking into account on a pro forma basis the turnover on the total year of the services previously offered by Banca 5 S.p.A.), while when compared to the Group's reference segments, i.e. the Proximity and Digital Market segments, the two figures rise to approximately 16% and 26% respectively.

Overview

The new accounting standard IFRS 16 "Leasing", which replaces the previous IAS 17 and introduces a single accounting model for the lessee, became effective from 1 January 2019; the main effects on the Group's financial statements are summarised below:

- in the balance sheet, higher non-current assets for the recognition of the "right to use the leased asset" corresponding to higher financial payables;

- in the income statement, the different nature and classification of expenses, i.e. the amortization of the "right to use the asset" and "financial charges for interest" compared to the "cost for the use of third party assets - operating lease payments", in accordance with the replaced IAS 17;
- in the cash flow statement, the cash flows associated with contracts subject to the application of the above standard, previously recognised under cash flows from operating activities, classified under cash flows from financial assets.

The new standard is applied retrospectively from 1 January 2019 and the Group has adopted the so-called simplified retrospective method with the recognition, for lease contracts previously classified in accordance with IAS 17 as operating leases, of lease payables and the corresponding value of the right of use measured on contractual payments remaining at the transition date. Consequently, no restatement has been calculated and applied to the comparative data in these financial statements and related disclosures; however, a summary of the impacts of the new standard is provided in the notes.

In addition, on the basis of new tax legislation that entered into force on 1 January 2019, the Group exercised the option for the so-called VAT group; on the basis of this, a single proportional VAT deductibility was calculated and the related costs (referring to purchases of opex) were reported for all the Group's legal entities in the "Other operating costs line", while in the previous year, for companies with 100% VAT non-deductibility, the purchase of goods and the provision of services were recognised in the income statement under specific cost items including non-recoverable VAT. As a result, the comparison between the performance of the cost items relating to 2019 compared to similar figures for 2018 may not be completely significant.

The following table analyses the main indicators of the Group's results (values in thousands of Euro), also through a comparison with the results of the previous year:

	2019	2018	Change	
Total Revenues and income	869,387	839,873	29,514	3.5%
Purchases of materials, consumables and merchandise	15,264	12,211	3,053	25.0%
Costs for services	460,347	452,493	7,854	1.7%
Costs for leased assets	2,179	22,373	(20,194)	-90.3%
Personnel costs	97,034	91,746	5,288	5.8%
Other operating costs	50,933	36,385	14,548	40.0%
Provisions	4,488	2,060	2,428	117.9%
EBITDA	239,810	227,843	11,967	5.3%
Adjusted EBITDA	259,650	233,398	26,252	11.2%
Depreciation, amortization, impairment losses and reversals of the value of property, plant and equipment and intangible assets	153,704	113,805	39,899	35.1%
Operating profit/loss (EBIT)	85,438	108,800	(23,362)	-21.5%
Adjusted operating profit/loss	105,278	114,355	(9,077)	-7.9%
Net finance expenses and similar	74,825	57,261	17,564	30.7%
Profit (loss) before income taxes	10,613	51,539	(40,926)	-79.4%
Profit (loss) for the year	(13,638)	36,443	(50,081)	-137.4%

Total revenues and income of the Group recorded an increase of 3.5% in 2019 compared to 2018. This reflects the trends in the various product and business segments of the Group as detailed in the following table (in thousands of Euros):

	2019	2018	Change	
GNTN	65,337	51,591	13,746	26.6%
Gaming machines	303,875	351,574	(47,699)	-13.6%
Bets and CPS	129,102	114,612	14,490	12.6%
Online games	97,536	81,091	16,445	20.3%
Revenues from foreign games	4,446	0	4,446	n.s.
Revenue from Services and Products	169,582	149,957	19,625	13.1%
Points of sale revenues	90,775	84,892	5,883	6.9%
Other revenues and income	8,734	6,156	2,578	41.9%
Total Revenues and income	**869,387**	**839,873**	**29,514**	**3.5%**

Additional details on the main segment performances are as follows:

- in the "gaming segment", the turnover achieved by GNTNs increased by more than 16%, due to the performance of SuperEnalotto after the launch of the new gaming formula in previous years and the record jackpot level reached during the year; the change in GNTN revenues shown in the table also reflects the different impact of the reclassification under the new IFRS 15 standard, net of which revenues in the segment would have increased by around 17%.

  In the gaming machines segment, at year end, the Group recorded an overall decrease of 1.4% in turnover compared to the previous year, amounting to Euros 4,188 million compared to Euros 4,249 million in 2018. Turnover for VLTs recorded a further slight increase (+2.1%) towards 2018 (Euros 2,363 million in 2019 compared to Euros 2,314 million in the previous year) thanks to the continuous optimisation of distribution and the related commercial offer; the AWPs segment, on the other hand, recorded a decrease of 5.7% towards 2018 (Euros 1,825 million in 2019 compared to Euros 1.935 million in 2018) also due to the further tightening of territorial regulations, while during the year actions continued to optimise the distribution and supply of new securities, as well as the installation of proprietary equipment at selected points with the aim of improving the average collection value per machine. The overall reduction in revenues in this segment, which fell from Euros 351.6 million in 2018 to Euros 303.9 million in 2019 for a decrease of approximately Euros 48 million (equal to approximately -13.6%), reflects the above described trends in turnover and, above all, the impact during the year of the increase in tax collection provided for by the various regulations on the subject.

  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 956 million, recording an increase by over 17% on the 2018 figure, and the turnover trend was reflected in higher revenues higher than 13% 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 gaming (including online betting and bingo), while turnover grew by 23.2%, revenues increased by more than Euros 16 million, almost than 20.3% higher than in 2018. The fixed odds online sports betting channel recorded a turnover increase of around 35%, recording an absolute historical record also in terms of the average number of players per month (over 113 thousand). This trend, combined with a substantial stability in the level of pay-outs paid out, led to an increase in revenues of about 32% compared to 2018, equivalent to an increase in absolute value, gross of promotions paid out, of over Euros 12 million. Also significant was the performance of the Casino & Quick Games segment (with Slots Games as the main product), which recorded overall increases in turnover and gross revenues of approximately 20% and 10% respectively (despite the increase in the related taxation), 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;

- also in the "gaming segment", it is worth mentioning the beginning of operating activities in Morocco, which resulted in revenues of approximately Euros 4.4 million with a turnover of approximately Euros 73 million;
- 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 9% 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 entrusted to the management of the Parent Company Sisal Group S.p.A. until 13 December 2019 and managed by SisalPay S.p.A., as authorised financial intermediaries, total deposits fell by more than 12%, but with the opposite trend between the payments segment, which grew by almost 70% (thanks in particular to the strong growth in PagoPa and ACI payments), and the financial services and prepaid cards segment, which fell by around 92%, primarily due to the termination of the contract linking the Parent Company to Poste Italiane SpA in relation to the PostePay prepaid card collection and payment service. However, this performance was matched by further growth in gross revenues in this segment, amounting to approximately 19.7 million euros (up 16.6%), due to the different product mix and unit value per transaction. Overall, the business segment in question therefore

generated gross revenues for the Group of approximately Euros 170 million (+13%), while the contribution in terms of marginality (i.e., net of the remuneration paid to the network of Receivers and the so called points of payment), provided by this business segment during 2019, recorded a decrease compared to the previous year and amounted to approximately Euros 63 million compared to approximately Euros 73 million in 2018, a decrease of more than 13%, mainly due to the different incidence of the sector's costs and, consequently, of the profitability for the Group, as a result of the trends described above by sector;

- other income relating to various contractual relationships with the retail network shows an increase of about Euros 6 million (+7% compared to 2018) as a result of the sales policies implemented during the year and the further expansion of the distribution network dedicated solely to services;
- 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 2.6 million (around +42% compared to 2018).

The trend in operating costs, including depreciation, amortization and provisions, net of non-recurring expenses, led to an increase of around 5% compared to the previous year.
The main factors of this net increase have been, on the one hand, charges for amortization and depreciation, which increased by a total of approximately Euros 40 million, as a result of the large volumes of investments both in tangible and intangible assets made over the last two years and also, for approximately Euros 21 million, due to the adoption of the new accounting standard IFRS 16; personnel costs and other operating expenses increased by approximately Euro 13 million, as a consequence, respectively, of the increase in the overall average number of employees during the year and the higher charges for non-deductible VAT and concession fees and, on the other hand, the costs for the use of third party services decreased by more than Euros 20 million, mainly due to the adoption of the new accounting standard already mentioned above.

With regards non-recurring expenses and income, compared to the approximately Euros 5.6 million non-recurring expenses which affected the operating result in the previous year, mainly resulting from company and corporate reorganisation processes, 2019 recorded around Euros 19.8 million in net non-recurring expenses, essentially deriving from costs related to reorganisation, acquisitions and new business setup costs and new business projects with particular reference to new activities launched abroad

The changes described above generated an increase in the gross margin, as previously defined, slightly above 5% whereas the operating profit posted a decrease of approximately Euros 23 million. Excluding the non-recurring income and expenses mentioned above, the gross margin increased by about 11%, while operating profit recorded a decrease of about Euros 9 million (about -7.9% compared to operating profit in the previous year).

In terms of financial position and in particular, with regard to the trend of the net financial position, 2019 was impacted by the realization of the extraordinary transaction in the payment services business; more in details, at the end of July 2019, Sisal Group S.p.A., Sisal S.p.A. and Sisal Point S.p.A. reached an important strategic agreement with Banca 5 S.p.A.. for the realization, through a series of corporate transactions, of their respective businesses related to payment services which, starting from the end of December 2019, are therefore under the management of the subsidiary SisalPay Group S.p.A. (whose share capital is held 70% by the Parent Company and 30% by Banca 5 S.p.A.) which wholly control SisalPay Servizi S.p.A. and SisalPay S.p.A. (the latter is an electronic money institution subject to Bank of Italy supervision).

To finalize the above extraordinary transaction, in December 2019 SisalPay Group S.p.A. transaction issued a seven-year floating rate bond loan for Euro 530 million euros and, at the same, entered into a revolving credit facility for a maximum of Euro 92.5 million with a pool of banks; both these lines are exclusively guaranteed by the cash flows expected from SisalPay Group S.p.A. and its subsidiaries. The aforementioned company also entered into two agreements for the deferral of the purchase price of the shares in the two operating subsidiaries for a total of Euros 286 million, of which € 100 million towards the Parent Company and Euros 186 million towards Banca 5 SpA. Sisal Group SpA used the funding from the sale of the payment services business to fully repay its variable rate bond loan of Euros 325 million euros and to partially repay its fixed rate bond Euros for 125 million (originally equal to Euros 400 million) in addition to the interest accrued at the date and the early redemption charge equal to a total of approximately Euros 11 million. Following the transaction, the aforementioned bond loan is guaranteed exclusively by the cash flows referable to the companies of the "gaming" and "international segments.

The payment of Euros 111 million of the first tranche (50%) of the concession fee provided for in the new GNTN tender awarded in 2019 to the former concessionaire Sisal S.p.A. also had a financial and equity impact.
During the year, the Group paid a total of approximately Euros 80.8 million in interest and commissions to the lender banks, mainly in relation to the "Super Senior Revolving Facility Agreement", and to the underwriters of the bonds, with an increase of approximately Euros 29 million

(+57%) towards 2018, mainly due to the charges related to the extraordinary transaction just described, including one-off fees incurred for the activation of the new loan.

Additional financial charges, totalling approximately €9 million, accrued during the year but not paid, mainly in relation to bonds issued whose quarterly and half-yearly liquidation periods, respectively, for floating rate and fixed rate bonds, do not exactly coincide with the calendar year.

The key performance indicators relating to Net invested capital as well as certain other financial indicators are summarized in the following table (in thousands of euros):

	2019	**2018**	**Change**
Net Invested Capital (NIC)	1,341,258	898,683	442,575
Funding by third parties	963,657	571,291	392,366
Shareholders' Equity	377,601	327,391	50,210
Debt-to-equity ratio	2.55	1.74	
Normalised ROI (EBIT/NIC)	6%	12%	

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 78 million (about Euros 69 million at year-end 2018). Consequently, the funding by third parties represents the sum of the financial liabilities of the Group (for a total of approximately Euros 1.057 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 2019, reflects, on the one hand, the significant positive impact of current operations and, on the other, the effects of the Group's strategic restructuring and the extraordinary disbursements discussed above.

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), complementary and optional games and the relative forms of remote participation, as well as any further numerical game based on a single national tote number.

Main developments in relation to the Concession:

In compliance with the 2017 budget law - Law 11-12-2016 n. 232 - article 1 paragraph no. 576, ADM, by publishing the tender notice in the Official Gazette S 242 of 15 December 2018, launched the selection procedure for the award of the concession for the management of the national tote number games, setting the date of March 5, 2019 as deadline for the delivery of the proposals. In addition to Sisal, the companies Lottomatica Holding Srl and Italian GNTN Holding SA (company of the Sazka group) presented their proposals. The proposal presented by Sisal was the best, both in relation to the technical components and economics and, consequently, also in light of the correct fulfillment of the further obligations placed on the successful tenderer, ADM, with its deed of December 2, 2019, declared the effectiveness of the concession award in favor of Sisal. As of the date of this document, it is pending to sign the agreement.

Litigation:

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.

With sentence no. 11767/2017 published on 22 November 2017, the Court of Milan considered the partial validity of the application proposed by Mr. Giovanni Baglivo, declaring the partial nullity of the stipulation contained in art. 8 of the Contract between the Dealer and the Point of Sale regarding, in particular, certain services indicated in Annex 2 to the Contract. In fact, according to the Court of Milan, the services covered by the aforementioned services should be considered included in those that Sisal is already required to perform on the basis of the commitments entered into with AAMS when participating in the tender and subsequent signing of the Agreement. The ruling did not however consider a hypothesis of opposition to mandatory rules and unlawfulness of the case for violation of art. 3 of Law no. 287/1990 and art. 102 of the TFEU regarding abuse of a dominant position considering that it has not been proven that Sisal holds a dominant position in the gaming and betting market. Believing that the aforementioned ruling is vitiated by erroneous assessments both in law and in fact, an appeal was filed before the Milan Court of Appeal. At the hearing of July 4, 2018, the Milan Court of Appeal postponed the case for clarification of the conclusions to the hearing of May 29, 2019. By judgment of December 3, 2019, the Court of Appeal actually confirmed the sentence, except for accepting Sisal's reason for appeal relating to computation of the interest (due from the application, and not from each individual payment). In particular, the Court held that the defense made for some of the reasons raised in the appeal were late, as they were not raised at first instance (thesis not shared since all the arguments relating to these reasons were by law and therefore also available in appeal). An appeal in cassation is being prepared against the appeal sentence.

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

Main developments in relation to the Concession:

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. 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;
2. 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.

Article 1 of Law 27 December 2019, n. 160 Budget Law for the financial year 2020 and budget for the three-year period 2020-2022, provided for:

i) paragraph 727, a) to d,): by December 31, 2020, ADM will have to launch a tender to award the following concessions:

a) 200,000 rights for AWPR devices to be placed in the stores referred to in letters c) and d) below, as well as in betting and bingo halls; auction base of not less than 1,800 euros for each right, with a minimum bid of 10,000 rights;

b) 50,000 rights for VLT, to be placed in the stores referred to in letter d), as well as in betting shops and bingo halls; auction base of not less than € 18,000 for each right, with a minimum bid of 2,500 rights;

c) 35,000 rights to operate stores in bars and tobacconists, where AWPRs can be placed; auction base not less than € 11,000 for each point of sale, with a minimum bid of 100 rights;

d) 2,500 rights to operate rooms where both AWPR and VLT can be placed; auction base of not less than € 35,000 for each point of sale, with a minimum bid of 100 rights.

Also, in the same paragraph, letter e), the aforementioned regulation provided for the call for a tender for the award of rights for the collection of remote gaming. To this exent, by December 31, 2020, ADM will have to launch a tender to assign 40 rights to be able to offer remote gaming, with an auction base of at least 2,500,000 euros for each right.

All the aforementioned concessions referred to in paragraph 727 will have a nine years non-renewable duration.

ii) paragraph 731, which, starting from 1 January 2020, the measures of the single tax collection on the appliances referred to in Article 110, paragraph 6, letters a) and b), of the consolidated text of the public security laws, of which to the Royal Decree of 18 June 1931, n. 773, are increased and fixed, respectively, in 23,85 per cent until 31 December 2020 and in 24,00 per cent as from 1 January 2021 of the amounts wagered for the appliances referred to in letter a) and 8,50 per cent until 31 December 2020 and 8,60 per cent, as of 1 January 2021 of the amounts wagered for the appliances referred to in letter b). The rates provided for in this paragraph replace those provided for in article 9, paragraph 6, of the decree-law of 12 July 2018, no. 87, converted, with modifications, by law 9 August 2018, n. 96, as amended by article 1, paragraph 1051, of the law of 30 December 2018, n. 145, and from article 27, paragraph 2, of the decree-law of 28 January 2019, n. 4, converted, with modifications, by law 28 March 2019, n. 26.

iii) paragraph 732, which, starting from 1 January 2020, the percentage of the payouts is set at a rate of not less than 65 per cent for the appliances referred to in Article 110, paragraph 6, letter a) of the consolidated text referred to in the Royal Decree of 18 June 1931, no. 773, and to not less than 83 percent for the appliances referred to in Article 110, paragraph 6, letter b), of the consolidated text referred to in the Royal Decree of 18 June 1931, no. 773. The technical operations to adjust the payouts accordingly must be completed within eighteen months from the date of entry into force of the aforementioned law.

iv) paragraph 733 which, as of January 15, 2020, the withdrawal on the winnings of gaming machines pursuant to art. 110 paragraph 6 lett. b of the TULPS, pursuant to article 5, paragraph 1, letter a), of the decree of the general manager of the Autonomous Administration of State Monopolies 12 October 2011, published in the Official Journal no. 265 of 14 November 2011, referred to in article 10, paragraph 9, of the decree-law of 2 March 2012, no. 16, converted, with modifications, by the law 26 April 2012, n. 44, was set at 20 per cent for the share of winnings exceeding the value of 200.00 euros.

Litigation:

In relation to the this concession, it should be noted that the Stability Law for 2015 has provided for a reduction of the fee for the concessionary activities by the concessionaires of entertainment equipment, for a total of five hundred million euros, to be divided among the various concessionaires, based on the number of entertainment equipment managed at 31 December 2014; the calculation of the amounts due by each concessionaire was determined by a special directorial decree of the Customs and Monopolies Agency on 15 January 2015. The concessionaires, after redefining the contracts with the operators of the supply chain in charge of the game collection, were able to apply pro quota the aforementioned reduction of the consideration to the latter.

Based on the unfairness of the content laid down in the substance by the Stability Law for 2015 and the alleged lack of constitutional legitimacy of the same standard, Sisal Entertainment SpA, similarly to what was operated by the other concessionaires, proceeded to file an appeal to the TAR Lazio which considered acceptable the exceptions of constitutional legitimacy raised by Sisal Entertainment SpA and remitted the judgment to the Constitutional Court. The Constitutional Court, with a sentence published on 13.06.2018, ordered the return of the documents to the Lazio TAR so that, after the entry into force of art. 1, paragraph 921 of the financial law for 2016, re-evaluate the non-manifest groundlessness of the question of constitutional legitimacy raised in relation to art. 1 paragraph 649, of the law 23 December 2014, n.190.

The 2016 Stability Law intervened again on this matter through an overall review of the aforementioned reduction of fees; in particular, on one hand, it abrogated the previous legislation with effect from 1 January 2016 (replaced by increases in the amount of tax levies applied to the amounts played through entertainment devices), on the other, with regards to the past periods, established a provision which, even if formally interpretative, it seems to have a strongly novel effect.

