S.r.l.

Registered Offices: Viale del Campo Boario 56/d – 00154 Roma
Share Capital: €29,200,000

2018 Annual Report

Courtesy translation from the original Italian text

COMPANY NAME	**LOTTOITALIA S.R.L.**
Fiscal Code, VAT no. and no. enrollment with the Register of Enterprises of Rome	13854281006 RM-1477873
Issued Capital:	€ 29,200,000 Underwritten and paid up
Members:	Lottomatica Holding S.r.l. (1) 61.5% Italian Gaming Holding a.s. 32.5% Arianna 2001 S.p.A. 4.0% Novomatic Italia S.p.A. 2.0%
Headquarters and registered offices:	Roma - Viale del Campo Boario 56/d
P.E.C.	LOTTOITALIA@PEC.LOTTOMATICA.IT
Board of Directors	
Chairman	Fabio Attilio **CAIROLI**
CEO	Marzia **MASTROGIACOMO**
Board Members	Stefano **BARTOLI** Barbara **BOZZELLI** Primiano **DE MARIA** Stefano **MARIANI** Massimo Maria Giuseppe **RUTA** Pavel **SAROCH** Petr **STOHR**
Board of Statutory Auditors:	
Chairman	Roberto **SPADA**
Regular Members	Francesco **MARTINELLI** Giuseppe **PIZZORNI**
Substitute Members	Giulio **GASLOLI** Mauro **GRIMANI**
Supervisory Board	Paola **BAROMETRO** Mauro **GENTILINI** Stefania **TROGU**
Independent Auditors:	*PricewaterhouseCoopers S.p.A.*

(1) On December 1, 2018, as resolved on November 22, 2018, the merger by incorporation of Lottomatica S.p.A. in Lottomatica Holding S.r.l. as been realized

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"LOTTOITALIA S.r.l.
ROMA - VIALE DEL CAMPO BOARIO, 56/d
Issued Capital Euro 29,200,000.00
Fiscal Code and VAT No. 13854281006
R.E.A. No. RM-1477873
2018 OPERATING AND FINANCIAL REVIEW"

OVERVIEW

On May 3, 2016 the company LOTTOITALIA S.r.l. was established by the members Lottomatica S.p.A. (61.5%), Italian Gaming Holding a.s. (32.5%), Arianna 2001 S.p.A. (4%), and Novomatic Italia S.p.A. (2%).
With effect from December 1, 2018, majority quotaholder of LOTTOITALIA S.r.l. passed from Lottomatica S.p.A. to Lottomatica Holding S.r.l. as result of the merger by incorporation of Lottomatica S.p.A. in the Holding. The Company's mission is inherent to the organization, management, realization and exercise of games and/or instant lotteries and/or traditional lotteries, such as fixed-odds and parimutuel (or tote betting) games. These games include Lotto, skill games, sports pools and betting, and are regulated directly or via licenses obtained in Italy and abroad.

MANAGEMENT REPORT

There are two different types of wagers: "normal" wagers (so-called "core"), and "speculative" bets made on late numbers (meaning those numbers that have not been drawn for more than 100 drawings), where some players concentrate an additional amount of bets, with unit values considerably higher than average.
On February 7, MillionDAY was launched: a game with a matrix of 55 numbers, a daily draw at h19:00 and fixed play of 1€. You win 1 million of euro by matching all five numbers, 1,000 euros with four numbers, 50 euros with three numbers and 2 euros with two numbers. The payout is 65% cet. The analysis below shows wagers in the period for €8,016.8 million (+7.2% compared to 2017).
The traditional Lotto wagers reached €2,103.3 million (-9.4% compared to 2017), of which approximately €224 million (-27.7% compared to 2017) refer to late number and €1,879 million (-6.6% compared to 2017) refer to core wagers. The 10eLotto optional game registered wages in the period for €5,728.4 million (+11% compared to 2017) and the MillionDAY registered wages for 185.1M.