Specifically, the apportionment criterion was introduced within the supply chain of the reduction made by the 2015 Stability Law, anchoring it to everyone's participation in the distribution of the remuneration, on the basis of the relative contractual agreements and taking into account their duration in 2015 The Group concessionaire company, after further legal / regulatory investigations, therefore came to the conclusion that the aforementioned legislative novel, obviating the inconvenience of the failure to quantify the internal allocation of the reduction of remuneration within the individual supply chains referring to each concessionaire, has decreed the autonomy and independence not only of the remuneration items but also of the related debts for individual operators. Sisal Entertainment S.p.A. therefore, it is not obliged with reference to what is due by the other operators in its supply chain as a result of the 2015 Stability Law and proceeds to pay ADM the amounts due to them when and to the extent in which they are collected.

Upon the outcome of the renewed assessment, the first-instance judges deemed these doubts removed from the ius supervenienes (2016 Stability Law), declaring the appeal partially unprocessable due to a lack of interest and, for the rest, unfounded. Even if the decision seems to be in line with the regulatory approach, leaving the debt owed by the dealers distinct from that owed by the supply chain and also reiterated that the legal parameter is only that of the "contractual fees in force in 2015 ", the decision remains, however, attachable in terms of the constitutionality of the measure in the aftermath of the entry into force of the application law and, therefore, it was decided to appeal the sentence to the Council of State. At present the judgment is pending before the Council of State, pending the fixing of the merit hearing.

Consequently, the amounts due by operators in the supply chain as a result of the 2015 Stability Law and not paid to the concessionaire (neither in terms of credit to operators nor in terms of corresponding amounts due to the Administration) are not shown in the financial statements.

Horse-racing and sports betting concession

Main developments in relation to the Concession:

With 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 June 30, 2020, 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, 2020, against payment of the annual fee of Euros 7.500 relating to the points of sale whose core business is the marketing of public gaming products and Euros 4.500 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 2020 of 1375 points of sale whose core business is the marketing of public gaming products and 471 points of sale whose accessory business is the marketing of those same gaming products.

In reference to the horse-race betting concessions, by writ of summons dated August 3, 2017, Sisal Entertainment S.p.A. began dispute proceedings against the 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.

Litigations

Sisal Entertainment SpA, with a summons dated August 3, 2017, initiated a dispute against the Customs and Monopolies Agency aimed at obtaining compensation for damages resulting from the failure of the entity granting the obligations arising from the contractual relationships granted , in particular relating to the failure and in any case late full implementation of all types of bets, the failure and / or late enactment of the regulatory rules for the collection of online bets by the concessionaire, the failure to protect the betting market from phenomena illegal and on-line activities and in any case failure to implement and maintain, due to the fact of the granting entity, the market conditions promised with the concession deed. With regard to this judgment, a hearing has been set for May 5, 2020 for the clarification of the conclusions. To the request for the payments of the minimum horse races sent in 2018 and also in the first months of 2019 by ADM to the concession holders holding the so-called "historic" concessions was provided by the company Sisal Entertainment S.p.A. timely response, highlighting the incardinated judgment before the civil court of Rome and contesting the legitimacy of the request for payment.

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 described 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 2019, as in previous years, the Supervisory Body has not reported any significant inconsistencies or deviations from the models referred to above.

Other information

Certain disputes and/or fiscal inspections and investigations, which also relate to certain subsidiaries, were pending at 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 the claim, on the other hand, raised by the aforementioned Tax Revenues Agency audit, in relation to non-deductibility of VAT, which triggered notices of findings for the three-year period 2010-2013 for a total of approximately Euros 8.5 million in taxes and penalties, the company Sisal S.p.A., after having unsuccessfully attempted an assessment with adhesion, filed the related appeals. The first instance hearing was held on 9 September 2019 and the Provincial Tax Commission of Milan ruled in favour of Sisal S.p.A., accepting the defense and ordering the Inland Revenue to pay the legal costs. At the end of the year, the company was served a further notice of assessment for the same issue relating to the year 2014 for a total of approximately €2.7 million in taxes and penalties 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, 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. In 2019 the company Sisal Entertainment S.p.A. also defined the year 2013 for a total of approximately Euro 400 thousand in taxes and penalties. In the month of December 2019, the Company was also received a notice of assessment relative to the financial year 2014 (including the challenge of lower taxes paid of Eurs 557 thousand as well as sanctions and interest), against which a request to adhere was presented at the beginning of 2020, a procedure still in progress; 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.

In addition, on 10 May 2019, the Tax Revenues Agency - Provincial Directorate II launched a tax audit for direct taxes, VAT and IRAP with regard to the 2014 tax period of Sisal Group S.p.A..

At the end of its inspection activities, on 19 July 2019, the Office handed over to the Company the Minutes of Findings (hereinafter, the PVC), through which an adjustment of the interest rates applied to loans was made for transfer pricing purposes: (i) Subordinated Shareholder Loan C disbursed for an amount of approximately Euro 452 million (hereinafter SHL 2006); (ii) Subordinated Zero Coupon Shareholder Loan and waived by Gaming Invest in 2014 together with interest for a total amount of approximately Euro 33 million.

As a result of the adjustment, the Office contested to the Company Sisal Group S.p.A.:

- the deduction for IRES (corporate income tax) purposes of an amount of interest expense relating to the loans totalling approximately Euro 5.7 million;
- the failure to make and therefore pay withholding tax for a total amount of Euro 4.7 million.

Since these are recurring issues, in order to avoid that the objections formulated by means of the PVC were extended to the years 2015 and 2016 (i.e. until the 2006 SHL was also waived), with a potential risk of approximately Euro 44 million, the company defined with the Tax Revenues Agency, at the end of November, a tax assessment covering the three-year period 2014-2016 for a total of approximately Euro 5.6 million. Against this charge, the Company was able to obtain the partial release for approximately € 3.9 million of the escrow amounts, also in relation to the outcome of the aforementioned disputes, relating to part of the consideration established for the acquisition of the Group by Schumann SpA at the end of 2016.

The past financial year was also characterized by important developments in the Group's international strategy, in particular:

- with reference to the agreement for outsourcing the service for the creation and management of a new automated management system, through a telematic network, for the collection of public games in Morocco, assigned to the Group at the beginning of the previous year, the company Sisal Loterie Maroc Sarl, 100% controlled by Sisal SpA, after months of preparation, promptly started the collection activities on January 1, 2019 and is actively engaged in the consolidation of the product range included in the aforementioned concession and in the development of the related on-site distribution network ;
- at the beginning of 2019 an important nearshoring project was developed and implemented in Albania through the establishment of a company, Sisal Albania SHPK, based in Tirana, which during the year, after completing the establishment, logistical organization and hiring of a first group of collaborators, from June onwards, it was able to carry out the aforementioned activities in favor of the Group companies. The local context, no less than others in the Balkan and Eastern European areas, has proved particularly favorable from a socio-political and economic point of view, knowledge of the Italian language and also ease of access to qualified digital and IT skills;
- during 2019 the company Sisal Entertainment was able to successfully start the activities relating to the operation of remote gambling in Spain, for which the same company had participated at the end of 2018 in the relative notice promoted by the competent authorities of that country and the study for the establishment of a company under Spanish law that will take charge of the above activities will be advanced;
- the award of the management service in the territory of the State of Turkey of the games of chance belonging to the commercial category of "lotteries", decreed by the Turkish Welfare Fund (TWF), is noteworthy, in favor of the joint venture between Sisal SpA and the Turkish company "“ans Dijital ve İnteraktif Hizmetler Teknoloji Yatırım Anonim Şirketi", which led to the establishment of the Turkish company called "SISAL SANS INTERAKTIF HIZMETLER VE SANS OYUNLARI YATIRIMLARI ANONIM SIRKETI", 49% owned by the Group, but actually controlled by virtue of the governance agreements agreed and signed with the Turkish partner. Afterwards, all the operations and activities necessary for the implementation of the offer were immediately launched in compliance with the deadlines set by the tender specifications and by the contract itself, whose actual departure is expected by the second quarter of the current year.

Lastly, we note the pending dispute with INPS, originating from a controversial dispute concerning an assessment report by the Social Security Institute regarding the legal classification of collaborators used in the performance of corporate activities by Sisal Entertainment SpA. An injunction notified following the assessment activities was challenged before the competent Court with the aim of ascertaining the correctness of the company's operations. On 30 October 2018 the Court of Milan ruled on the company's opposition by rejecting the appeal filed and substantially accepting the request of the Institute.

Sisal Entertainment S.p.A. on April 23, 2019 filed an appeal. The discussion took place before the competent Board of the Milan Court of Appeal - Labor Section, on 10 December 2019. The ruling, filed on 13 January 2020, declared the Company's appeal rejected, accepting the prospects in this sense again INPS, according to which the collaborators actually carried out tasks which coincided entirely with the object of the company activity as employees of the company.

The company reserves the right to evaluate any further actions.

Information regarding human resources and the environment

The Group has 2,230 employees at December 31, 2019. 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 2019, 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. At the end of 2019, the preparation of documents useful for the realization of a tender for the long-term rental of company cars began. In the tender documents, particular importance was given to the acquisition of vehicles equipped with modern low-pollution engines; in 2020 we will proceed with the acquisition of the new vehicles. The Group is maintaining and perfecting the integrated management system for all group companies; in particular, the Rome office (via Sacco and Vanzetti 89) maintains the ISO: 14001:

2015 "environmental management system" and ISO: 50001: 2011 "Energy management systems" certifications.

Development and investment activities

After a record level of investments had been reached in the previous year, in 2019 the Group further and significantly increased the levels of investments in both tangible and intangible assets, for a total of over 113 million Euros (excluding the effects of the adoption of the new international accounting standard IFRS 16, with reference to contracts previously accounted for as operating leases), an increase of approximately 18 million euros (+ 19% approximately) compared to those recorded in the previous year.

In particular, as regards to the first category, the Group has made investments of approximately 47 million Euros, of which approximately 33 million Euros related to the purchase or technological updating of entertainment devices and terminals for the collection of games and of services.

During the year, investments of approximately 6 million euros were also made in plant engineering, various renovations and furnishings at the Group's main operating centers and especially in the network of sales points, consisting of horse and sports agencies and "Wincity". There are also investments for an additional 6 million Euros in peripheral and central hardware and various equipment.

On the other hand, in the context of investments in intangible assets and rights, the year 2019 recorded a further significant increase in investments in particular relating to software applications and user licenses for around 53 million Euros (+ 40% compared to the analogous figure of the 2018), to which were added approximately 11 million Euros of investments in concession rights, mainly relating to the procedures for extending the concessions relating to the collection of public games.

The year was also characterized by a series of acquisitions of companies, in particular relating to the retail gaming business, for a total outlay of around 8 million Euros (approximately 1.5 million Euros net of cash and cash equivalents acquired), while the aforementioned integration of the payment services business previously managed by Banca 5 SpA resulted in the recognition at fair value of the related business complex for a value of 250 million Euros, of which approximately 238 million Euros provisionally allocated, as permitted by the reference accounting principles, under the item goodwill.

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 March 2019, the Group approved, in the various areas in which the operating and corporate structure was structured following the extraordinary transaction relating to the payment services business, its economic-financial budget for the current year.

During the first months of the current year, the new structures, organizational charts and related levels of responsibility of the various business areas in which the Group's activities are carried out were also developed.

The beginning of 2020 unfortunately saw the explosion of the health emergency caused by the pandemic spread of the virus called Covid19; the Group has launched a series of initiatives aimed at guaranteeing the protection of employee health and protecting the business. In particular, work activities carried out in smart-working mode have been increased, travel has been limited both in Italy and abroad, and the cleaning activities in the workplace have been strengthened.

To protect the company business, a plan was launched to ensure business continuity with the aim of improving technological solutions for remote access to company applications and meeting management. Marketing and commercial initiatives were launched to encourage growth. of the online business, an action plan was finalized to ensure the launch of the new GNTN concession in Italy and the lottery concession in Turkey and monitoring of critical company suppliers was started.

The Group has also launched initiatives to support its commercial partners (flexibility in payments, temporary cancellation of membership fees), and launched initiatives in favor of the community with fundraising to support voluntary associations and Civil Protection. With regard to the impacts on the reference markets, the emergency led, starting from mid-March 2020, to the partial blocking of the physical distribution network through which the Group operates (closure of the bar channel, while the tobacco channel remained operational) and the total closure of the dedicated arcades and betting rooms. It should be noted, however, that the collection of gaming products was banned in the tobacco channel, while the collection of payment services continued. The Online channel remained operational, although the blocking of sporting events and the limitation of the offer of Lottery products limited their collection potential. At the moment there are no clear indications from the authorities on what will be the times of resumption of normal activity and what will be the conditions under which it will be allowed, even if some measures of partial reopening of the collection of games at the still active network of outlets were recently announced by ADM. Despite the current uncertain situation, the Group's liquidity situation is such as to ensure normal operations and does not raise an area of concern.

Pending the completion of the process aimed at signing the new GNTN concession, there are no further significant developments in the context of the main concession and / or other relationships, in addition to what has already been commented on previously.

Outlook

As regards the overall value of the gaming market, it is expected that it will decrease by about 2% in 2020 compared to the cumulative data for 2019, mainly due to regulatory limitations, with an increase in the Online component which at the expense of collection from physical networks on the territory.

With reference to the Payments sector in the current year, the overall value of the so-called market “Attackable” was expected to grow by about 2% with a downward trend in the traditional retail channel to the benefit of the proximity retail channel and the digital one which are the reference segments for the Group companies dedicated to the aforementioned business.

These forecasts will necessarily be subject to updates in consideration of the impacts of the Covid-19 emergency, even if the imminent reopening of the collection activities for most games on the physical channel and the substantial maintenance of the payment services collection network even in the most critical weeks of the health emergency they should allow to mitigate the negative effects on the overall performance of the current year.

In the face of this overall performance of the reference markets and the socio-economic consequences of the Covid-19 emergency, which is still ongoing, it is expected that in 2020 the Group's funding, revenues, and gross and operating profitability might record a decrease compared to the significant performance recorded in the 2019, however not such as to jeopardize the strategic development paths already started in previous years in the various areas in which the company activity is divided and which will also be substantiated in further high levels of investments in tangible and intangible assets, mainly related to the renewals of concessions, the technological segregation of the payment services business, the consolidation of new international activities and in general the intensification of projects to digitize the Group's activities, investments which will be financed with the cash flows from the operating activities and, if necessary, with the credit lines already available or otherwise obtainable on the financial markets.

Milan, April 28, 2020

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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 2019	2018
Revenues	8	731,851	724,014
Fixed-odds betting income	9	135,058	114,046
Other income	10	2,478	1,813
of which non-recurring	*44*	*1,613*	*-*
Total Revenues and income		**869,387**	**839,873**
Purchases of materials, consumables and merchandise	11	15,264	12,211
of which non-recurring	*44*	*-*	*166*
Costs for services	12	460,347	452,493
of which relative to related parties	*43*	*2,341*	*2,270*
of which non-recurring	*44*	*14,420*	*5,072*
Costs for leased assets	13	2,179	22,373
of which non-recurring	*44*	*36*	*24*
Personnel costs	14	97,034	91,746
of which relative to related parties	*43*	*4,090*	*3,716*
of which non-recurring	*44*	*280*	*172*
Other operating costs	15	50,933	36,385
of which non-recurring	*44*	*6,717*	*121*
Depreciation, amortization, impairments and reversals of the value property, plant and equipment and intangible assets	16	158,192	115,865
Operating profit (loss), EBIT		**85,438**	**108,800**
Finance income and similar	17	37	25
Finance expenses and similar	18	74,735	56,686
Share of profit/(loss) of companies accounted for using the equity method	18a	127	600
Profit (loss) before income taxes		**10,613**	**51,539**
Income taxes	19	24,251	15,096
Profit (loss) for the year		**(13,638)**	**36,443**
Profit (loss) for the year pertaining to non-controlling interests		(2,103)	80
Profit (loss) for the year pertaining to the group		**(11,535)**	**36,363**
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		(224)	147
Tax effect		54	(35)
Overall profit (loss) for the year		**(13,808)**	**36,555**
Overall profit (loss) for the year pertaining to non-controlling interests		(2,103)	80
Overall profit (loss) for the year pertaining to the group		(11,705)	36,475

Statement of Consolidated Financial Position

(in Euros thousands)	Note	Year ended December 31 2019	2018
Non-current assets			
Property, plant and equipment	20	224,750	108,740
Goodwill	21	807,817	569,275
Intangible assets	22	497,670	497,523
Equity investments in associates	23	3,309	-
Deferred tax assets	24	24,110	17,515
Other assets	25	22,663	20,844
Total non-current assets		**1,580,319**	**1,213,897**
Current assets			
Inventories	26	10,958	11,760
Trade receivables	27	114,936	145,529
Current financial assets	28	-	-
Taxes receivable	29	231	77
Restricted bank deposits	30	148,585	201,552
Cash and cash equivalents	31	172,014	254,892
Other assets	32	175,041	61,028
Total current assets		**621,765**	**674,838**
Total assets		**2,202,084**	**1,888,735**
Equity			
Share capital		102,500	102,500
Statutory reserve		200	200
Share-premium reserve		94,484	94,484
Other reserves		192,907	66,426
Results carried forward		51,001	62,684
Total Group equity		**441,092**	**326,294**
Equity pertaining to non-controlling interests		(63,491)	1,097
Total equity	**33**	**377,601**	**327,391**
Non-current liabilities			
Long-term debt	34	1,019,607	701,499
Provision for employee severance indemnities	36	10,125	8,381
Deferred tax liabilities	24	128,110	127,636
Provisions for risks and charges	37	17,686	15,477
Other liabilities	38	236	709
Total non-current liabilities		**1,175,764**	**853,702**
Current liabilities			
Trade payables and other payables	39	301,998	334,756
Short-term debt	34	6,416	40,287
Short-term portion of long-term debt	34	31,306	15,577
Taxes payable	40	5,529	10,942
Other liabilities	41	303,470	306,080
of which relative to related parties	*43*	*1,462*	*1,616*
Total current liabilities		**648,719**	**707,642**
Total liabilities and equity		**2,202,084**	**1,888,735**

CASH FLOW STATEMENT

(in Euros thousands)	December 31 2019	December 31 2018
Profit (loss) before income taxes	**10,613**	**51,539**
Depreciation and amortization	140,066	100,380
Amortization of a one-off GNTN concession fee	543	4,870
Impairment losses on current assets	13,627	13,426
Impairment of property, plant and equipment and intangible assets	11	0
Results of assets valued with the NE method	0	0
Employee provisions, other provisions and other non-cash items	5,021	3,020
Finance (income) expenses	(1,614)	56,661
	74,698	
Cash flows (uses) generated by current operations	**242,965**	**229,896**
Change in trade receivables	22,588	22,386
Change in inventories	802	(1,736)
Change in trade payables	(21,684)	(30,392)
Change in other assets and liabilities	(119,663)	(11,274)
Income taxes paid	(39,584)	(21,599)
Cash flows (uses) generated by business operations	**85,424**	**187,281**
Investments in intangible assets	(66,281)	(48,103)
Investments in property, plant and equipment	(38,564)	(45,332)
Investments in non-current financial assets	(3,436)	0
Variations of other activities	(1,240)	(272)
Acquisitions net of acquired cash and cash equivalents	(1,402)	(300)
Purchase of minority interests	(233)	(144)
Cash flows (uses) generated by investment activities	**(111,156)**	**(94,151)**
Raising of medium/long term loans	530,000	0
Repayments of medium/long term loans	(450,127)	(273)
Net change in leasing financing	(22,424)	(98)
Raising of short-term loans	5,637	17,307
Repayments of short-term loans	(39,378)	(15,000)
Share capital increases pertaining to the Group	0	0
Net interest paid	(80,854)	(51,576)
Cash flows (uses) generated by financial activities	**(57,146)**	**(49,640)**
Increase (decrease) in liquid funds in cash and at banks	**(82,878)**	**43,490**
Liquidity at the start of the year	**254,892**	**211,402**
Liquidity at the end of the year	**172,014**	**254,892**

The balances relating to Banca 5 payment business’s contribution (including the deferred payment of Euro 86 millions) are shown net, as they have not generated/used cash liquidity.

Non-recurring transactions affecting cash flows, if any, are highlighted 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, 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**
Sale of 30% Network Italia S.r.l.							-	1,020	1,020
Buy-back of non-controlling interests						22	22	(1,097)	(1,075)
Transfer business unit Banca5					126,417		126,417	(62,417)	64,000
Exchange adjustment reserve of foreign companies and other movements					64		64	9	73
Actuarial profit (loss) on defined benefits plans for employees						(170)	(170)	-	(170)
Profit (loss) for the year						(11,535)	(11,535)	(2,103)	(13,638)
Overall profit (loss) for the year		-	-	-	-	**(11,705)**	**(11,705)**	**(2,103)**	**(13,808)**
Transactions with shareholders							-	-	-
Net equity at December 31, 2019		**102,500**	**200**	**94,484**	**192,907**	**51,001**	**441,092**	**(63,491)**	**377,601**

SISAL GROUP

Notes

to the Consolidated Financial Statements

At December 31, 2019

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 28, 2020.

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"). which include all International Financial Reporting Standards (IFRS), all International Accounting Standards (IAS) and all interpretations published by the International Financial Reporting Interpretations Committee (IFRIC), previously Standing Interpretations Committee (SIC), which at the date of approval of these consolidated financial statements, have been endorsed by the European Union in accordance with the procedure set forth in EC Regulation No. 1606/2002 of the European Parliament and European Council of 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, including, 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 of the year 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.

- The statement of changes in consolidated shareholders' equity

The comparative amounts have been reclassified, where deemed necessary, in order to ensure homogeneity in the presentation of the amounts.

2.2 Going concern

The financial statements for financial year 2019 show a loss of Euros 13,638 thousand, consolidated equity equal to Euros 377,601 thousand and negative net working capital of Euros 161,246 thousand.

The 2019 result was affected by net non-recurring expenses of approximately Euros 19,8 million, mainly relating to business combinations and reorganization processes for approximately Euros 9,7 million and new business start-ups for Euros 5,4 million.

With regard to the working capital, it should be mentioned that the *activities* of the Group are 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, a negative working capital is expected for the Group.

With reference to the debt structure, following the complex financial restructuring put in place in the context of the Sisal Group acquisition at the end of 2016 and the reorganization process that led to the transfer of business service in a separate legal entity of which Banca 5 S.p.A. is a minority shareholder, as mentioned in the Directors' Report and shown in detail in the following paragraph, the following table shows the Group's assets, capital resources and financial debt.

The loans received, which are mainly represented by floating-rate and fixed-rate notes, will expire respectively in 2023 and 2026.

	At December 31			
(in Euros thousands and as percentage of total debt and equity)	**2019**		**2018**	
Long-term debt	1,019,607		701,499	
Short-term debt and current portion of long-term debt	37,722		55,864	
Funding from third parties	**1,057,329**	**73.7%**	**757,363**	**69.8%**
Equity	377,601	**26.3%**	327,391	**30.2%**
Total debt and equity	**1,434,930**	**100.0%**	**1,084,754**	**100.0%**

It should be noted that funding from Third Parties includes Euros 186,6 million, related to a funding of a minority shareholder Banca 5 S.p.A. as described above.

As illustrated in the Directors' Report, the 3.5% increase in Group revenues and income compared to 2018 is mainly attributable to a significant increase in online, Lottery and betting and service games, partially offset by a decrease in entertainment equipment as a consequence of the negative impact of applicable laws and regulations.

Considering the complex performance of the company's markets, it is therefore forecast that in 2020 the complex value of the games sector might suffer a reduction compared to the significant values recorded in 2019, as a consequence of the negative impact of regulatory changes, with an increase in the online games offset by a reduction of physical funding. Both of these negative effects are due to the impact of

Covid-19 which the Group is constantly monitoring as mentioned below (significant events occurring after the end of the year).

With reference to the payment, the Group forecasts a growth of the “tackled” market, with particular focus on retail and online channel.

It should be noted that in 2020, the Group will complete the necessary activities for the start-up of international business in the Game and Lottery sectors in Turkey, which is scheduled for August 1, 2020.

With reference, to the tender procedure pertaining to the GNTN concession, the proposal presented by Sisal was the best, both in relation to the technical components and economics and, consequently, also in light of the correct fulfillment of the further obligations placed on the successful tenderer, ADM, with its deed of December 2, 2019, declared the effectiveness of the concession award in favor of Sisal. As of the date of this document, it is pending the signing of the underlying agreement, expected during 2020.

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 a 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, 2019 and 2018 are reported as follows:

Companies included in the scope of consolidation			
			% Direct and Indirect ownership at December 31
Name	**Headquarters**	**Share capital**	**2019**
Sisal Group S.p.A. (Parent)	Milan	€ 102,500,000	-
SisalPay Group S.p.A. (ex Sisal Pay S.p.A.)	Milan	€ 10,050,000	70.00%
SisalPay S.p.A. (ex Qui! Financial Services S.p.A.)	Milan	€ 86,658,331	70.00%
Sisal Pay Servizi S.p.A.	Milan	€ 8,549,999	70.00%
Sisal S.p.A.	Milan	€ 125,822,467	100.00%
Sisal Point S.p.A.	Milan	€ 600,000	100.00%
Sisal Loterie Maroc S.a.r.l	Casablanca	€ 8,877	100.00%
Sisal Albania Sh.P.K.	Tirana	€ 325,551	100.00%
Sisal Sans Interaktif Hizmetler Ve Şans Oyunlari YAT.A.Ş.	Istanbul	€ 1.870	49.00%
Sisal Entertainment S.p.A.	Milano	€ 2,131,622	100.00%
Acme S.r.l.	Milan	€ 20,000	100.00%
Friulgames S.r.l.	Milan	€ 100,000	100.00%
Elmea S.r.l.	Milano	€ 10,000	100.00%
Sisal Gaming Campania S.r.l.	Milano	€ 10,000	100.00%
Di.Vi. S.r.l.	Bergamo	€ 10,000	100.00%
Network Italia S.r.l.	Milan	€ 2,560,000	60.00%
Slot Italia S.r.l.	Milano	€ 100,000	60.00%

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	Casablanca	€ 8,877	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%

Associates			% Direct and Indirect ownership at December 31
Name	**Headquarters**	**Share capital**	**2019**
My Cicero S.r.l.	Senigallia (Ancona)	€ 1,142,857	30.00%
Sistema S.r.l.	Milano	€ 100,000	49.00%

Note that in 2019 the following companies were incorporated:

SisalPay S.p.A. (Ex QUI! Financial Services S.p.A.): company with registered office in Milan, controlled by the Group through the company SisalPay Group S.p.A.. In July 2019, the Group completed the acquisition from the Qui! Group of the company, accredited by the Bank of Italy as Istituto di Moneta Elettronica (IMEL), following the acquisition process started through the submission of a purchase offer in December 2018. Through the company, the Group was able to further expand its product portfolio linked to the world of payment services, in particular, by accessing the services authorised by the Bank of Italy to the Electronic Currency Institutions, which Sisal had no access to before the acquisition;

Sisal Şans Interaktif Hizmetler Ve Şans Oyunlari YAT.A.Ş. (subsequently Sisal Sans): company with registered office in Istanbul incorporated during 2019 with partner Sans Digital (belonging to the Turkish group Demiroren). The company is 49% controlled by the Group through Sisal S.p.A.. The company was awarded a tender by the Turkish Wealth Fund (TWF) and starting from August 2020, it will manage and develop activities related to numeric games, instant lotteries and online games in Turkey. As at 31 December 2019, the company was not yet operational and the organisational set-up activities are in progress.

Sisal Albania Sh P.K.: company incorporated during the year with registered office in Tirana, controlled by the Group through the company Sisal S.p.A. (which owns 100% of the company) and set up with the aim of creating a software development factory of about 70 people able to absorb the development activities currently carried out by third party consultants. For this propose, an agreement was reached with a player in Albania, which provides for the provision of recruiting and training services by the latter. The company is therefore captive in nature in order to supply the group with software development activities.

Elmea S.r.l.: company with registered office in Milan, controlled by the Group through Sisal Entertainment S.p.A. (which owns 100% of it). The company operates in the Retail Gaming sector in Sicily through direct local management and contracts with third party operators. The acquisition was completed in March 2019.

Di Vi S.r.l.: company with registered office in Bergamo, controlled by the Group through the company Sisal Entertainment S.p.A. (which owns 100% of it). The company operates in the Retail Gaming sector in Naples, through direct local management and contracts with third party operators. The acquisition was completed in December 2019.

Slot Italia S.r.l.: company with registered office in Cagliari, controlled by the Group through the company Network Italia S.r.l. which, on 23 December 2019, in order to expand its Retail Gaming business, and in particular its activities in the management and maintenance of gaming equipment, acquired 100% of the company's share capital.

Sisal Gaming Campania: company with registered office in Milan, newly incorporated on 13 December 2019 and 100% controlled by the Group through Sisal Entertainment S.p.A. As of 31 December 2019, the company was not yet operational.

My Cicero S.r.l.: company with registered office in Senigallia. On 18 March 2019, the Group acquired 30% of the capital shares of the company through the subsidiary Sisal S.p.A. in order to expand its activity in the field of digital payment services. The stake was then transferred in December 2019 to the other company in the SisalPay Servizi S.p.A. group as part of the corporate reorganisation process that led to the separation of the payment services business within the group. The remaining stake (70%) is held by Pluservice S.r.l., a company operating in the same sector. The investment qualifies as an investment in an associated entity in accordance with IAS 28. For additional details on the main changes in the scope of consolidation during 2019, refer to Note 6 “*Business combinations*”.

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

Subsidiaries

The consolidated financial statements include the financial statements of all the subsidiaries. Control exists when the Parent 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".*

The 2017 Budget Law introduced in Italy, from 2018, the possibility that taxable persons established in the territory of the State can become a single taxable person for VAT purposes, by virtue of an option exercised by them. With the decree of the Ministry of Economy and Finance of 6 April 2018 was given implementation to the law itself that, in turn, had transport in the national system the European rules on the VAT group.

The Sisal Group has joined this new institution already from the year 2019 that exceeds the pre-existing distinctions within the group between companies that exercised the option of exemption from compliance for exempt transactions provided for by art. 36a of D.P.R. 633/72, and companies in pro rata. Consequently the non-recoverable VAT, determined within the new regime of VAT Group, integrates the acquisition cost of an asset at the time of its capitalization on the basis of the provisional pro rata of the group and is possibly adjusted at the end of the year in relation to the final determination of the pro rata of the year.

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

A lease is a contract or part of a contract that transfers the right to use an asset for a period of time in exchange for a fee.

Rights to use leased assets and financial liabilities for leased assets represent, respectively, an asset representing the Company's right to use the asset owned by third parties and a liability representing the obligation to make payments under the contract. Both items are recognised in the financial statements from the date on which the asset is made available for use by the Company and up to the most recent date between the end of the useful life of the right of use and the lease term. However, if the lease transfers ownership of the leased asset to the lessee at the end of the lease term or if the value of the asset for right of use also takes into account the fact that the lessee will exercise the purchase option, the right of use is systematically depreciated over the useful life of the underlying asset.

The Group has defined the duration of the lease as the non-cancellable period of the contract, also considering the periods covered by an option to extend the lease, if the Company is reasonably certain to exercise that option. In particular, in assessing the reasonable certainty of exercising the renewal option, the Group has considered all the relevant factors that create an economic incentive to exercise the renewal option.

The liability for leased assets is recognised initially at an amount equal to the present value of lease payments not yet made at the commencement date, including fixed payments net of any lease inducements to be received, variable lease payments that depend on an index or rate, estimated payment by the lessee as security for the residual value, payment of the exercise price of the purchase option if the lessee is reasonably certain to exercise it and payment of contractual penalties for termination of the lease if the lessee is reasonably certain to exercise that option. The present value of future payments is calculated using a discount rate equal to the interest rate implicit in the lease or, if this cannot be easily determined, using the Company's incremental borrowing rate. After initial recognition, the book value of the liability for leased assets increases as a result of the interest accrued in each period and decreases as a result of the payments made. It is also restated, as a contra-entry to the book value of the related asset, in the presence of a change in the payments due for the lease as a result of contractual renegotiations, changes in indices or rates, changes in the valuation of the exercise of the contractual options, including the option to extend the contract. The interest component is recognised as a financial cost over the entire lease term and is determined on the basis of the effective interest method. The right of use is initially recognised at cost, determined as the initial amount of the lease liability to which the initial direct costs incurred by the lessee are added, any payments made on or before the effective date, net of any incentives received from the lessor, the initial direct costs incurred, the estimated costs expected to be incurred for dismantling. The right of use is depreciated on a straight-line basis over the shorter of the useful life of the asset and the term of the underlying lease. The Group applies the requirements for impairment to the right to use assets, in compliance with IAS 36, "Impairment of Assets".

The Company makes use of the practical exemption allowed for short-term and low-value leases and recognises payments for these types of leases in the income statement as operating expenses over the term of the lease agreement.

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 represents the expected future economic benefits from assets acquired in a business combination that cannot be individually identified and separately recognized. The measurement is the difference between the transferred consideration measured at fair value and the value of minority shareholders' equity less the fair value of the identifiable assets obtained minus the potential liabilities assumed on the purchase date.

Any negative difference (negative goodwill or "badwill") is recognised immediately in the income statement at the moment of acquisition as a gain from the completed transaction.

Goodwill arising from business combinations is not amortised, but is subject to periodic impairment tests, as described in the following paragraph "Impairment of tangible and intangible assets".

In order to check for impairment, goodwill acquired in a business combination is allocated from the acquisition date to the individual cash-generating units or groups of cash-generating units that should benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Such checks shall be carried out at least annually.

No intangible assets with an indefinite life other than goodwill are recorded in the financial statements.

(b) Other intangible assets with a finite useful life

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

Class of intangible asset	**Useful life in years**
Patent rights and intellectual property	3
Concessions	Period of concession
Software user licenses	Period of utilization on a straight-line basis
Retail network and technological network	11-20
Sisal brand	20
Customer Relationship (Online)	Period of concession
Retail network ADI	11

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, 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 until the date of cancellation of the relevant register , and its Subsidiaries SisalPay S.p.A..,as the Istituto di Moneta Elettronica.

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, 2019 : 10.781

Average exchange rate in 2019 : 10,767

The Euro/Dirham exchange rates applied in reference to the financial statement balances of Sisal Loterie Maroc S.a.r.l. are as follows:

Exchange rate at December 31, 2019: 6,6843

Average exchange rate in 2019: 6,5022

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, in place on the date of preparation of the financial statements is classified under the item “Other assets”, for the NTNG concession about to expire is in the “Other non-current assets”, for the 50% of the upfront fee incurred by the Company for the new NTNG concession, which Sisal SpA was judged to be the successful tenderer, paid in October 2019 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. 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 cost, whereas it is accounted for as an increase in the asset in the case of purchases relating to intangible and tangible fixed assets.

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”.

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
Amendments to the Conceptual framework references in IFRS (issued on 29 March 2018; endorsed on 29 November 2019)	01/01/ 2020
Amendments to IAS 1 and IAS 8: Definition of materiality (issued on 31 October 2018; endorsed on 29 November 2019)	01/01/ 2020
Amendments to IFRS 9, IAS 39 and IFRS 7: Reform of IFRS 9, IAS 39 and IFRS 7: Reform of the interest rates on interest (issued on 26 September 2019; approved on 15 January 2020)	01/01/ 2020

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

Amendments to the Conceptual framework references in IFRS - the amendment was issued in order to update the references in some IFRSs to recall the new version of the Conceptual framework and no longer, with exceptions, to the one approved in 2010.

Amendments to IAS 1 and IAS 8 - Definition of materiality - this amendment aims to clarify the definition of 'material' in order to help companies assess whether information should be included in the financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7 - the IASB has published the "Interest rate benchmark reform" (amendment to IFR9, IAS 39, IFRS 7) which mitigates the effects of the reform on interest rates (known as the "IBOR Reform") on the financial statements. In particular, the amendment modifies some specific "hedge accounting" requirements to ensure continuity in accounting, despite the potential uncertainty due to the reform.

Accounting standards/interpretations issued by the IASB not yet approved

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

- IFRS 17 "Insurance Contracts" (issued on 18 May 2017), a standard designed to govern the accounting for insurance contracts (formerly known as IFRS 4 Phase II). The accounting model envisaged is the "Building Blocks Approach" (BBA), based on the discounting of expected cash flows, which includes the specification of a "risk adjustment" and a "contractual service margin", issued through the amortisation of the same.

- Amendments to IFRS 3 “Business Combinations” (issued on 22 October 2018)

- Amendments to IAS 1 "Presentation of Financial Statements": Classification of liabilities as current or non-current "(issued January 23, 2020)

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

2.6 Adoption of the new standards

IFRS 16 “Leasing”

With EC Regulation no. 2017/1986 of 31 October 2017 approved by the European Commission, the regulatory requirements contained in the document IFRS 16 "Leasing", which establishes the principles for the recognition, measurement, presentation of lease contracts for both parties involved in this type of contract, the tenant or lessee and the lessor were approved. The new standard, is applied retrospectively starting from 1 January, 2019

The new standard replaces the previous IAS 17 "Leases" and IFRIC Interpretations 4 "Determining whether an arrangement contains a lease", SIC 15 "Operating leases - Incentives" and SIC 27 "Evaluating the substance of transactions involving the legal form of a lease". It introduces a single accounting model for the lessee; on other hands there are no significant impacts on the accounting treatment of leases by the lessor.

Until 2018, leases were classified as finance or operating leases and operating lease costs were charged to the income statement on a straight-line basis over the lease term. As a result of the adoption of IFRS 16, as from 1 January 2019, for lease contracts that meet the requirements of the new standard, a liability of a financial nature, represented by the present value of future lease payments, is recognised in the statement of financial position against the recognition of the "right to use the leased asset". Each lease payment is then divided between the repayment of the liability and the interest component. This interest is charged to the income statement over the lease term. The right of use asset is depreciated on a straight-line basis over its useful life and the duration of the contract.

Rights to use leased assets and financial liabilities for leased assets are recognised in the financial statements at the date the asset is made available for use by the Company and until the most recent date between the end of the useful life of the right to use and the term of the lease contract. However, if the lease transfers ownership of the leased asset to the lessee at the end of the lease term or if the value of the asset for right of use also takes into account the fact that the lessee will exercise the purchase option, the asset is depreciated systematically over the useful life of the underlying asset.

The Group has defined the duration of the lease as the non-cancellable period of the contract, also considering the periods covered by an option to extend the lease, if the Group is reasonably certain to exercise that option. In particular, in assessing the reasonable certainty of exercising the renewal option, all relevant factors that create an economic incentive to exercise the renewal option have been considered.

The liability for leased assets is recognised initially at an amount equal to the present value of lease payments not yet made at the commencement date, including fixed payments net of any lease inducements to be received, variable lease payments that depend on an index or rate, estimated payment by the lessee as security for the residual value, payment of the exercise price of the purchase option if the lessee is reasonably certain to exercise the option and payment of contractual penalties for termination of the lease if the lessee is reasonably certain to exercise the option. The present value of future payments is calculated using a discount rate equal to the interest rate implicit in the lease or, if this cannot be easily determined, using the Group's incremental lending rate. After initial recognition, the liability is valued on the basis of the cost model and is restated, as a contra-entry to the book value of the related right to use leased assets, in the presence of a change in the payments due for the lease as a result of contractual renegotiations, changes in indices or rates, changes in the valuation in relation to the exercise of contractual options, including the option to extend the contract.

The right of use is initially recognised at cost, determined as the initial amount of the financial liability for leased assets to which are added the initial direct costs incurred by the lessee, any payments made on or before the effective date, net of any incentives received from the lessor, the initial direct costs incurred by the Company, the estimate of any costs expected to be incurred for the dismantling of the underlying asset. Subsequent to initial recognition, the right to use leased assets is adjusted to take into account the accumulated depreciation, any impairment losses and the effects of any restatements of the lease liability.