	Wagers (€/000)	Bets x 1,000	Revenues €/000
First quarter 2018	2,033,969	964,737	122,038
First quarter 2017	1,873,387	936,109	112,403
%	8.6%	3.1%	8.6%
Second quarter 2018	1,980,565	954,049	118,834
Second quarter 2017	1,841,936	930,624	110,516
%	7.5%	2.5%	7.5%
Third quarter 2018	1,912,834	910,587	114,770
Third quarter 2017	1,814,896	913,967	108,894
%	5.4%	-0.4%	5.4%
Fourth quarter 2018	2,089,440	993,674	125,366
Fourth quarter 2017	1,951,057	900,116	117,063
%	7.1%	10.4%	7.1%
YTD December 2018	**8,016,808**	**3,823,047**	**481,008**
YTD December 2017	**7,481,275**	**3,680,817**	**448,877**
%	**7.2%**	**3.9%**	**7.2%**

The total number of bets for the reporting period ended December 31, 2018 total 3,823 million.

The *promotional activities and advertising campaigns* carried out in the 2018 aimed at developing:

LOTTO APP
- Increase brand awareness, download and the Lotto App utilization

10eLOTTO
- Increase brand awareness and game penetration, mainly on the online channel and on the Lotto App;
- Increase the diffusion of the game on the target of reference, consolidating the current simple, fast and fun gaming;
- Increase penetration / gaming trials for Numero Oro e Doppio Oro options.

LOTTO
- Reinforce brand visibility;
- Improve brand image through his institutional and traditional values.

MillionDAY
- Increase brand awareness by leveraging an easy and cheap gaming position, with an aspirational but tangible prize;
- Stimulate the trial and the repeat of the game on the whole network and on online channel;
- Introduce news on systems and multiple plays.

In order to fulfill the above targets:

LOTTO APP
- Banner campaign on web to promote the Lotto App download

10eLOTTO
- Continuous updating and optimization of the “10eLotto” monitor contents (playlist) at the points of sale through new Adv pages;
- Banner campaign on web and on specialized press to celebrate the first anniversary of “Doppio Oro.

LOTTO
- Continuation of "Generazione Cultura" project dedicated to the talented youth and Italian cultural heritage;
- Continuation of "Vincere da Grandi" project with CONI’s collaboration, dedicated to the promotion of sport for young people in the disadvantaged suburbs of the main Italian cities;
- Launch of "Idee Vincenti" project, in collaboration with some important universities (such as Politecnico di Milano), aimed at supporting innovative Start-Ups that apply innovative technological solutions to the world of culture.

MillionDAY
- Sending visibility materials and new gaming tools (systems cards, multiple games, new exhibitors);
- Integration of 10eLotto playlist with contents regarding the MillionDAY (extractions, winnings, system and multiple news);
- Advertising campaign (Radio and Web) in order to spread the knowledge of the game;
- Continuous and structured communication regarding winnings (media relations, institutional sites and B2B).

In August, following the publication of “Decreto Dignità”, the Facebook pages of Gioco del Lotto, MillionDay and 10eLotto were closed

CROSS ACTIVITIES

- Presence at the T2000 trade fair for the valuation of the new technological asset;
- Communication in trade magazines;
- Creation of continuous media relations activities with coverage of the press (daily and periodic) channels, TV, internet;
- Promotion of the Lotto APP for offline and online channel players.

REVENUE ANALYSIS

LOTTOITALIA S.r.l. registered a positive net income of €/000 203,524 (€/000 177,845 at 2017) in the reporting period. The Income Statement below reports the results for the period closing on December 31, 2018 (in Euro):

RECLASSIFIED INCOME STATEMENT €	2018	2017
Revenues from contracts with customers	**395,485,527**	**363,322,948**
Raw material and service costs	(100,366,259)	(107,379,226)
Tangible assets depreciation	(15,544,390)	(10,842,083)
Tangible assets writedowns	(9,370)	-
OPERATING INCOME (EBIT)	**279,565,508**	**245,101,639**
Financial earnings/expenses	(241,435)	(18,458)
EARNING BEFORE TAXES (EBT)	**279,324,073**	**245,083,181**
Income taxes	(75,799,910)	(67,238,673)
NET INCOME	**203,524,163**	**177,844,508**

Operating costs in the reporting period totaled €/000 100,366 (€/000 107,379 at 2017) and refer principally to services costs sustained in the normal running of the business, of which €/000 60,013 (€/000 64,144 at 2017) for Related Parties, €/000 9,739 (€/000 9,685 at 2017) for technical assistance to Lotto point of sale and €/000 11,973 (€/000 16,956 at 2017) for advertising and promotion.