The Group has decided to make the transition to the new standard retrospectively by accounting for the cumulative effect of the date of initial application (simplified retrospective method). Therefore, when adopting IFRS 16, the Group recognized for leases previously classified under IAS 17 as operating leases, the lease payable and the corresponding value of the right of use measured on the residual contractual lease payments at the date of transition. Future payments under previous operating leases were discounted using the incremental financing rate applicable to these assets at the transition date. The liability arising from the lease was recognised with a corresponding right of use asset equal to the lease liability adjusted for prepayments and accrued lease payments

The application of the new standard mainly concerned contracts relating to real estate, property agencies, car hire, machinery and cloud platforms.

As regards the transition, the amount of the recognised lease liability is approximately €77,9 million.

The main effects on the Group's financial statements are summarized 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, representing the obligation to make the payments provided for in the contract. As permitted by the principle, assets consisting of the right of use are shown by nature under "Property, plant and equipment", i.e. the same item under which the corresponding underlying assets would be shown if they were owned. Financial liabilities are also shown by nature under "Long-term loans" and "Short-term portion of long-term loans", based on contractual specifications.

▪ in the income statement, the different nature and classification of expenses (amortization of the "right of use the asset" and "financial charges for interest" with respect to "costs for use of third party assets - operating lease fees", in compliance with IAS 17) with consequent positive impact on 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 flow, financial flows connected to contract subject to application of the above-mentioned standard, previously classified under financial flows of operating activities, will be classified under financial flows of financing activities.

During the transition, the Group applied the following exemptions:

- the practical expedient of not re-determining whether the contract is, or contains, a lease on the initial application date has been applied: (a) to apply this Standard to contracts that were previously identified as leases by applying IAS 17 Leases and IFRIC 4 - Determining whether an arrangement contains a lease; and (b) not to apply this Standard to contracts that were not identified as containing a lease by applying IAS 17 and IFRIC 4;
- The new standard is not applied to contracts relating to rights of use on low-value assets and to those with a duration of less than twelve months, the lease payments for which are recognised in the income statement as operating costs over the term of the leasing contract;
- information accrued subsequently was used, such as in determining the duration of leases where the contract contains options to extend or terminate the lease;
- leasing contracts previously valued as finance leases in accordance with IAS 17 have maintained the values previously recorded, going in full continuity with the past;

Impact on items of the statement of financial position at 1 January 2019 (transition date)

Set out below are the impacts on the main items of the company's statement of financial position during the transition:

(in Euros thousands)	31-dec-18	impact IFRS16	Jan-01-19 (redifined)
	€/000	**€/000**	**€/000**
Non-current assets			
Property, plant and equipment	108,740	77,917	186,657
Goodwill	569,275		569,275
Intangible assets	497,523		497,523
Equity investments in associates	-		-
Deferred tax assets	17,515		17,515
Other assets	20,844		20,844
Total non-current assets	**1,213,897**	**77,917**	**1,291,814**
Current assets			
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**	**77,917**	**1,966,652**
Equity			
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**
Non-current liabilities			
Long-term debt	701,499	53,493	754,992
of which relative to related parties			
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**	**53,493**	**907,195**
Current liabilities			
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	24,424	40,001
of which relative to related parties	-		
Taxes payable	10,942		10,942
Other liabilities	306,080		306,080
of which relative to related parties	*1,616*		*1,616*
Total current liabilities	**707,642**	**24,424**	**732,066**
Total liabilities and equity	**1,888,735**	**77,917**	**1,966,652**

Impact of the new accounting standards (IFRS 16) on items of the income statement and statement of financial position

To allow comparability of the financial results for the year 2019 with the corresponding periods for the previous year, "comparable" economic data and "comparable" assets balances are shown below, prepared in compliance with the previous accounting standards (IAS 17 and related interpretations).

(in Euros thousands)	**2019**	**2019 comparable**	**impact new standards**
	€/000	**€/000**	**€/000**
Revenues	731,851	731,851	-
Fixed-odds betting income	135,058	135,058	-
Other income	2,478	2,478	-
of which non-recurring	*1,613*	*1,613*	-
Total Revenues and income	**869,387**	**869,387**	**-**
Purchases of materials, consumables and merchandise	15,264	15,264	-
of which non-recurring	-	-	-
Costs for services	460,347	460,347	-
of which relative to related parties	*2,341*	*2,341*	-
of which non-recurring	*14,420*	*14,420*	-
Costs for leased assets	2,179	24,384	-22,205
of which non-recurring	*36*	*36*	-
Personnel costs	97,034	97,034	-
of which relative to related parties	*4,090*	*4,090*	-
of which non-recurring	*280*	*280*	-
Other operating costs	50,933	50,933	-
of which non-recurring	*6,717*	*6,717*	-
Depreciation, amortization, impairments and reversals of the value property, plant and equipment and intangible assets	158,192	136,971	21,221
Operating profit (loss), EBIT	**85,438**	**84,454**	**984**
Finance expenses and similar	37	37	-
Share of profit/(loss) of companies accounted for using the equity method	74,735	72,764	1,971
Profit (loss) before income taxes	127	127	-
Income taxes	**10,613**	**11,600**	**-987**
of which non-recurring	24,251	24,488	-237
Result for the year from continuing operations	**-13,638**	**-12,888**	**-750**

The reduction in operating costs is due to the lease agreements that fall within the scope of the new standard. For such agreements, lease payments are no longer recognised under "Lease and rental costs" but rather as: i) a financial liability, represented by the present value of future lease payments, and ii) an asset (the “right of use”), amortised over the estimated duration of the contract and the related financial expense component expensed to the income statement. Consequently, there was an increase in the item "Amortisation, depreciation, provisions, write-downs and reinstatement of value of tangible and intangible assets" and in the item "Financial and similar charges".

The rents relating to short-term leases and for those relating to low value assets have been recorded in the income statement, for an amount of € 2,1 millions, as operating costs over the duration of the lease contract. These contracts mainly refer to costs incurred for equipment of low value used in agencies and operators.

Overall, due to the combination of straight-line depreciation of the “Rights to use leased assets” and the effective interest rate method applicable to lease payables, the application of IFRS 16 resulted in a worsening in the current year’s result of Euros 750 thousand as compared with IAS 17.

Set out below are the details of the impact of the new accounting standards on the main figures in the statement of financial position at 31 December 2019.

(in Euros thousands)	2019 €/000	2019 comparable €/000	impact new standards €/000
Non-current assets			
Property, plant and equipment	224,750	148,688	76,062
Goodwill	807,817	807,817	-
Intangible assets	497,670	497,670	-
Equity investments in associates	3,309	3,309	-
Deferred tax assets	24,110	24,110	-
Other assets	22,663	22,663	-
Total non-current assets	**1,580,319**	**1,504,257**	**76,062**
Current assets			
Inventories	10,958	10,958	-
Trade receivables	114,936	114,936	-
Current financial assets	-	-	-
Taxes receivable	231	231	-
Restricted bank deposits	148,585	148,585	-
Cash and cash equivalents	172,014	172,014	-
Other assets	175,041	175,654	(613)
Total current assets	**621,765**	**622,378**	**(613)**
Total assets	**2,202,084**	**2,126,635**	**75,449**
Equity			
Share capital	102,500	102,500	-
Statutory reserve	200	200	-
Share-premium reserve	94,484	94,484	-
Other reserves	192,907	192,907	-
Results carried forward	51,001	51,751	(750)
Equity pertaining to non-controlling interests	(63,491)	(63,491)	
Total equity	**377,601**	**378,351**	**(750)**
Non-current liabilities			
Long-term debt	1,019,607	963,660	55,947
of which relative to related parties		-	
Provision for employee severance indemnities	10,125	10,125	-
Deferred tax liabilities	128,110	128,110	-
Provisions for risks and charges	17,686	17,686	-
Other liabilities	236	236	-
Total non-current liabilities	**1,175,764**	**1,119,817**	**55,947**
Current liabilities			
Trade payables and other payables	301,998	301,998	-
Short-term debt	6,416	6,416	-
Short-term portion of long-term debt	31,306	10,817	20,489
Taxes payable	*5,529*	*5,766*	(237)
Other liabilities	303,470	303,470	-
of which relative to related parties	*1,462*	*1,462*	-
Total current liabilities	**648,719**	**628,467**	**20,252**
Total liabilities and equity	**2,202,084**	**2,126,635**	**75,449**

In the cash flow statement, the cash flows linked to the contracts subject to application of the above principle, previously classified under cash flows from operating activities, have been reclassified under cash flows from financing activities, for a total of Euro 22,4 millions.

The analysis of the timing of the lease payments is in Note 34 Long-Term Debt.

Other accounting principles adopted

As required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the following are the new standards, interpretations and amendments to existing standards issued by the IASB and IFRIC, applicable from January 1, 2019 but regulate marginal or non-applicable circumstances and cases within the Group at the date of these Financial Statements.

Amendments to IFRS 9 "Financial Instruments".

By regulation no. 2018/498, issued by the European Commission on 22 March 2018, which implemented at Community level some limited amendments to IFRS 9 "Financial Instruments". These amendments allow an entity to measure financial assets "prepayable with negative compensation" (e.g. debt instruments where the borrower is allowed to repay early for an amount that may be less than the residual debt including interest due) at amortised cost or at fair value recorded in other comprehensive income instead of at fair value included within profit or loss

The adoption of these amendments had no effect on the Financial Statements at 31 December 2019.

Amendments to IAS 28 "Investments in associates and joint ventures".

By regulation no. 2019/237, issued by the European Commission on 8 February 2019, which implemented at the European Union level some limited amendments to IAS 28 "Investments in Associates and Joint Ventures". IFRS 9 excludes investments in associates and joint ventures which are accounted for in compliance with IAS 28. As a result, an entity applies IFRS 9 to other financial instruments held in associates and joint ventures including long-term interests (e.g. financial receivables), for which the equity method is not applied but in substance are part of the net investment in those associates and joint ventures.

The adoption of these amendments had no effect on the Financial Statements at 31 December 2019.

Amendments to IAS 19 "Employee Benefits".

By regulation no.2019/402, issued by the European Commission on 13 March 2019, which implemented at the European Union level some limited amendments to IAS 19 "Employee Benefits". These amendments refer to changes, reductions or settlements of defined benefit plans. The amendments require an entity to use the updated assumptions of this remeasurement in the event of a plan amendment, curtailment or settlement to determine current service cost and net interest for the remaining reporting period after the plan amendment.

The adoption of these amendments had no effect on the Financial Statements at 31 December 2019.

Improvements to IFRS (2015-2017 cycle)

By regulation no. 2019/412, issued by the European Commission on 14 March 2019, which implemented at European Union level some improvements to IFRS for the 2015-2017 cycle. In particular, the following should be noted:

- Amendments to IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements': the amendments to IFRS 3 clarify that when an entity which is already part of a jointly controlled business and obtains control of that business The entity should remeasure its previous interest in the jointly controlled entity at fair value.. The amendments to IFRS 11 clarify that when an entity is part of a jointly controlled activity obtains joint control of that jointly controlled activity that constitutes a business, the entity does not remeasure its previously held interest in that jointly controlled activity.
- Amendments to IAS 12 "Income Taxes": the amendments clarify that an entity shall recognise taxes on dividends in the separate income statement, or in other comprehensive income or in equity in relation to how is accounted for the transaction/event that determined the distributable profits which generated the dividends
- Amendments to IAS 23 Borrowing Costs: the amendments clarify that if any specific financing remains outstanding after the related asset comes ready for its expected use or sale, that financing becomes part of the funds that an entity uses when calculating the capitalisation rate on general financing.

The adoption of these amendments had no effect on the Financial Statements at 31 December 2019.

IFRIC 23 " Uncertainty over Income Tax Treatments".

By regulation no. 2018/1595, issued by the European Commission on 23 October 2018, the regulatory provisions contained in IFRIC 23 " Uncertainty over Income Tax Treatments " were endorsed.

This interpretation clarifies the accounting for tax assets and liabilities when there is uncertainty over income tax treatments. In this regard, IAS 12 "Income Taxes" specifies how to account for current and deferred taxes but not how to represent the effects of uncertainty. For example, it may be uncertain on how to apply tax treatment to particular transactions or circumstances, or whether tax authorities will accept the treatment chosen and applied by the entity. If the entity believes that it is not probable that the tax treatment applied will be accepted, then the entity shall use estimates to determine the most probable or expected value in determining the tax treatment of items such as taxable profit, tax base, non-used tax losses, non-used tax credits and tax rates. The decision must be based on the method that better allows the outcome of the uncertainty to be assessed.

The adoption of these amendments did not have a significant impact on the Financial Statements at 31 December 2019.

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 Finance 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 Finance 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) and in Turkey (the local currency is the Turkish Lira) in relation to the management of the previously mentioned start-up entities Sisal Loterie Maroc S.a.r.l.and Sisal Sans.

Interest rate risk

The Group is theoretically exposed to risks related to fluctuations in interest rate in relation to the short term revolving line and the FRN bond, even though, at the moment the Euribor parameterization index, which is below zero is considered to be zero.

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 52% of the debt at December 31, 2019 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
- 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 fixed rate financial payables, as they represent a hedge of interest rate risk even though they are not affected by changes in interest rates for Euros 463.966 thousand in 2019, and Euros 356,661 thousand in 2018, while no tax impact was considered.

		2019			
		Income Statement		**Equity**	
(in Euros thousands)	**At December 31, 2019**	**+1% profit / (loss)**	**-1% profit / (loss)**	**+1% profit / (loss)**	**-1% profit / (loss)**
Net financial debt	(885,315)	(837)	-	(837)	-
Total	**(885,315)**	**(837)**	**-**	**(837)**	**-**

		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)**	**-**

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 conservative 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 31 December 2019, there are approved and undrawn credit lines of €212.5 million, attributable to a revolving credit line of the total amount for €217.5 million.

The following tables show the cash flows expected in future years relating to financial liabilities as at 31 December 2019 and 2018.

		2019			
		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	**1,057,329**	20,970	18,548	331,932	722,375
Trade payables	**301,998**	222,237	77,822	1,164	775
Other payables	**298,757**	167,702	128,805	2,431	-
Total	**1,658,084**	**410,909**	**225,174**	**335,527**	**723,150**

		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**	**-**

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 issuance 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, 2019 and 2018 are analysed by macro class of homogeneous risk in the following table:

	At December 31	
(in Euros thousands)	**2019**	**2018**
Receivables from Public Authorities	142,255	33,103
Receivables from points of sale (outlets) and shops	172,673	197,530
Receivables from Betting Agencies	2,958	4,219
Receivables from Network	15,082	15,674
Other receivables	33,976	24,241
Provision for impairment of receivables	(89,979)	(76,157)
Total	**276,965**	**198,610**

- *Receivables from Public Authorities* mainly include receivables from the Customs and Monopolies Authority for games managed according to the regulations of the specific concessions, the payment of 50% of the concession fee in compliance with the provisions of the assignment of the renewal of the concession relating to national totalizer numerical games for which the company Sisal S.p.A. is waiting to formally sign the Deed of Agreement 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 related to this item.

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

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

Risk exposure

Exposure to credit risk at December 31, 2019 and 2018, analysed by reference to the ageing of receivables, is as follows

(in Euros thousands)	At December 31, 2019	Ageing of Receivables: current	past due up to 90 days	past due 90-180 days	past due more than 180 days
Trade receivables	199,850	101,387	7,651	6,785	84,027
Provision for impairment of receivables	(84,914)	(1,349)	(3,591)	(2,891)	(77,083)
Net value	**114,936**	**100,038**	**4,060**	**3,894**	**6,944**
Other receivables	167,094	161,831	-	-	5,262
Provision for impairment of receivables	(5,065)	(21)	-	-	(5,044)
Net value	**162,029**	**161,810**	**-**	**-**	**219**
Total	**276,965**	**261,848**	**4,060**	**3,894**	**7,163**

(in Euros thousands)	At December 31, 2018	Ageing of Receivables: 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**

Past-due trade receivables not covered by provisions represent balances on which the Group believes that an insignificant risk of uncollectability exists. 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, 2019 and 2018 are presented in the following table:

	At December 31, 2019					
(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	114,936			114,936		114,936
Other assets (current and non-current)	184,692			184,692	13,012	197,704
Restricted bank deposits	148,585			148,585		148,585
Cash and cash equivalents	172,014			172,014		172,014
Total assets	**620,227**			**620,227**	**13,012**	**633,239**
Debt (current and non-current)	1,057,329			1,057,329		1,057,329
Trade payables and other payables	301,998			301,998		301,998
Other liabilities (current and non-current)	298,993			298,993	4,713	303,706
Total liabilities	**1,658,320**			**1,658,320**	**4,713**	**1,663,033**

	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**

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, 2019, the market price of the *senior secured notes* (level 1 in the fair value hierarchy) was a total of approximately Euros 812.2 million compared to a face value of Euros 805 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, 2019 and 2018.

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 21.

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

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

Impairment loss/reversal of fixed assets

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

Deferred tax assets

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

Provisions for risks and tax uncertainties

The Group accrues in these provisions the probable liabilities relating to litigations and controversies with staff, suppliers, tax disputes 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.

Leasing

The recognition and measurement of liabilities related to leasing contracts and the corresponding rights of use may be influenced by different estimates.

Specifically, the Group estimates the internal borrowing rate to discount the expected lease payments.

In addition, management considers all the facts and circumstances that create an economic incentive to exercise renewal options. Renewal options in fact included in the overall duration of the lease contract if it is reasonably certain that the option will be exercised. The assessment made with regard to renewal options is reviewed only if a significant event occurs that affects this assessment which is under the lessee’s control.

5. Concessions and litigation

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

Concession for the management of national tote number games, complementary and optional games and the related forms of remote participation, as well as any further numeric games based on a single national totalizer

Main developments in relation to the Concession:

- In compliance with the 2017 budget law – no. 232 of 11-12-2016 – no. 576 of art. 1 paragraph, ADM published an invitation to tender in GU/S 242 of 15 December 2018, to call for the selection procedure to the award of the concession for the management of the Numerical Games to National Totalizers, with 5 March 2019 as the deadline for the submission of tenders. In addition to Sisal, the companies Lottomatica Holding S.r.l. and Italian GNTN Holding SA (a company of Sazka group) participated in this procedure. The offer submitted by Sisal was the best one, both in relation to the technical and economic component and also to the correct compliance with the further obligations of the successful bidder, ADM, with its deed of 2 December 2019, declared the effectiveness of the award of the concession in favour of Sisal. The signing of the agreement is currently pending.

- The Law no.160 of the State Budget of 27 December 2019 for the financial year 2020 and multi-annual budget for the three-year 2020-2022 established in Article 1, paragraph 73 that, as of 1 March 2020, the right to the part of the winnings exceeding 500.00 euros established by Article 6, paragraph 1, of the Decree of the Director General of the Autonomous Administration of State Monopolies of 12 October 2011, for certain games including Vinci per la vita-Win for Life, Vinci per la vita-Win for Life Gold, SiVinceTutto SuperEnalotto, SuperEnalotto and Superstar is set at 20 per cent. Also by order of the Director of the Customs and Monopolies Agency, the percentage of the levy on winnings from the SuperEnalotto and Superstar games will be changed to the fund used to supplement the jackpot relating to the fourth and fifth category winnings of the Enalotto, referred to in Article 6(2) of the Decree of the Director General of the Autonomous Administration of State Monopolies of 12 October 2011, in order to adapt it to the new rates of the levy on winnings.

Litigation:

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

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

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

The challenged decision 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.

By decision of 3 December 2019, the Court of Appeal has confirmed the decision of first instance, unless it accepts Sisal's appeal relating to the commencement of interest (due from the application, and not from each individual payment to the balance). In particular, the Court considered that the defenses carried out for some of the grounds put forward at the appeal were late, since they were not deducted at first instance (the argument was not shared since all the arguments relating to these grounds were in law and therefore also available at the appeal). An appeal against the appeal judgment is being prepared in the Court of Cassation.

- 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 preliminary petitions were discussed at a hearing held on 9 May 2019, and the judge upon dissolution of the reservation, considering the case to be ripe for a decision, set the hearing for the clarification of the conclusions on 17 June 2020.

Concession to entrust the activation and operational management of the network for the telematic management of licit gaming by means of amusement and entertainment equipment, as well as related activities and functions

Main developments in relation to the Concession:

- By notice published in the Official Journal of the European Union on August 8, 2011 ID 2011 – 111208, AAMS initiated the procedure for the grant of the "concession for the activation and operation of the network for the telematic management of licit gaming through amusement and entertainment devices provided for by article 110, paragraph 6, T.U.L.P.S. and related 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 of the thirteen candidates, exclusion of Bplus S.p.A., signed the new agreement on 20 March 2013. This concession has a duration of nine years and expires on March 30, 2022.

The Stability Law 2019 (L145/2018), in order to make effective the rules of the local authorities governing the operating hours of the equipment provided for in Article 110, paragraph 6, letters a) and b) of the Consolidated text of the laws on public security, referred to in Royal Decree no. 773 of 18 June 1931, or to monitor compliance with them and impose the relevant penalties, provided for the following:

a) as from 1 July 2019, the Customs and Monopolies Agency, availing of SOGEI S.p.A., has made available to the local authorities the operating hours of the equipment provided for in the aforementioned Article 110, paragraph 6, letter b) of the Consolidated Act referred to in Royal Decree no. 773 of 1931; the rules for the implementation of this letter have been established by order of the Director of the Customs and Monopolies Agency;

b) the technical rules for the production of the equipment referred to in article 110, paragraph 6, letter a), of the consolidated text referred to in Royal Decree no. 773 of 1931, which allow public gaming from a remote environment to be issued by decree of the Minister of Economy and Finance pursuant to article 1, paragraph 943, of Law no. 208 of 28 December 2015, must provide for the storage, preservation and transmission to the remote system of the operating hours of the equipment. Such data are made available to local authorities by the Customs and Monopolies Agency, availing of SOGEI S.p.A.

- Decree Law no. 4 of 28 January 2019, converted into Law no. 26 of 28 March 2019 in relation to entertainment and amusement equipment, introduced the following provisions:

1. Provision for the issue of the distribution authorisations established by article 38, paragraph 4, of Law no. 388 of 23 December 2000, - the so-called “distribution authorisations”. NOD- to manufacturers and importers of the entertainment equipment and devices referred to in Article 110, paragraph 6, letter a), of the Consolidated Law on Public Security, as per Royal Decree no. 773 of 18 June 1931, of the payment of a one-off fee of 100 euros for each individual appliance. Also, for the year 2019 only, the one-off payment established by article 24, paragraph 36, of Decree Law no. 98 of July 6, 2011, converted with amendments, by Law no. 111 of July 15, 2011, for the issuance of the so-called “Lump Sums”. NOE, was set at 200 euros for each individual appliance;

2. For 2019 only, an increase in the payments by way of a single Treasury levy on the entertainment equipment and devices referred to in article 110, paragraph 6, of the Consolidated Law on public security, as per Royal Decree 773 of 18 June 1931, due as first, second and third advance payments relating to the sixth two-month period in accordance with article 39, paragraph 13-bis, of Decree-Law 773 of 30 September 2003. 269, converted with amendments, by Law no. 326 of 24 November 2003 and article 6 of the executive decree of 1 July 2010, published in the Official Journal of 22 July 2010, no. 169, to the extent of 10 per cent each; the fourth payment, due as balance, is reduced by the payments made as an advance, including the said increases.

The law of 27 December 2019, no. 160 Budget of the State for the financial year 2020 and multi-annual budget for the three-year period 2020-2022, provided in Art. 1:

(i) paragraph 727(a) to (d) that, by 31 December 2020 at the latest, ADM shall put out to tender the following concessions:

a) 200,000 rights for AWPR equipment to be placed at the points of sale referred to in points c) and d) below, as well as in betting and bingo halls; auction base not less than € 1,800 per right, with a minimum bid of 10,000 rights;

b) 50,000 rights per VLT, to be placed in the points of sale referred to in point d), as well as in betting and bingo halls; auction base not less than EUR 18,000 for each right, with a minimum bid of 2,500 rights;

c) 35,000 rights for the exercise of points of sale at bars and tobacconists, where it is possible to place AWPR; auction base not less than Euro 11,000 for each point of sale, with a minimum bid of 100 rights;

d) 2,500 rights for the exercise of rooms in which both AWPR and VLT can be placed; auction base not less than EUR 35,000 for each point of sale, with a minimum bid of 100 rights.

In the same subparagraph, point I of the same subparagraph, the abovementioned rule provided for an invitation to tender for the award of the rights to collect gambling at a distance. To this end, by 31 December 2020, ADM will have to launch a call for tenders to assign 40 rights to be able to offer remote gaming, with an auction base of not less than € 2,500,000 for each right.

All the above-mentioned concessions referred to in paragraph 727 shall have a duration of nine years, non-renewable.

ii) paragraph 731, starting from 1 January 2020, the measures of the single treasury levy on the equipment referred to in Article 110, paragraph 6, letters a) and b), of the consolidated text of the laws on public security, referred to in the Royal Decree of 18 June 1931, n. 773, are increased and fixed, respectively, at 23.85% until 31 December 2020 and 24.00% from 1 January 2021 of the sums played for the apparatus referred to in letter a) and 8.50% until 31 December 2020 and 8.60% from 1 January 2021 of the sums played for the apparatus referred to in letter b). The rates established by this paragraph replace those established by Article 9, paragraph 6, of Decree-Law no. 87 of 12 July 2018, converted with amendments, by Law no. 96 of 9 August 2018, as amended by Article 1, paragraph 1051, of Law no. 145 of 30 December 2018, and by Article 27, paragraph 2, of Decree-Law no. 4 of 28 January 2019, converted, with amendments, by Law no. 26 of 28 March 2019.

iii) paragraph 732, that, as from 1 January 2020, the percentage of the amounts gambled allocated to payouts is fixed at not less than 65% for the devices referred to in article 110 (6) (a) of the consolidated text referred to in royal decree no. 773 of 18 June 1931, and at not less than 83% for the devices referred to in article 110 (6) (b) of the consolidated text referred to in royal decree no. 773 of 18 June 1931. The technical operations for the adjustment of the refund percentage in winnings must be completed within eighteen months of the date of entry into force of the aforementioned law.

(iv) paragraph 733 that, as from 15 January 2020, the levy on winnings from gaming machines pursuant to Article 110(6)(b) of the TULPS, provided for in Article 5(1)(a) of the Decree of the Director-General of the Autonomous Administration of State Monopolies of 12 October 2011, published in the Official Journal no. 265 of November 14, 2011, referred to in article 10, paragraph 9, of Decree Law no. 16 of March 2, 2012, converted, with amendments, by Law no. 44 of April 26, 2012, was set at 20 per cent for the portion of winnings exceeding the value of euro 200.00.

Litigation:

- By decision of 16 July 2012, notified to the dealers and in particular, to Sisal S.p.A. on 5 September 2012, the Office of the Magistrate Rapporteur for the Treasury Accounts asked the Judicial Section to rule on the "impossibility of carrying out any judicial verification with regard to the aforementioned reports, as provided by the dealers, due to the lack of certainty on the figures shown"; the report states that the licensee/accounting agent "is required to fulfil his reporting obligation primarily to his own

Administration", that the latter has not certified "the reality of the data, both because of the absence of connection to the telematic network and also because of the extreme generality of the criteria for the formation of the data reported", that "the report produced up to the 2009 financial year has not been examined by the Internal Control Office of the Administration, which should have applied the so-called "parifica del conto", that "in the absence of the "parifica" of the Internal Control Office, no judicial verification activity can be carried out 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 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 considering 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.

At the result of the renewed assessment, the judges of first aid considered these doubts removed by the ius supervenienes (Stability Law 2016), declaring the appeal in part inadmissible for lack of interest and, for the rest, unfounded. Although the extender of this decision seems to have remained in line with the regulatory approach, leaving the debt owed by the dealers distinct from that owed by the supply chain and also reiterated that the legal parameter is only that of "contractual fees in force in 2015", the decision remains, in any case, attackable from the point of view of the constitutionality of the measure in the aftermath of the entry into force of the implementing law and, therefore, it was decided to appeal the judgment to the Council of State. At present, the case is pending before the Council of State, pending the setting of a hearing on the merits.

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.

Horse-racing and sports betting concession

Main developments in relation to the 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, with effect from 1 January 2019, and, subsequently, by Article 24, paragraph 1, Decree Law no. 124 of 26 October 2019, converted, with amendments, by Law no. 157 of 19 December 2019, 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 June 30, 2020, 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 and the ownership of the regularized collection points pursuant to Article 1, Section 643, of Law No. 190 of December 23, 2014 and Article 1, Section 926, of Law No. 208 of December 28, 2015 are extended until the award of the new concessions and, in any case, no later than December 31, 2020, upon payment of the annual sum of 7.500 euros for each right relating to sales outlets whose main activity is the marketing of public gaming products, including regularized collection points, and 4,500 euros for each right relating to sales outlets whose ancillary activity is the marketing of public gaming products. In execution of the above mentioned regulatory provisions, Sisal Entertainment S.p.A., in relation to the year 2020, has renewed 1,375 points of sale having as main activity the marketing of public gaming products and 471 points of sale having as ancillary activity 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”.

Litigation:

- Sisal Entertainment S.p.A., following the merger by incorporation with Sisal Match Point S.p.A., has become the holder of the concessions for the collection of horseracing bets at the national fixed-odds totalizer, awarded following the tender announced with notice from the Ministry of Finance no. 109 of 11 May 1999, the rules of which provide for the payment to UNIRE – the holder of the horserace betting activity to be carried out directly or by entrusting it to third parties – of the guaranteed minimum, which constitutes the predetermined lump sum payment due by the successful tenderer of the licence for the performance of the "munus concessorio", the quantification of which was the subject of the tender submitted during the tendering procedure. The mechanism underlying the guaranteed minimums provides that at the end of the annual financial statements, drawn up by the Ministry of Finance, if the concessionaire has not obtained sufficient proceeds to reach the guaranteed minimum offered in the tender, the latter is required to pay the Administration a balance corresponding to the relevant difference. Sisal Match Point (now Sisal Entertainment) omitted payment for certain amounts relating to those minimums, considering those minimums to be inadequate in relation to the market which emerged after the signing of the 2000 agreement. In relation to that matter, an arbitration award was initiated in relation to certain historical concessions by certain concessionaires which were acquired by Sisal Entertainment S.p.A. after the award had been made. The award, which was favourable to the concessionaires, was subsequently annulled by the Rome Court of Appeal and Sisal Entertainment S.p.A. appealed to the Court of Cassation against this appeal ruling. By interlocutory order dated 11 December 2019, the court referred the case back to the united sections as it is a matter of jurisdiction between ordinary and administrative courts. At present, a decision is awaited by the United Sections.

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 recognized, 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 S.p.A. proposed the same appeal to the Council of State.

The result of the examination of the merits of the appeal, carried out by the IV Chamber of the Council of State, showed that there are doubts that the continuation ordered by ADM of the exclusive concession of the management of the collection of national instant lotteries is contrary to fundamental principles, which are subject to double protection (national and European), such as legal certainty, freedom to provide services, non-discrimination, transparency and impartiality, and freedom of competition. The

Council of State has therefore referred the case to the European Court of Justice. At present, we are waiting for the Court to fix the hearing.

Concession for online game collection in Spain

Sisal Entertainment S.p.A., following its participation in the tender for the award of licences for the operation of the collection of public games in Spain through the remote channel and as a result of the award of those licences, commenced the related remote collection of public games from August 2019. For the management of these activities, Sisal Emtertainment S.p.A. will set up a local legal entity, of which it will hold one hundred per cent of the share capital and to which the management of the business will be entirely transferred.

Concession for the collection of lotteries games of chance belonging to the category "lotteries" in Turkey

Following the award of the service for the management of lottery games of chance belonging to the lotteries decreed in the territory of Turkey by the Turkish Welfare Fund, in favour of the joint venture between Sisal S.p.A. and the Turkish law company "Sans Dijital ve Interaktif Hizmetler Teknoloji Yatirim Anonim Sirketi", the Turkish law company called "SISAL SANS Interaktif Hizmetler Teknoloji Yatirim Anonim Sirketi" (hereinafter referred to as "SISAL SANS") in which Sisal S.p.A. holds a 49% stake in the share capital while the aforementioned Turkish partner holds the remaining 51% stake was incorporated and registered. The company SISAL SANS will operate the gaming collection through an initial network of 5,000 terminals installed in as many points of sale from 01.08.2020.

Sisal Loterie Maroc S.a.r.l.

With regard to the procedure for the outsourcing of the service for the realization and management of a new automated management system, through a telematic network of the collection of public games in Morocco, the company Sisal S.p.A., which won the tender procedure at the beginning of the year, and the newly-established Sisal Loterie Maroc S.a.r.l., a wholly-owned subsidiary, signed the related agreement in July 2019 (for a total duration of 10 years) and were closely involved in the technological, commercial and organizational activities necessary for the operational start of the concession activities, which took place on time from 1 January 2019.

On 19 December 2018, only twelve days after the deadline of 01.01.2019, prescribed by the contract signed with Société de Gestion de la Loterie Nationale for the go live of the game collection activities, Intralot S.A. – Integrated Lottery Systems and Services, the Greek law company controlling Intralot Maroc S.a.r.l., former owner of the contract, notified Sisal S.p.A. of a warning to prevent the use of Microlot Terminals in Morocco.

According to the thesis of the Greek Company, the referred Terminals could not be used in the Moroccan territory as such use would violate the territorial extension of the license to use a Software of its ownership installed on each device.

Sisal S.p.A. responded to the warning by claiming that the claims of Intralot were unfounded.

Between December 2018 and February 2019, further correspondence on the subject in question were taken place between the two companies in order to activate the procedure established in the supply contract for negotiations aimed at finding an amicable solution to resolve the issue that had arisen. Intralot, the Company substantially avoided the obligation to start the negotiations and, in April 2019, it initiated the arbitration procedure provided for in the contract for the resolution of disputes arising between the Parties in relation to its execution and interpretation. With the arbitration petition, Intralot requested the Arbitration Panel: (i) to prohibit Sisal S.p.A. from using Microlot terminals in Morocco; (ii) compensation for damages that would have resulted from the alleged violation of the license of use by Sisal S.p.A., quantified in Euro 5,000,000.00 (five million Euro). Sisal S.p.A., by granting a mandate to the International Law Firm Froriep with headquarters in Geneva, has ritually constituted itself in the arbitration proceedings, promptly contesting the opposing arguments to demonstrate the legitimacy of its actions and introducing a counterclaim for damages to the detriment of Intralot amounting to Euro 2,000,000.00 (two million/00 Euros).

Subsequently, Intralot, by filing the final declaration of its claims, maintaining the application for injunction, supplemented its claims for damages by requesting the Board of Arbitrators to sentence Sisal S.p.A.:

a) primarily, to the payment of the total amount of Euro 25,330,598, plus interest at 5% per year from 01.01.2019 until complete payment. This request is based on the observation that Sisal S.p.A. would not have been able to win the tender in Morocco or, in any case, would not have been able to make an economic offer in the proposed terms if it had not offered the Microlot as terminals. Consequence of the allegedly illegitimate structuring of Sisal S.p.A.'s offer, it would have been the award in favour of Intralot, which, consequently, would have been entitled to compensation for the losses suffered, quantified as above, the latter's profile in relation to which will be objected, in addition to the groundlessness of the merits, the illegality of the request as innovative and non-modifying with respect to the request initially proposed with the request for arbitration;

b) as a subordinate case, if the above thesis is not accepted, to the compensation of damages for the allegedly unauthorized use, without mandate and, in any case, in bad faith of the software named TAPIS. According to the adverse reconstruction, the damage should be quantified in terms of relegation by Sisal to Intralot of the profits made during the period of unauthorized use of the SW. Damage quantified in Euro 1,031,068 for each year of alleged unauthorized use, more than 5% annual interest from 01.01.2019 until 31.12.2019.

In the further alternative, to compensate for the damage resulting from unjust enrichment from which Sisal would have benefited, quantified damage in the same amount as that referred to in point (b), more than 5% interest per annum from 01.01.2019 until 31.12.2019 was awarded.

d) further subordinate to the compensation for damages in terms of retrocession by Sisal of the entire net profits generated by the contract with SGLN or as dividends received from the activities of the subsidiary under Moroccan law, estimated by the applicant over the entire duration of the contract at a total of Euro 10,310,682 until 31.12.2028 or until a different date that the Board will determine. In this case, therefore, the quantification would be Euro 1,145,631.33 per year. All in all, more than 5% interest per year from 01.01.2019 until 31.12.2019.

In addition to the above mentioned claims for damages, Sisal S.p.A. is also requested to pay the arbitration costs in the event of Sisal S.p.A.'s loss.

At present, the arbitration procedure has been formally initiated after the preliminary stage and the timetable for the procedure has been established. By the end of May 2020, the applications and replies of the established parties will be definitively finalized. The preliminary phase will take place between July 2020 and December 2020. According to the planning of the proceedings approved by the Geneva CCI, the final award should be filed in the first half of 2021.

Other disputes and proceedings in progress

Certain disputes and/or fiscal inspections and investigations, which also relate to certain 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 these Consolidated Financial Statements.

With reference to the claim, on the other hand, raised by the aforementioned Tax Revenues Agency audit, in relation to non-deductibility of VAT, which triggered notices of findings for the three-year period 2010-2013 for a total of approximately Euros 8.5 million in taxes and penalties, the company Sisal S.p.A., after having unsuccessfully attempted an assessment with adhesion, filed the related appeals. The first instance hearing was held on 9 September 2019 and the Provincial Tax Commission of Milan ruled in favour of Sisal S.p.A., accepting the defense and ordering the Inland Revenue to pay the legal costs. At the end of the year, the company was served a further notice of assessment for the same issue relating to the year 2014 for a total of approximately €2.7 million in taxes and penalties 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. In 2019 the company Sisal Entertainment S.p.A. also defined the year 2013 for a total of approximately Euros 400 thousand in taxes and penalties. In the month of December 2019, the Company was also received a notice of assessment relative to the financial year 2014 (including the challenge of lower taxes paid of Euros 557 thousand as well as sanctions and interest), against which a request to adhere was presented at the beginning of 2020, a procedure still in progress; 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.

In addition, on 10 May 2019, the Tax Revenues Agency - Provincial Directorate II launched a tax audit for direct taxes, VAT and IRAP with regard to the 2014 tax period of Sisal Group S.p.A..

At the end of its inspection activities, on 19 July 2019, the Office handed over to the Company the Minutes of Findings (hereinafter, the PVC), through which an adjustment of the interest rates applied to loans was made for transfer pricing purposes: (i) Subordinated Shareholder Loan C disbursed for an amount of approximately Euro 452 million (hereinafter SHL 2006); (ii) Subordinated Zero Coupon Shareholder Loan and waived by Gaming Invest in 2014 together with interest for a total amount of approximately Euro 33 million.

As a result of the adjustment, the Office contested to the Company Sisal Group S.p.A.:

- the deduction for IRES (corporate income tax) purposes of an amount of interest expense relating to the loans totaling approximately Euro 5.7 million;
- the failure to make and therefore pay withholding tax for a total amount of Euro 4.7 million.

Since these are recurring issues, in order to avoid that the objections formulated by means of the PVC were extended to the years 2015 and 2016 (i.e. until the 2006 SHL was also waived), with a potential risk of approximately Euro 44 million, the company defined with the Tax Revenues Agency, at the end of November, a tax assessment covering the three-year period 2014-2016 for a total of approximately Euro 5.6 million. Against this charge, the Company was able to obtain the partial release for approximately € 3.9 million of the escrow amounts, also in relation to the outcome of the aforementioned disputes, relating to part of the consideration established for the acquisition of the Group by Schumann SpA at the end of 2016.Lastly, we note the pending dispute with INPS, originating from a controversial dispute concerning an assessment report by the Social Security Institute regarding the legal classification of collaborators used in the performance of corporate activities by Sisal Entertainment SpA. An injunction notified following the assessment activities was challenged before the competent Court with the aim of ascertaining the correctness of the company's operations. On 30 October 2018 the Court of Milan ruled on the company's opposition by rejecting the appeal filed and substantially accepting the request of the Institute.