The Company's financial position at the closing of 2018 reports a negative balance of €/000 241 (€/000 18 at 2017).

NET FINANCIAL POSITION

The Company's Net Financial Position reported below:

NET FINANCIAL POSITION *€/000*	2018	2017
Cash on hand	-	-
Inter-company cash pooling	247,408	269,561
Short-term financial receivables	247,408	269,561
Short-term financial debt	-	-
Short- term net financial position	247,408	269,561

Long-term financial debt	-	-
Long-term net financial position	**-**	**-**
Net Financial Position	**247,408**	**269,561**

Short-term financial receivables amount to €/000 247,408 (€/000 269,561 at 2017), relating to financial receivables from Lottomatica Holding S.r.l. including accrued interests.

RISKS AND UNCERTAINTIES

The Company believes that a system of well-defined policies, processes and controls are imperative to effectively manage the various risks that we encounter. The main risks that the Company is managing are the following:

(i) **Market Risk:** Market risk is the risk that changes in interest rates and foreign currency exchange rates will negatively impact the value of assets and liabilities. Please refer to Note "Financial risk instruments and management" for further information on the policies adopted by the Company in order to cope with market risk.

(ii) **Credit Risk**: Credit risk is the risk of a financial loss arising from a customer or counterparty not meeting their contractual obligations. Please refer to Note "Financial risk instruments and management" for further information on the policies adopted by the Company in order to cope with credit risk.
A significant portion of the Company's revenue derived from concessions with Agenzia delle Dogane e dei Monopoli (ADM), resulting in significant concentration of credit risk exposure. Management believes that in the future, a significant portion of its business and profitability will continue to depend upon concessions with ADM.

(iii) **Liquidity Risk:** Liquidity risk is the risk that suitable sources of funding for the Group's operations may not be available. Please refer to Note "Financial risk instruments and management" for further information on the policies adopted by the Company in order to cope with liquidity risk.

(iv) **Operational risk**: Operational risk is the risk that external events or internal factors will result in losses. The Company's concessions, lottery contracts, and other service contracts often require substantial performance bonds to secure its performance under such contracts and require the Company to pay substantial monetary liquidated damages in the event of non-performance by the Company. Claims on performance bonds, drawings on letters of credit and/or payment of liquidated damages could have a material adverse effect on the Company's results of operations, business, financial condition or prospects.

(v) **Legal Proceedings**: Due to the nature of its business, the Company is involved in a number of legal, regulatory and arbitration proceedings regarding, among other matters, claims by and against it as well as injunctions by third parties arising out of the ordinary course of its business and is subject to investigations and compliance inquiries related to its ongoing operations. The Company has set up provisions for litigation risk. For further information of the litigation risk provisions please refer to Note "Significant Judicial and Arbitration proceedings" below.

(vi) **Government Relations**: The Company's activities are subject to extensive and complex governmental regulation. The Company believes that it has developed procedures designed to comply with such regulatory requirements. However, any failure by the Company to so comply or inability to obtain required suitability findings could lead regulatory authorities to seek to restrict the Group's business in its jurisdictions. The Company's business activities revolve around obtaining and maintaining Concessions. There is however no guarantee that the Company will succeed in renewing any of its existing Concession licenses, and any such loss, or failure to renew would have a material adverse effect on the Company's results of operations, business, financial condition or prospects. The paragraph below further illustrates on this point.