Sisal Entertainment S.p.A. on April 23, 2019 filed an appeal. The discussion took place before the competent Board of the Milan Court of Appeal - Labor Section, on 10 December 2019. The ruling, filed on 13 January 2020, declared the Company's appeal rejected, accepting the prospects in this sense again INPS, according to which the collaborators actually carried out tasks which coincided entirely with the object of the company activity as employees of the company.

The company reserves the right to evaluate any further actions.

6. Business combinations

2019

Operation of corporate reorganization and partnership with Banca 5

During 2019, the Group signed a partnership agreement with Banca 5 SpA, a bank of the Intesa Sanpaolo Group, which provides payment and other banking services to establish a company-like partnership, thereby establishing a leading group in the field of payment services distributed through proximity channels in Italy.

To this end, the Group initially undertook a complex corporate reorganization aimed at separating the activities relating to payment services, managed directly by the Company through the assets allocated, as well as the business relating to telephone top-ups and other services provided by the subsidiary Sisal S.p.A., from the gaming activities carried out by the Group.

The transaction was implemented through the corporate vehicles SisalPay Group S.p.A. (formerly Sisal Pay SpA), SisalPay SpA. (formerly QFS SPA), and SisalPay Servizi S.p.A.

In particular, as a result of the negotiations and the other internal transactions in the Group, the agreement envisages the transfer of the business units of the Sisal Group and Banca 5 organized and operating in payments and telephone top-ups to SisalPay S.p.A. and SisalPay Servizi S.p.A., wholly owned by SisalPay Group S.p.A., 70% owned by Sisal Group S.p.A. and 30% by Banca 5 S.p.A..

The different intermediate steps to made it possible to achieve this objective can be summarized as follows:

- Sisal Group S.p.A. sold 30% of the share capital of SisalPay Group S.p.A. to Banca 5 for a price equal to 30% of the accounting net equity. At the end of the transfer, SisalPay Group S.p.A. was owned 70% by Sisal Group S.p.A. and 30% by Banca 5 S.p.A.;

- The Extraordinary Shareholders' Meeting of SisalPay S.p.A. approved a capital increase which was paid up with contributions in kind for subscription by Sisal Group S.p.A., Sisal S.p.A. and Banca 5 S.p.A. in exchange for the contribution of the respective business units related to the leisure services business;

- The Extraordinary Shareholders' Meeting of SisalPay Servizi S.p.A. approved a capital increase which was paid up with contributions in kind for subscription by Sisal S.p.A., Sisal Point S.p.A. and Banca 5 S.p.A. in exchange for the contribution of the respective business units relating to services not subject to supervision by the Bank of Italy, for the exercise of which the latter's authorization is not required. The main services conferred include telephone and pay TV top-ups, as well as the supply of cash registers and related services (Easycassa);
- Sisal S.p.A. and Sisal Point S.p.A. sold to Sisal Group S.p.A. the shares of SisalPay S.p.A. and SisalPay Servizi S.p.A.. (obtained in exchange for the subscription of the respective capital increases);
- Therefore, the participations in SisalPay S.p.A. and SisalPay Servizi S.p.A. were transferred to SisalPay Group S.p.A. partly through the subscription of a share capital increase by Sisal Group S.p.A and Banca5 S.p.A with contribution of the shares, partly against payment of a consideration;

The transfers of the business units by Sisal Group S.p.A. and Banca 5 S.p.A. amount to a total value of Euro 1 billion and Euro 750 million and Euro 250 million respectively.

Sisal Group S.p.A. also received a compensation of €500 million for the disposal of the investments in Sisal Pay S.p.A. by Sisal Pay Group S.p.A.

In order to cover the payment obligations, the latter issued a bond for a total amount of approximately €530 million, described in more detail in paragraph 34 "Loans".

The gains arising from the payment of the sale price due on the execution date of the transaction by Sisal Pay Group S.p.A. to Sisal Group S.p.A. which were partially used to repay the existing bond to the latter. This repayment allowed the Group not to substantially change the debt exposure to third parties as a whole but to significantly reduce the cost associated with it.

The transaction described above regarding the transfer of the business units of Sisal Group S.p.A., Sisal S.p.A. and Sisal Point S.p.A. qualifies as a business combination under common control, therefore there is no impact on the consolidated financial statements of the group.

On the other hand, the transfers of business units of Banca 5 S.p.A. to SisalPay S.p.A. and SisalPay Servizi S.p.A. are business combinations in accordance with IFRS 3. Considering that the transaction took place in December 2019, the Group exercised the option to provisionally record the assets and liabilities acquired in the statement of financial position at fair value. The purchase price allocation exercise as permitted by the standard will be finalized in 2020 within 12 months from the completion date of the transaction.

Below is a summary of the assets transferred:

SisalPay S.p.A.

(in Euros thousands)	**Provisional Fair Value at acquisition date**
Intangible assets (Goodwill)	218,302
Property, plant and equipment	27,050
Other current and non current assets	12
Trade receivables	2,313
Deferred tax assets	17
Total purchased Assets	**247,694**
Provision for employee severance indemnities	1,019
Short and long term Debt	19
Trade payables	2,443
Other current and non current liabilities	14,213
Total purchased Liabilities	**17,694**
Net purchased assets	**230,000**

SisalPay Servizi S.p.A.

(in Euros thousands)	**Provisional Fair Value at acquisition date**
Intangible assets (Goodwill)	20,162
Property, plant and equipment	253
Other current and non current assets	0
Trade receivables	610
Deferred tax assets	0
Total purchased Assets	**21,026**
Provision for employee severance indemnities	16
Trade payables	620
Other current and non current liabilities	390
Total purchased Liabilities	**1,026**
Net purchased assets	**20,000**

Acquisition of Qui! Financial Services S.p.A.

On July 31, 2019, the Bank of Italy authorized the acquisition of the company Qui! Financial Services S.p.A. ("QFS") by Sisal Group S.p.A., the acquisition was completed on August 2, 2019. QFS was declared bankrupt by the Court of Genoa, Bankruptcy Sections, on 25 October 2018, with sentence number 111/2018, in a bankruptcy procedure opened against the parent company Qui Group S.p.A.. The transaction took place following the successful sale of QFS shares by the bankruptcy trustee. Sisal Group deposited its offer at the Court on 19 December 2019. At the end of the auction, Sisal Group acquired 1,197,859 shares with a nominal value of € 3 each at a price of € 1,500,000, representing 98.23%. Subsequently, the Group acquired the remaining 1.77% of the share capital of QFS from minority shareholders, for a price of Euro 50,000. The total purchase value of 100% of the share capital of QFS was therefore Euro 1,550,000. The effectiveness of the transaction was subject to the authorisation of the Bank of Italy, obtained on 31 July 2019.

The following table summarises the assets and liabilities recorded as at 31 July 2019, following the transaction:

(in Euros thousands)	**Provisional Fair Value at acquisition date**
Intangible assets	800
Property, plant and equipment	191
Other current and non current assets	2,333
Trade receivables	230
Deferred tax assets	2,726
Cash and Cash equivalents (including cash reserve)	3,378
Total purchased Assets	**9,658**
Provision for employee severance indemnities	190
Provisions for risks and charges	257
Short and long term Debt	3,630
Trade payables	2,245
Other current and non current liabilities	171
Total purchased Liabilities	**6,494**
Net purchased assets	**3,164**
Consideration Transferred	**1,550**
Net purchased assets	**3,164**
Gain from acquisition	**(1,614)**

As underlined above; after an accurate analysis by the management, the operation entails the recognition of badwill for Euro 1.614 thousand, written off to Other Income in the 2013 income statement.

Acquisition of Elmea S.r.l.

On 21 December 2018, Sisal Entertainment S.p.A., a company of the Group, signed a purchase agreement for the acquisition of 100% of the share capital of Elmea S.r.l.. In this occasion, the suspensive clauses of the purchase and a provisional price for the purchase equal to Euro 4,700,000 million were defined. The purchase and sale deed also defined that the final price would be established on the basis of the financial figures as at 31 December 2018, no later than 30 April 2019.

During the year, on 15 April 2019, the parties signed the agreement for the sale of the shares establishing the final price for the transaction, which did not change from the provisional price, and it was noted that on 15 February 2019, the spin-off of the business unit involving the separation of the property and shareholdings of Elmea S.r.l. became effective. The deed established an additional price of Euro 150,000, bringing the total price of the transaction to Euro 4,850,000.

The following table summarises the assets and liabilities recorded as at 28 February 2019, following the transaction:

(in Euros thousands)	**Provisional Fair Value at acquisition date**
Intangible assets	4,117
Property, plant and equipment	354
Other current and non current assets	229
Trade receivables	1,367
Cash and Cash equivalents (including cash reserve)	3,396
Total purchased Assets	**9,464**
Provision for employee severance indemnities	284
Deferred tax liabilities	1,121
Provisions for risks and charges	1,399
Short and long term Debt	67
Trade payables	112
Other current and non current liabilities	1,632
Total purchased Liabilities	**4,614**
Net purchased assets	**4,850**
Consideration Transferred	**4,850**
Net purchased assets	**4,850**
Goodwill	**-**

The Purchase Price Allocation entail the recognition of “Other Intangible assets”, related to Retail ADI, for Euro 3.975 thousand, before taxes. No recognition of Goodwill.

Acquisition of DiVi S.r.l.

In December 2019 Sisal Entertainment S.p.A. completed the purchase of 100% of the shares in DiVi S.r.l. The provisional price for the transaction was established at Euro 2,200,000.

This amount will be recalculated, if necessary, by a special agreement signed between the parties within sixty days from the approval date of DiVi S.r.l.'s financial statements and in any case not earlier than six months from the date of stipulation of the purchase contract.

The following table summarises the assets and liabilities recorded at 31 December 2019, following the transaction:

(in Euros thousands)	**Provisional Fair Value at acquisition date**
Intangible assets	2,815
Property, plant and equipment	596
Other current and non current assets	222
Deferred tax assets	189
Trade receivables	1,404
Cash and Cash equivalents (including cash reserve)	678
Total purchased Assets	**5,903**
Provision for employee severance indemnities	55
Deferred tax liabilities	700
Trade payables	2,204
Other current and non current liabilities	416
Tax liabilities	328
Total purchased Liabilities	**3,703**
Net purchased assets	**2,200**
Consideration Transferred	**2,200**
Net purchased assets	**2,200**
Goodwill	**-**

The Purchase Price Allocation entail the recognition of “Other Intangible assets”, related to Retail ADI, for Euro 1.635 thousand, before taxes. No recognition of Goodwill.

Considering that the transaction took place in December 2019, the Group exercised the option to provisionally record the assets and liabilities acquired in the statement of financial position at fair value. The purchase price allocation exercise as permitted by IFRS will be finalised in 2020 within 12 months from the completion date of the transaction

Acquisition of Slot Italia S.r.l.

On December 23, 2019, Network Italia S.r.l., a company 60% controlled by the group, acquired 100% of the share capital of Slot Italia S.r.l.. The provisional purchase price was set at Euro 5,761,000, already partially paid to the former shareholders at the closing date of the financial statements (Euro 1,700,000).

This amount will be recalculated, if necessary, by a special agreement signed by the parties within sixty days from the date of approval of the financial statements of Slot Italia S.r.l. and in any case not earlier than six months from the date of signing of the sales contract.

This amount will be definitively recalculated, if necessary, by a special agreement signed between the parties within sixty days from the approval date of DiVi S.r.l.'s financial statements and in any case not earlier than six months from the date of stipulation of the purchase contract.

At the closing date of the financial statement, the value of the residual debt to the former shareholders of Slot Italia S.r.l., discounted to present value is Euro 3,914,832 recorded under "Other liabilities".

The following table summarises the assets and liabilities recorded at 31 December 2019, following the transaction:

(in Euros thousands)	**Provisional Fair Value at acquisition date**
Intangible assets	5,696
Goodwill	37
Property, plant and equipment	1,147
Deferred tax assets	8
Other current and non current assets	140
Trade for taxes	34
Trade receivables	666
Cash and Cash equivalents (including cash reserve)	2,238
Total purchased Assets	**9,966**
Provision for employee severance indemnities	177
Provisions for risks and charges	4
Deferred tax liabilities	1572
Trade payables	1857
Other current liabilities	349
Payables for taxes	246
Total purchased Liabilities	**4,205**
Net purchased assets	**5,761**
Consideration Transferred	**5,761**
Net purchased assets	**5,761**
Goodwill	**-**

The Purchase Price Allocation entail the recognition of “Other Intangible assets”, related to Retail ADI, for Euro 2.608 thousand, before taxes. No recognition of Goodwill.

Considering that the transaction took place in December 2019, the Group exercised the option to provisionally record the assets and liabilities acquired in the statement of financial position at fair value. The purchase price allocation exercise as permitted by IFRS will be finalized in 2020 within 12 months from the completion date of the transaction.

Other acquisition

During the year, The group, through the company Sisal Entertainment S.p.A. and its subsidiaries, has acquired several business unit related to the exercise of public games rights, horse racing and sports (betting rights) and the collection of games through entertainment equipment (AWP and VLT) through its own agencies and operators. The total price paid for these transactions amounts to approximately EUR 4.6 million.

Following the finalization of the purchase price allocation procedures “Intangible assets” for Euros 3.9 million were recognised as “Concessions, licences, trademarks and similar rights”, for Euros 1.2 million, relating to acquisitions pertaining to Betting rights, and as “Other intangible assets” for Euros 2.7 million, relating to transactions relating to the ADI network.

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.

7. Operating segments

Following the above-mentioned partnership agreement signed with Banca 5 S.p.A., a complex corporate reorganisation operation was undertaken within the group aimed at separating the activities related to payment services, which are carried out with Banca 5 as a minority shareholder, from the activities related to the Gaming sector, which are wholly owned by the group.

This corporate reorganization was accompanied by a significant reorganization of the two businesses, both in terms of legal and corporate structure and in terms of strategy and organization.

In particular, the organizational and reporting structure of gaming has been revised and is now organized in three markets (Retail, Online and International) and in four business structures (Lottery, Betting, Videolottery & Casino and AWP).

The structure of the operating sectors, on the basis of which management manages and monitors its business, has also been revised accordingly.

The four operational areas are described below:

Payments and Services, which includes the Electronic Currency Institute, is responsible for the development and marketing of both Retail and Online of (1) Bill Payments which include payments related to Utilities, payments of taxes and duties related to the Public Administration, payments to ACI, etc.; (2) Prepaid Cards which include prepaid card top-ups (including the SisalPay card); revenues from activations of SisalPay cards and related fees; (3) Telco Top Ups which include telephone top-ups; (4) Other Payments which include other services including Trenitalia ticketing, Pin Amazon etc.

Retail, responsible for the management and development of activities related to entertainment equipment, fixed-odds betting and traditional sports betting competitions, as well as activities related to the management of the GNTN collection of which the group is the exclusive concessionaire. This division manages the "physical" sales outlets distributed throughout Italy for both the Branded channel and the Affiliate channel.

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.

International, is the sector dedicated to the international development of the Group, which is already operational today, although in the start-up phase, in Morocco, Turkey and Spain. The Group is present in these markets with products ranging from online offerings to lotteries, betting and slot machines.

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 informational 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 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, 2019 and 2018:

	Year ended December 31			
	2019		2018	
(in Euros thousands)	**Revenues and income**	**EBITDA**	**Revenues and income**	**EBITDA**
Retail Gaming				
Revenues	406,244		389,419	
Supply chain/other revenues	144,605		176,487	
Total	**550,849**	**154,293**	**565,906**	**132,990**
Lottery				
Revenues	107,709		113,085	
Supply chain/other revenues	108,164		77,224	
Total	**215,873**	**63,304**	**190,309**	**66,232**
Online Gaming				
Revenues	125,036		107,095	
Supply chain/other revenues	(27,384)		(24,793)	
Total	**97,652**	**48,858**	**82,302**	**36,989**
Payments and Services				
Revenues	4,564		-	
Supply chain/other revenues	88		-	
Total	**4,652**	**(2,347)**	**-**	**-**
Other revenues	**361**		**1,356**	
Total Revenues/adj. EBITDA of the operating segments	**869,387**	**264,108**	**839,873**	**236,210**

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

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

The International operating sector is the new sector dedicated to the Group's international development and is still in the start-up phase. In the last year this new line of business, as the actual management had not yet started, did not qualify as 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)	**2019**	**2018**
Total operating segments	264,108	236,210
Net non-recurring expenses	(19,840)	(5,555)
Items with different classification	(4,457)	(2,812)
One-off NTNG amortization	(543)	(4,870)
Amortization of intangible assets	(83,604)	(67,211)
Depreciation of property, plant and equipment	(56,462)	(33,168)
Impairment losses on Tangible and Intagible asset	(11)	-
Impairment losses on current assets	(13,752)	(13,794)
Operating profit (loss), EBIT	**85,438**	**108,800**

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.

8. Revenues

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2019**	**2018**
Gaming and betting revenues	465,781	489,679
One-off NTNG amortization	(543)	(4,870)
Payments and other services revenues	169,582	149,958
Points of sale revenues	90,775	84,759
Revenues from third parties	6,256	4,488
Total	**731,851**	**724,014**

Gaming and betting revenues are analysed as follows:

	Year ended December 31	
(in Euros thousands)	**2019**	**2018**
NTNG	70,836	60,216
Gaming machines	303,875	351,561
Horse-race betting	4,897	6,041
Big bets revenues	10	9
Virtual races revenues	33,398	27,104
Sports pools	285	275
Online game	48,034	44,473
Foreign revenues	4,446	
Total	**465,781**	**489,679**

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)	**2019**	**2018**
Fixed-odds sports betting income	131,425	110,799
Fixed-odds horse-race betting income	3,410	3,016
Reference horse-race betting income	223	231
Total	**135,058**	**114,046**

10. Other income

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2019**	**2018**
Other sundry income	2,478	1,813
Total	**2,478**	**1,813**

The caption includes the gain from the acquisition of QFS S.p.A. for some Euros 1,614 thousands, as described in the note “Business combinations”.

11. Purchases of materials, consumables and merchandise

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2019**	**2018**
Gaming materials purchases	7,427	6,191
Spare parts purchases	4,347	3,359
Sundry materials purchases	3,409	3,174
Warehousing	239	212
Change in inventories	(158)	(725)
Total	**15,264**	**12,211**

12. Costs for services

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2019**	**2018**
Marketing and commercial expenses	16,982	26,731
Other commercial initiatives	4,744	6,089
Other commercial services	2,079	1,167
Commercial services	**23,805**	**33,987**
Sales channel - Gaming	207,378	243,095
Sales channel – Payment services	106,756	77,529
Consulting	24,653	12,434
Other	97,755	85,448
Other services	**436,542**	**418,506**
Total	**460,347**	**452,493**

It is noted that the fees paid to the audit firm for the audit of the annual financial statements of the Parent (included in these consolidated financial statements and certain non-recurring audit activities) amount to (net of VAT) approximately Euros 874 thousand (Euros 496 thousand in 2018). In addition, fees paid to the audit firm for other recurring auditing procedures mainly in connection with the various obligations required for the NTNG concession amount to Euros 112 thousand, as well as about Euros 1.4 million relating to comfort letter issued and to the audit of pro forma financial statements in the context of the bond offering.

It is also noted that the remuneration of the Company's board of statutory auditors amounts to a total of Euros 287 thousand (including duties on certain consolidated subsidiaries).

13. Lease and rent expenses

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2019**	**2018**
Building leases	1,331	18,766
Other rentals and operating leases	848	3,607
Total	**2,179**	**22,373**

The decrease recorded during the year is mainly referred to the application of the new IFRS 16 standard, as better described in the note "Adoption of the new standards".

14. Personnel costs

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2019**	**2018**
Salaries and wages	67,396	63,898
Social security contributions	23,205	21,869
Employee severance indemnities	5,519	5,198
Other personnel costs	914	781
Total	**97,034**	**91,746**

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

	Year ended December 31	
Number of employees	**2019**	**2018**
Executives	48	47
Management staff	160	147
White-collar	1,759	1,645
Blue-collar	79	70
Total	**2,046**	**1,909**

15. Other operating costs

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2019**	**2018**
Other taxes and duties	3,759	3,500
Gifts and donations	1,148	1,307
Gaming concession fees	21,693	20,984
Sundry operating costs	24,333	10,594
Total	**50,933**	**36,385**

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)	**2019**	**2018**
Amortization of intangible assets	83,604	67,211
Depreciation of property, plant and equipment	56,462	33,168
Other impairment losses on fixed assets	11	-
Impairment losses on current assets	13,627	13,426
Allocations and releases to provisions for risks and charges	4,488	2,060
Total	**158,192**	**115,865**

Amortization of intangible assets includes Euros 24,286 thousand (Euros 23,944 thousand in 2018) as the higher amortization deriving from the purchase price allocation procedure carried out in 2017.

The increase recorded during the year is mainly referred to the application of the new IFRS 16 standard, as better described in the note "Adoption of the new standards".

17. Finance income and similar

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2019**	**2018**
Finance income bank accounts	31	9
Finance income guarantee deposits	-	7
Other finance income	6	9
Total	**37**	**25**

18. Finance expenses and similar

This item is composed as follows:

	Year ended December 31	
(in Euros thousands)	**2019**	**2018**
Interest and other finance expenses - third parties	74,663	56,620
Exchange gains/losses realized	103	11
Exchange gains/losses unrealized	(31)	55
Total	**74,735**	**56,686**

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 and December 2019.

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

At December 31, 2019, charges of Euros 127 thousand were recorded., substantially related to the Associates My Cicero Srl accounted for using the equity method.

19. Income taxes

Income taxes comprise the following:

	Year ended December 31	
(in Euros thousands)	**2019**	**2018**
Current taxes	29,475	24,909
Current taxes adjustments relating to prior years	1,698	(587)
Deferred tax assets and liabilities	(6,655)	(9,182)
Deferred tax assets adjustments related to prior years	(267)	(44)
Total	**24,251**	**15,096**

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

	Year ended December 31	
(in Euros thousands)	**2019**	**2018**
Profit (loss) before income taxes	10,613	51,540
Nominal tax rate	24%	24%
Theoretical tax using the nominal tax rate	2,547	12,370
Dividend income	1,414	(171)
40% super-depreciation of property, plant and equipment	(1,771)	(1,433)
Aid to economic growth (Aiuto alla crescita economica, ACE)	(217)	(400)
Business combinations	8,799	-
Other changes	6,536	1,061
Effective IRES tax	**17,308**	**11,427**
Effective IRAP tax	**5,511**	**4,299**
Current and deferred income tax adjustments related to prior year	1,432	**(630)**
Total effective tax expense	**24,251**	**15,096**

20. Property, plant and equipment

The composition and changes in this item are as follows:

(in Euros thousands)	**January 1, 2019**	**IFRS 16 1/1/2019**	**Investments**	**Change in scope of consolidation**	**Depreciation, amortization and impairment losses**	**Disinvestments**	**Reclassifications**	**December 31, 2019**
Land and buildings:								
Original cost	52,047	74,027	10,513	19	-	(6)	(31)	136,569
Accumulated depreciation	(29,890)		-		(21,425)		-	(51,315)
Impairment losses	-		-		-	-	-	-
Net book value	**22,157**	**74,027**	**10,513**	**19**	**(21,425)**	**(6)**	**(31)**	**85,254**
Plant and equipment:								-
Original cost	38,383		2,713	60	-	(2,945)	-	38,211
Accumulated depreciation	(28,621)		-	(46)	(3,368)	2,925	-	(29,110)
Impairment losses	(1)		-		-	-	-	(1)
Net book value	**9,761**		**2,713**	**14**	**(3,368)**	**(20)**	-	**9,099**
Industrial equipment:								
Original cost	373,852		47,440	56,308	-	(15,018)	80	462,661
Accumulated depreciation	(305,304)		-	(27,422)	(26,731)	13,641	-	(345,815)
Impairment losses	(719)		-		(11)	288	-	(442)
Net book value	**67,829**		**47,440**	**28,886**	**(26,742)**	**(1,088)**	**80**	**116,405**
Other assets:								-
Original cost	23,664	3,891	5,848	2,674	-	(2,448)	-	33,629
Accumulated depreciation	(14,526)		1	(1,910)	(4,938)	1,881	-	(19,492)
Impairment losses	(145)		-		-	-	-	(145)
Net book value	**8,993**	**3,891**	**5,849**	**764**	**(4,938)**	**(567)**	-	**13,992**
Property, plant and equipment under construction:								
Original cost	-		-		-	-	-	-
Accumulated depreciation	-		-		-	-	-	-
Impairment losses	-		-		-	-	-	-
Net book value	-		-		-	-	-	-
Total:								-
Original cost	487,945	77,917	66,515	59,061		(20,417)	49	671,071
Accumulated depreciation	(378,341)	-	-	(29,378)	(56,462)	18,447	-	(445,733)
Impairment losses	(865)	-	-	-	(11)	288	-	(588)
Net book value	**108,740**	**77,917**	**66,515**	**29,683**	**(56,473)**	**(1,682)**	**49**	**224,750**

(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**

2019

Investments made in 2019 totaled approximately Euros 66.5 million and regard mainly:

- investments in gaming and services equipment for approximately Euros 23.8 million;
- investments in hardware for the management of business operations for approximately Euros 5.3 million;
- investments in plant, furniture and restructuring work of offices and points of sale of around Euros 6.1 million;
- investments in gaming machines for approximately Euros 9.8 million.

In compliance with the adoption of the new accounting standard IFRS 16, there are total increases for Euros 104.1 million of which Euros 77,9 million as valorization of the opening to 1 January 2019 of tangible fixed assets impacted by the application of the same principle.

The right of use assets recorded at December 31, 2019 amount to some Euros 82,871 thousand, and they are composed by:

- plant and equipment for some Euros 65,486 thousand;

- industrial equipment for some Euros 12,957 thousand;
- other assets for some Euros 4,428 thousand.

The related depreciation at December 31, 2019 amounts to some Euros 21,907 thousand, and it is composed by:

- plant and equipment for some Euros 17,538 thousand;
- industrial equipment for some Euros 1,915 thousand;
- other assets for some Euros 2,453 thousand.

There was also an increase, net of the related provisions for depreciation, of approximately Euros 29.7 million in relation to acquisitions in the course of 2019 already mentioned in the paragraph relating to business combinations.

2018

Investments made in 2018 totaled 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.

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

21. Goodwill

At December 31, 2019, goodwill amounted to Euros 807,817 thousand, the table show the movement during the year:

	Year ended December 31	
(in Euros thousands)	**2019**	**2018**
At January 1	**569,275**	569,275
Acquisition Banca5	238,464	-
Other acquisition	78	-
At December 31	**807,817**	569,275

Following the internal reorganization operation and the partnership agreement reached with Banca5, the Group has reviewed the structure of the operating segments, on the basis of which the management manages and monitors its business and, the structure of the CGU for impairment exercise.

The four operating segments, described in note 7 above, are:

- Payments and Services
- Retail sector
- Online Gaming
- International

In particular, within the operating segment of the Retail, the goodwill is allocated and tested separately for the CGU “Lottery". and for the three CGU related to betting products, slots and VLT (overall Retail gaming) that share the investments on the distribution channel and the regulatory guidelines that condition its strategic choices.

The International segment has no associated goodwill.

Goodwill at December 31, 2019 is allocated to the different operating segments as follows:

	At December 31
(in Euros thousands)	**2019**
Retail	170,472
o/w: Lottery	50,138
Retail Gaming	120,334
Online Gaming	90,502
Payments and Services	546,843
Total	**807,817**

The value of Goodwill, in line with the requirements of the relevant accounting standards, was subjected to an impairment test.

According to IFRS, the "recoverable amount" of the CGU to be taken into account for the impairment exercise is equal to the greater of the “fair value” net of disposal costs ("disposal costs”) and “value in use”.

In view of the proximity of the transaction with Banca5 at the expiry of the impaired year and the expert reports that have been prepared to support the transaction, it was decided to test the Payments and Services sector instead referring to the value configuration of the *fair value less costs of disposal* while for the sectors related to the gaming area it was referred to the value in use

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 post-tax WACC of 7.3% (7,8% at December 31, 2018), derived from the weighted average cost of capital of 8.2%) and the after-tax cost of debt of 3.6%. These assumptions were applied indiscriminately to each CGU.

The difference between the recoverable amount of operating segments, as of December 31, 2019, and its carrying amount, is detailed in the following table:

	At December 31
(in Euros millions)	**2019**
Retail Gaming	32.1
Online Gaming	429.6
Payments and Services	334.3
Total	**796.0**

The following table highlights the values for the rate of terminal growth and the WACC, considered individually and keeping unchanged the other assumptions, to make the recoverable value of the Operating Sectors of the gaming area, equal to their book value:

	WACC	**Growth rate**
Base value		
Retail		
o/w: Lottery	7.6	-0.4
Retail Gaming	7.7	-0.5
Online Gaming	20.1	n.a.

22. Intangible assets

The composition and changes in this item are as follows:

(in Euros thousands)	January 1, 2019	Investments	Change of scope of consolidation	Depreciation and amortization and impairment losses	Disinvestments	Reclassification	December 31, 2019
Industrial patents and intellectual property rights:							
Original cost	119,545	46,476	8,146	-	(11,120)	363	**163,411**
Depreciation and amortisation fund	(88,071)	-	(6,801)	(32,804)	10,959		**(116,718)**
Impairment losses	-	-		-	-		-
Net value	**31,474**	**46,476**	**1,345**	**(32,804)**	**(161)**	**363**	**46,693**
Concessions, licences, trademarks and similar rights:							-
Original cost	780,986	17,891	1,299		(2,602)	(346)	**797,228**
Depreciation and amortisation fund	(428,028)		(85)	(36,376)	2,602		**(461,886)**
Impairment losses	(47,667)						**(47,667)**
Net value	**305,291**	**17,891**	**1,214**	**(36,376)**	-	**(346)**	**287,675**
Other intangible assets:							-
Original cost	225,884	1,918	16,464		(698)		**243,568**
Depreciation and amortisation fund	(65,705)	-	(1,506)	(14,424)	680		**(80,955)**
Impairment losses	-	-		-	-		-
Net value	**160,179**	**1,918**	**14,958**	**(14,424)**	**(18)**	-	**162,613**
Intangible assets in progress and advances:							-
Original cost	579	110		-	-		**689**
Depreciation and amortisation fund	-	-			-		-
Impairment losses	-	-		-	-		-
Net value	**579**	**110**	-	-	-	-	**689**
Total:							-
Original cost	1,126,995	66,395	25,909	0	(14,420)	18	**1,204,897**
Depreciation and amortisation fund	(581,804)		(8,391)	(83,604)	14,241		**(659,558)**
Impairment losses	(47,667)	-					**(47,667)**
Net value	**497,523**	**66,395**	**17,517**	**(83,604)**	**(179)**	**18**	**497,670**

(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 2019, investments in intangible assets amounted to approximately Euros 66.4 million, composed mainly as follows:

- Purchase and development of software for the management of business operations for approximately Euros 36 million;
- Acquisition and renewal of concession rights mainly in relation to horse-race and sport betting for approximately Euros 8 million;
- Purchase of software user licenses for approximately Euros 7 million;
- Internal capitalization of new software applications for around Euros 10.2 million

There was also an increase net of approximately Euros 17.5 million in relation to acquisitions in the course of 2019.

2018

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.

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.

23. Equity investments in Associates

The item “Equity investments in associates” at December 31, 2019, amounts to Euros 3,309 thousand (Euros 0 at December 2018) and it is represented by the stake in Sisitema S.r.l.(49%), already in scope at December 31, 2018 and My cicero S.r.l. (30%) acquired in 2019.

As described in the above paragraph 2.3 (Scope of consolidation and consolidation principles) in March 2019, the Group acquired 30% of the capital shares of MyCicero S.r.l. through the subsidiary Sisal S.p.A

The stake was then transferred in December 2019 to the other company in the SisalPay Servizi S.p.A. as part of the corporate reorganization that led to the separation of the payment services business within the group.

At the end of 2019, the accounting under the equity method resulted in a loss of Euro 120 thousand recognized in the income statement (Cost for companies accounted for using the equity method).

With reference to the investment in Sistema Srl, it was completely impaired. In 2018 a provision for risks and charges for Euros 800 thousand was recognized which has been used in 2019 for Euros 309 thousand to cover losses.

The following table presents the composition and the movements of the stake during 2019. As the relevant financial statements 2019 are not yet available, the table below refer to the most recently approved financial statements

(in Euros thousands)	**% ownership**	**Value at start date**	**Value at end date**	**Share Capital**	**Total assets**	**Total liabilities**	**Total revenues**	**Profit for the year**	**Equity**	**Equity pertaining to non-controlling interests**
Sistema S.r.l.	49%	-	-	100	1,028	1,590	480	(633)	(563)	(276)
MyCicero S.r.l.	30%	-	3,309	1,000	13,778	8,337	2,626	(677)	5,440	1,632
Total		**-**	**3,309**							

24. Deferred tax assets and liabilities

This item can be broken down as follows:

	At December 31	
(in Euros thousands)	**2019**	**2018**
Deferred tax assets	**24,110**	**17,515**
Deferred tax liabilities	**(128,110)**	**(127,636)**
Net amount	**(104,000)**	**(110,121)**

Net changes in this item are as follows:

Deferred tax assets and liabilities	
(in Euros thousands)	**2019**
At December 31, 2016	**(119,319)**
Charge/release to income statement	9,233
Charge/release to statement of comprehensive income	(35)
Use of losses for tax consolidation	(110,121)
At December 31, 2017	**6,923**
Charge/release to income statement	54
Charge/release to statement of comprehensive income	(856)
At December 31, 2018	**(104,000)**

Deferred tax assets are summarized in the following table:

	At December 31			
(in Euros thousands)	**2019**		**2018**	
	Temporary differences (Amount)	Tax effect	Temporary differences (Amount)	Tax effect
Allocation to provision for impairment of receivables	51,370	12,329	51,166	12,280
Allocation to provision for risks and charges	17,326	4,702	14,614	4,028
Severance indemnity discounted and deducted out of books	4,369	290	4,405	194
Depreciation and amortization	15,208	3,905	15,687	4,018
Other temporary differences	5,658	4,555	5,386	1,431
Loss	15,777	1,466		
Total deferred tax assets	**109,708**	**27,247**	**91,258**	**21,951**
Amount offset against deferred tax liabilities	(13,348)	(3,138)	(21,460)	(4,436)
Total deferred tax assets	**96,360**	**24,110**	**69,798**	**17,515**
Tax losses for which deferred tax assets have not been recorded	40,508	9,789	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. Tax Revenues Agency, as the result of ruling request, recognised the non-portability within the tax consolidation.

To this value are added Euro 2,014 thousand, 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)	**2019**		**2018**	
	Temporary differences (Amount)	Tax effect	Temporary differences (Amount)	Tax effect
Amortization/depreciation deducted out of books	34,138	9,627	32,771	9,242
Business combinations	430,902	121,514	435,260	122,743
Other temporary differences	378	106	310	86
Total deferred tax liabilities	465,418	131,248	468,341	132,071
Amount offset against deferred tax assets	(13,348)	(3,138)	(21,460)	(4,436)
Total deferred tax liabilities	452,070	128,110	446,882	127,636

25. Other non-current assets

The item totals approximately to Euro 22,663 thousand (Euro 20,844 thousand at December 31, 2018) and mainly comprises receivables from tax authorities requested for refund, i.e. Euro 14,973 thousand.

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

26. Inventories

This item is composed as follows:

	At December 31	
(in Euros thousands)	**2019**	**2018**
Play slips	493	363
Rolls of paper for gaming terminals	833	951
VLT tickets	12	13
Spare parts (repairs)	3,192	3,365
Spare parts (consumables)	1,368	1,329
Food & Beverage	20	4
Materials, auxiliaries and consumables	**5,917**	**6,025**
Top-up and scratch cards	-	194
Virtual top-ups	5,039	5,541
Finished gaming machines inventory	2	-
Finished gaming machines and merchandise	**5,041**	**5,735**
Total	**10,958**	**11,760**

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, 2017	**3,580**
Net provisions	262
Usage	(605)
December 31, 2018	**3,237**
Net provisions	629
Usage	(492)
December 31, 2019	**3,374**

27. Trade receivables

This item is composed as follows:

	At December 31	
(in Euros thousands)	**2019**	**2018**
Receivables from points of sale	93,133	120,371
Trade receivables from gaming machines network	12,374	13,774
Trade receivables from betting agencies	2,958	4,218
Trade receivables from game parties	551	-
Trade receivables from third parties	4,651	3,772
Other trade receivables from third parties	3,935	384
Doubtful receivables	82,248	79,060
Provision for impairment of trade receivables	(84,914)	(76,050)
Total	**114,936**	**145,529**

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.

The foreign currency denominated trade receivables and the analysis by geographical area are not significant as almost 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, 2017	**(68,630)**
Net provisions	(13,712)
Usage	6,292
Changes of consolidated area	-
December 31, 2018	**(76,050)**
Net provisions	(13,722)
Usage	9,543
Changes of consolidated area	(4,685)
December 31, 2019	**(84,914)**

The increases recorded in 2019 and 2018 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 2019 or 2018.

29. Taxes receivable

This item is composed as follows:

	At December 31	
(in Euros thousands)	**2019**	**2018**
Receivables for IRES tax from tax authorities	31	13
Receivables for IRAP tax from tax authorities	200	63
Total	**231**	**77**

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. and Sisal Group S.p.A. for IRES taxes and SisalPay 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 until the date of business service transfer and subsequently to SisalPay S.p.A.

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

31. Cash and cash equivalents

This item is composed as follows:

	At December 31	
(in Euros thousands)	**2019**	**2018**
Bank and postal accounts	154,910	248,738
Cash and cash equivalents in hand	17,104	6,154
Total	**172,014**	**254,892**

The significant decrease in cash and cash equivalents is mainly a direct consequence of the payment of 50% of the concession fee in compliance with the provisions of the assignment of the renewal of the concession and the 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)	**2019**	**2018**
Receivables from the Public Administration	142,255	33,103
Other receivables from tax authorities	13,012	7,947
Prepaid expenses	6,741	6,518
Other receivables from third parties	17,679	13,098
Other receivables from employees	419	469
Provision for impairment of other receivables	(5,065)	(107)
Total	**175,041**	**61,028**

Other receivables from third parties, equal to Euros 17,679 thousand (Euros 13,098 thousand at December 31, 2018), mainly include Euros 8,798 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 and receivables from failed Qui! Group by SisalPay S.p.A for approximately Euros 5 million, entirely covered by the Provision for impairment receivables.

Receivables from the Public Administration are mainly composed of receivables for security deposits with the AAMS, under the concessions relating to collections from legal gaming through gaming machines, equal to Euros 20,949 thousand (Euros 23,682 thousand at December 31, 2018).

Other receivables from tax authorities mainly refer to receivables for VAT totaling Euros 12,341 thousand (Euros 7,900 thousand at December 31, 2018).

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

The composition of shareholders' equity at 31 December 2019 is as follows:

	At December 31	
(in Euros thousands)	**2019**	**2018**
Total Group equity	441,092	326,294
Equity pertaining to non-controlling interests	(63,491)	1,097
Total	**377,601**	**327,391**

The share capital of the Company at December 31, 2019, fully subscribed and paid-in, is composed of 102,500,000 ordinary shares of par value Euro 1 each.

The movement of individual items is summarized in the statement of the change in consolidated equity.

In particular, the minority interests as of December 31, 2018 were linked to the presence in the capital composition of subsidiary Sisal S.p.A., of preference shares held by receivers and former receivers of the same. In 2018, the Group launched a buy-back operation; upon reaching the conditions set out in the Bylaws, the subsidiary then exercised its right to redeem the remaining preference shares. The transaction ended in 2019 with the cancellation of all the preferred shares.

Shareholders' equity attributable to non-controlling interests as of December 31, 2019 is mainly represented by the investment of Banca5 S.p.A. in the subconsolidation of Sisalpay Group S.p.A. following the *business combination* described above in the note 6 “Business combination”.

The transaction provided for the assignment to Banca5 S.p.A. of shares in subsidiary Sisalpay Group S.p.A. in return for the transfer of the payment services business held by the subsidiary of Banca Intesa and the payment to Sisal Group S.p.A by Sisalpay Group S.p.A of a consideration of Euros 500 million. The shareholders' equity attributable to Banca5 S.p.A., as well as the result of the transaction in the group’s equity, are determined in relation to the contribution of Sisalpay Group s.p.A to consolidated Sisal Group S.p.A. which, for the service business part already held by the group, it is in continuity with previous years.

The item also includes the value of minority interests in some minor Italian subsidiaries and in the Turkish company Sisal Şans Interaktif Hizmetler Ve Şans Oyunlari YAT.A.Ş., substantially not operational in 2019 established during the year with the partner Sans Digital (belonging to the Turkish group Demiroren), which from August 2020, will manage and develop activities related to numerical games, Instant lotteries and online games at the Turkish territory.

34. Long-term debt

Long-term debt of the Group at December 31, 2019 and 2018, shown net of transaction charges in accordance with IFRS, is presented as follows:

	At December 31	
(in Euros thousands)	**2019**	**2018**
Long and Short term Debt	975,503	757,333
Payables to other lenders - leasing contracts	81,826	30
Total	**1,057,329**	**757,363**
of which current	*37,722*	*55,864*
of which non-current	*1,019,607*	*701,499*

Long and Short term Debt

	At December 31	
(in Euros thousands)	**2019**	**2018**
Super Senior Revolving Facility	914	38,217
Senior Secured Notes - Sisal Group	276,965	719,116
Senior Secured Notes - SisalPay Group	509,208	0
Total	**787,087**	**757,333**
Loans and mortages by other bank	1,222	0
Total Other loans from third parties	**788,309**	**757,333**
Shareholder debt	187,194	0
Total	**975,503**	**757,333**

Existing debt at December 31, 2019, including the current portion, totals around Euros 1,057 million (Euros 757 million at December 31, 2018).

The fixed-rate debt amounts to around Euros 464 million (Euros 401 million at December 31, 2018) and refers mainly to the bond SSN issued by Sisal Group SpA, for about Euros 277 million, and to the "Deferred Purchase Price Agreement" debt instrument for about Euros 186.6 million.

The floating-rate debt totals around Euros 511.5 million (Euros 356 million at December 31, 2018), of which approximately Euros 509.2 million relating to the Senior Secured Floating Rate Notes bond issue by Sisal Group SpA. and Euros 2.3 million (Euros 38 million at December 31, 2018) in bank debt or similar description follows of the most significant outstanding debt.

Bond issues and revolving credit facilities

At the end of 2019, the Sisal Group had two outstanding bond issues for a total of Euros 786 million, of which Euros 509 million at floating rate (Senior Secured Floating Rate Notes) and Euros 277 million at fixed rate (Senior Secured Notes).

The bond Senior Secured Floating Rate Notes amounts to around Euros 509 million at December 2019, underwritten during the exercise by SisalPay Group SpA, offers a quarterly coupon payment of interest (due March 17, June 17, September 31 and December 17) and repayment of the principal in a lump sum on December 17, 2026. The floating-rate interest is calculated on the 3-month Euribor rate plus 3.875% spread.

During the year, the group arranges a total repayment of the bond FRN, outstanding at 31 December 2018, for a total of Euros 325 million. Precisely, during the 2019, the bond accrued interest for a total of Euros 21 million and the firm, after the total repayment, paid in December 31, 2018 the capitalized fees for a total of Euros 10 million

The bond SSN, underwritten during the December 31, 2016, amounting to Euros 277 million at December 31, 2019 and 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%. During the year, the company partially reimbursed the bond for amounts of approximately Euros 125 million. Such partial repayment was possible thanks to cash flows generated by the corporate reorganization during the year, as described in the note 6 – Business combinations.

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 2019 the spread is equal to 3%, in line with the previous year).

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.

The credit line was used in full at year end.

During the year, the Group opened a credit line with a bank pool for a total of Euros 92,5 million with expiry in 2026 and interest calculated on the basis of the periodic Euribor rate plus a spread of 3.00%, subject to the reduction of the margin based on the achievement of certain levels of financial ratios with reduction up to 2%.

At the end of 2019 the credit line was in use for a total of Euros 5 million, demoted from SisalPay Group S.p.A. to SisalPay Servizi S.p.A.

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

Residual Debt at December 31

(in Euros thousands)	**Entity**	**Type**	**2019**	**2018**	**Due**	**Repayment**
Bond SSN (a tasso fisso)	Sisap Group S.p.A.	Bullet	275,000	400,000	July-31, 2023	When due
Bond SSFRN (a tasso variabile)	Sisap Group S.p.A.	Bullet	-	325,000	July-31, 2022	When due
Bond SSFRN (a tasso variabile)	SisapPay Group S.p.A.	Bullet	530,000	0	Dec-17-26	When due
Senior Secured Revolving Credit Facility	Sisap Group S.p.A.	Revolving facility	-	15,000	2022	When due
Senior Secured Revolving Credit Facility	Sisap Group S.p.A.	Overdraft	-	24,978	n.a.	When due
Senior Secured Revolving Credit Facility	SisaPay Group S.p.A.	Revolving facility	5,000	-	2026	When due
Total before Transaction Cost			**810,000**	**764,978**		
Accrued Interest			9029	15,856		
Transaction costs related to financing operations			(31,942)	(23,501)		
Total			**787,087**	**757,333**		

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,

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 to 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.

As regards to the FRN (floating-rate notes), in the event of full or partial early repayment: i) between December 17, 2019 and December 17, 2020, 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 December 17, 2020, 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 December 17, 2020, for the FRN notes at conditions that are particularly costly to the Group in that they envisage payment of the discounted flow of all interest from the date of exercise to December 17, 2020, plus the spreads indicated for the subsequent exercise windows. Considering the exercise terms, these options have no appreciable value.

Loans and mortgages by other bank

The item consists of the loan to SisalPay S.p.A. for Euros 443 thousand and overdrafts for euros 779 thousand.

Shareholder Debt

The item refers to the debt ““Deferred Purchase Price Agreement” underwritten after the partnership with the services for payment for a total of Euros 186 million, due to minority shareholder Banca 5 S.p.A. The accrued interests are equal to 9%. The debt is subordinated and the capital (with the accrued interest) will be paid after six months of the total refund of the bond “Senior Secured Floating Rate Notes” issued by SisalPay Group S.p.A.

Lease liabilities

	At December 31	
(in Euro thousands)	**2019**	**2018**
Lease liabilities – short term	21,967	30
Lease liabilities – long term	59,859	-
Total	**81,826**	**30**

Leased liabilities are the short- long-term obligation to make payments under contracts that include a lease, as defined in IFRS 16 and relate mainly to real estate, gaming terminals, hardware and vehicles.

The liability for leased assets is recognised at an amount equal to the present value of the lease payments not yet made at commencement date, calculated at a discount rate equal to the implicit rate of interest on the lease; or if this is not easily determined, using the Group’s incremental funding rate

The following is an analysis of the maturities of lease payments, detailing the payments due for annualised leases for the first five years and the total amounts for the remaining years:

		31-dec-19
		€/000
Future payments for leasing assets		
	Within 1 year	23,705
	Between 1 and 2 years	22,880
	Between 2 and 3 years	15,654
	Between 3 and 4 years	12,343
	Between 4 and 5 years	5,934
	over 5 years	5,744
(Discounting effect)		**-4,435**
Leasing Liabilities		**81,826**

35. Net financial debt

The net financial debt of the Group at December 31, 2019 and 2018, 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)	**2019**	**2018**
A	Cash	17,104	6,154
B	Other liquid assets	154,910	248,738
C	Securities held for trading	-	-
D	**Liquidity (A+B+C)**	**172,014**	**254,892**
E	**Current financial receivables**	**-**	**-**
F	Current financial payables	5,000	15,000
G	Current portion of medium-/long-term debt	31,306	15,576
H	Other current financial payables	1,416	25,287
I	**Current financial debt (F+G+H)**	**37,722**	**55,864**
J	**Net current financial debt (I-E-D)**	**(134,292)**	**(199,029)**
K	Medium/long-term debt	186,690	-
L	Notes issued	773,058	701,499
M	Other non-current financial payables	59,859	-
N	**Non-current financial debt (K+L+M)**	**1,019,607**	**701,499**
O	**Net financial debt (J+N)**	**885,315**	**502,470**

36. Provision for employee severance indemnities

The changes in this item are the following:

	Year	
(in Euros thousands)	**2019**	**2018**
Beginning balance	**8,381**	**8,756**
Current costs	276	232
Finance expenses	130	129
Actuarial (gains) losses	224	(147)
Contributions made - Benefits paid	(667)	(592)
Change in scope of consolidation	1,781	3
December 31	**10,125**	**8,381**

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 2019 and 2018 are as follows:

	2019	2018
Discount rate	0,80%	1,6%
Inflation rate	0,80%	1,5%
Future salary increase rate	1,80%	2,5%
Estimated mortality rate	ISTAT2017	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, 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**
Net provisions	4,668	(180)	-	4,488
Usage	(1,707)	-	(309)	(2,016)
Reclassification	(199)			(199)
Change in scope of consolidation	(64)			(64)
December 31, 2019	**17,167**	**28**	**491**	**17,686**

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 2019 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, totaling Euros 236 thousand (Euros 709 thousand at December 31, 2018), 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)	**2019**	**2018**
Payables to suppliers	131,303	117,472
Payables to partners for services	168,555	215,728
Payables to gaming machines and POS operators	1,301	994
Trade payables to concessionaires	605	545
Other trade payables	234	17
Total	**301,998**	**334,756**

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 SisalPay servizi S.p.A. and Sisal 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)	**2019**	**2018**
Payables for IRAP tax	456	314
Payables for IRES tax	5,073	10,628
Total	**5,529**	**10,942**

At December 31, 2019 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)	**2019**	**2018**
Payables on games	86,386	91,418
Payables for winnings	138,846	174,462
Payables to employees	17,163	15,029
Other current liabilities	46,860	9,334
Payables to social security agencies	8,182	9,205
Other taxes payable	4,712	5,490
Payables to collaborators	1,322	1,142
Total	**303,470**	**306,080**

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)	**2019**	**2018**
Payables to tax authorities on games	60,956	68,737
NTNG subscribers	2,395	3,243
Payables for online games	13,813	11,538
Payables for guaranteed minimum	3,905	3,905
Payables for betting management	5,317	3,995
Payables on games	**86,386**	**91,418**

The *Payables to tax authorities on games* mainly include: *i)* tax claimed on NTNG games relating to the last 16 days 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 installment due for 2009 relating to the guaranteed minimum adjustment for horse betting concessions in view of the receivable resulting from the Arbitration award on May 26, 2003. In the arbitration proceedings, between 171 plaintiff companies and the concession granting authority UNIRE, the Arbitration Board ruled in favor of the companies, confirming the existence of a receivable in favor of the concessions owned by Sisal Match Point S.p.A. as a result of mergers and acquisitions in the preceding years. AAMS appealed against the Arbitration Board's award before the Rome Court of Appeal, which revoked the award in question and ruled that the Administrative Judge had jurisdiction over the matter. No claim has so far been made against Sisal Entertainment S.p.A. following that revocation order. An appeal was filed with the Supreme Court against the previous year's judgment of the Rome Court of Appeal, requesting that its decision be overruled and the Award reinstated.

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)	**2019**	**2018**
Payables for SuperEnalotto-SuperStar winnings	111,040	128,911
Payables for Win for Life winnings	20,906	20,685
Payables for Si Vince Tutto-SuperEnalotto winnings	259	492
Payables for Tris games and horse betting winnings	182	182
Payables for CONI games	122	45
Payables for VLT winnings	3,238	4,157
Payables for Eurojackpot winnings	3,036	19,873
Payables for Play Six winnings	50	46
Payables for bet winnings	13	71
Total payables for winnings	**138,846**	**174,462**

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 and payables from prepaid card and payment deposit, as well as the balance relating to the provision of business services by Banca 5 S.p.A. for an amount of approximately Euros 14 million.

Other taxes payable

Other taxes payable are detailed as follows:

	At December 31	
(in Euros thousands)	**2019**	**2018**
Payables for IRPEF payroll tax	1,737	2,691
Payables for equalization tax	12	30
Payables for VAT	181	346
Sundry taxes payable	2,782	2,423
Total	**4,712**	**5,490**

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 and sundry takes payable of property owned by group entities.

42. Commitments

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

	At December 31	
(in Euros thousands)	**2019**	**2018**
Customs and Monopolies Authority	211,708	196,106
Payments and services	146,500	166,353
Other guarantees provided	32,700	19,030
Tax revenues agency	-	136
Total	**390,909**	**381,625**

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. and SisalPay Group S.p.A. in favor of the lenders.

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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, 2019 and 2018 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, 2019	-	1,462	1,462	303,470	**0.5%**
At December 31, 2018	-	1,616	1,616	306,080	**0.5%**

The effects of related party transactions on the income statement for the years ended December 31, 2019 and 2018 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, 2019	-	2,341	2,341	460,347	**0.5%**
Year ended December 31, 2018	-	2,270	2,270	452,493	**0.5%**
Personnel costs					
Year ended December 31, 2019	-	4,090	4,090	97,034	**4.2%**
Year ended December 31, 2018	-	3,716	3,716	91,746	**4.1%**

It should also be noted that the Group has significant existing relationships with Banca 5 S.p.A., a company that exercises significant influence over the subsidiary SisalPay Group S.p.A.. In particular, in relation to the aforementioned company, the following amounts are recorded as at 31 December 2019:

- a financial liability of an amount equal to Euros 186.6 million, as a loan (Deferred Purchase Price), recognized in the balance sheet caption "Long-term debt";

- a liability of an amount equal to 14.1 million Euros, by way of debt for adjustment against the balances being transferred, recognized in the balance sheet caption "Other liabilities - current".

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)	**2019**	**2018**
Salaries and wages	3,812	3,460
Employee severance indemnities	278	256
Total	**4,090**	**3,716**

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 2019 and 2018 are as follows:

At December 31, 2019					
(in Euros thousands)		**Equity**	**Profit (loss) for the year**	**Carrying amount of net financial debt**	**Cash flows**
Book value	***(a)***	**377,601**	**(13,638)**	**(885,315)**	**(82,878)**
Costs for acquisitions and company reorganizations		(9,744)	(9,744)	(3,095)	(3,095)
Costs for start-up		(5,417)	(5,417)	(4,450)	(4,450)
VAT adjustments assets		871	871		
Others		(5,550)	(5,550)	(5,550)	(5,550)
Total effects	***(b)***	**(19,840)**	**(19,840)**	**(13,095)**	**(13,095)**
Notional book value	***(a-b)***	**397,441**	**6,202**	**(872,220)**	**(69,783)**

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)**	**43,490**
Costs for acquisitions and company reorganizations		(2,445)	(2,445)	(1,289)	(1,289)
Costs for start-up		(3,110)	(3,110)	(1,470)	(1,470)
Others				(521)	(521)
Total effects	***(b)***	**(5,555)**	**(5,555)**	**(3,280)**	**(3,280)**
Notional book value	***(a-b)***	**332,946**	**41,998**	**(499,190)**	**46,770**

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)	**2019**	**2018**
Other income	**1,613**	**-**
Costs for acquisitions and company reorganizations	1,613	-
Costs for materials	**-**	**(166)**
Costs for start-up	-	(166)
Costs for services	**(14,420)**	**(5,072)**
Costs for acquisitions and company reorganizations	(9,610)	(2,211)
Costs for start-up	(4,810)	(2,861)
Costs for leased assets	**(36)**	**(24)**
Costs for start-up of Morocco business	(36)	(24)
Personnel costs	**(280)**	**(172)**
Costs associated with company reorganization projects	(60)	(172)
Costs for start up	(220)	-
Other operating costs	**(6,717)**	**(121)**
Costs for acquisitions and company reorganizations	(1,687)	(62)
Costs for start up	(351)	(59)
VAT adjustments assets	871	-
Others	(5,550)	-
Impact on Operating profit (loss) (EBIT)	**(19,840)**	**(5,555)**
Profit (loss) before income taxes	**(19,840)**	**(5,555)**
Impact on profit (loss) for the year	**(19,840)**	**(5,555)**

The significance of non-recurring cost in 2019 is mainly linked to the impact of costs incurred in connection with the acquisition of the payment business unit of Banca5 and costs related to the complex process of corporate integration between the two units, as well as the costs related to the numerous acquisitions of the Gaming area aimed at increasing the network of agencies, stores and slot machines managed by the group.

The start-up costs refer to the costs incurred for the launch of the activities of the International sector and digital services which are strategic for the growth of the Gaming area and the Services & Payments area.

The VAT adjustment assets line item includes the effects of the 2019 pro rata cost adjustment for the restatement of VAT acquired on capitalizations over the last five years, as provided for by the tax legislation in the event of a pro rata change of non-deductible exceeding 10 percentage points, which was generated by membership of the VAT Group.

The caption 'Other" in 2019 refers to the impact of undue third-party misappropriation, for which the subsidiary concerned has lodged complaint with the Competent Authorities.

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.

During 2019, the use of a tax credit of Euros 41 thousand has been recognized to the subsidiary Elmea S.r.l. for investments in research and development pursuant to law no. 190/2015.

Furthermore, the payment of a tax credit of € 481 thousand has been recognized to Elmea S.r.l. for investments in the South of Italy pursuant to law no. 208/2015.

46. Significant events occurring after the end of the year

It should be noted that the business performance in the months following the end of the year is affected by the situation caused by the health emergency following the pandemic related to Covid-19, which led to the partial blocking of the distribution network of the physical channel in which the Group operates from mid-March 2020 (closure of the bar channel, while the tobacco channel remained operational) and the total closure of the dedicated games and betting rooms. It should be noted, however, that in the tobacco channel the collection of gambling products has been banned, while the collection of payment services continues regularly. The online channel is operational; however, the potential collection is limited due to the blocking of sports events and the limitation of the offer of Lotteries products.

At the moment there are no clear indications from the authorities as to how long normal business will resume and what conditions will be allowed. At the moment, therefore, it is not possible to quantify the impact that Covid-19 will have on the Group’s performance in 2020; it is stressed, however, that the liquidity situation of the Group is such as to ensure normal operation and not cause concern.

In addition, it should be noted that, to counter the effects caused by Covid-19, the Group has launched a series of initiatives aimed at ensuring the protection of the health of employees and protecting the business. In particular, the work activities carried out in smart-working mode have been increased, travel both in Italy and abroad has been limited, and the cleaning of workplaces has been strengthened. To protect the business, a plan has been launched to ensure operational continuity with the aim of improving technological solutions for remote access to business applications and meeting management; marketing and commercial initiatives have been launched to promote the growth of the online business; an action plan has been finalized to ensure the start of the new GNTN concession in Italy and the concession of the Lotteries in Turkey; a activity of monitoring of the critical business suppliers has been started

The Group has also launched initiatives to support its commercial partners (flexibility in payments, temporary cancellation of membership fees) and initiated initiatives in favor of the community with fundraising to support voluntary associations and Civil Protection.

Milan, April 28, 2020

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On behalf of the Board of Directors

The Chairman

Mr. Aurelio Regina