List of LOTTOITALIA S.r.l. Concessions

Concession holder	Activities	Launch date of effective concession activities	Expiration date of effective concession activities	Current renewal options
LOTTOITALIA S.r.l.	Activation and management of Lotto network	November 30, 2016	November 30, 2025	Non renewable

The Concession Tender for the management and operation of Lotto and other fixed odds games was published on the Journal of the European Union on December 17, 2015. The selection procedure for the concession license for the collection of wagers of Lotto and other fixed odds games launched according to Article 1, paragraphs 653 and 654 of Law n. 190 of December 23, 2014.
The Concession Tender was awarded to a Temporary Grouping of Companies (TGC) compound by Lottomatica S.p.A. (61.5%), Italian Gaming Holding a.s. (32.5%), Arianna 2001 S.p.A. (4%), Novomatic Italia S.p.A. (2%).
On May 3, 2016 the companies in the TGC established LOTTOITALIA S.r.l., which has signed the concession agreement with the Customs Agency and with the launch of monopolies granted since November 30, 2016.

DECEMBER 31, 2018 SIGNIFICANT EVENTS

"*Decreto-legge July 12, 2018, N. 87*" (so called "*Dignity Decree*") was published on July 13, 2018, providing "urgent provisions for the dignity of workers and enterprises". Article 9 of the Dignity Decree, on the "prohibition of advertising games and bets", introduces the prohibition of any form of advertising, even indirect, relating to games or bets with winnings in cash, however carried out and by any means.
Such prohibition became effective on July 14, 2018, one day following the publication of the Dignity Decree in the Official Gazette. The advertising contracts in existence as at the date of entry into force of the Decree, are exempted from the provisions of the Decree, and the provisions of law previously in force (so called *Decreto Balduzzi*) apply to the same agreements until the expiry of the agreements and, in any event, for a period no longer than one year from the entry into effect of the Dignity Decree.
On 27 July 2018, the company signed, as consolidated, the regulation governing the institution of national tax consolidation, for the three-year period 2018-2020 with the consolidating company Lottomatica Holding S.r.l.

PREDICTABLE DEVELOPMENTS

According to the above and following the ongoing evaluations, the plan of activities will be significantly revised.

<u>LOTTO</u>

The 2019 promotional and advertising activities planned shall continue pursuing the following objectives:

- Support the gaming frequency and the expense of current players, through product innovations;
- Promote brand positive value (proximity, Italianness, accessibility, support to the artistic heritage, etc.) through media relation activities on projects for young people and Culture;

- Give importance during extraction through the production of trasmission of Lotto Game draws;
- Increase the visibility of point of sales;
- Redefine Lotto Più placement and innovate to mantain high the game interest.

10eLOTTO

The promotional and advertising activities planned for 2019 shall have the following objectives:

- Promote knowledge and distribution of the game through increase of customer base;
- Increase the average play;
- Promote the Oro options, the draws and the anniversary of the 10 years of the game with dedicated cards;
- Increase the penetration of Numero oro e Doppio Oro;
- Increase the visibility of the 3 extraction methods (5 minutes, linked to Lotto and Immediate);
- Manage the increase in taxation by revising the premium structure;
- Introduce Product innovation to mantain high the players engaged.

MillionDAY

The promotional and advertising activities planned for 2019 shall have the following objectives:

- Increase the game's knowledge and the players base;
- Engaging points of sale in the promotion of the game;
- Increase the visibility of the game in points of sale through the diffusion of new cards, thanks to the introduction of Provvedimento no. 85202 / R.U. of May 24, 2018 (multiple and systemistic games);
- Introduction of innovations and additional game modes to increase player engagement and gaming opportunities.

SALE CHANNELS

- Develop online and mobile channels through promotions with remote gaming retailers;
- Stimulate Lotto Official APP downloads;
- Enrich and digitize the gaming experience in point of sales;
- Improve network productivity (eg Optimization of the sales process with reduction of time and complexity of the pre- and post-sales).

OTHER INFORMATION

- **DIRECTING AND COORDINATING ACTIVITIES**
  Pursuant to Article 2497-*bis* of the Italian civil code, a summary report of the most recent financial statements approved at the Lottomatica Holding S.r.l. Quotaholders' Meeting is presented herein. Lottomatica Holding S.r.l. is the directing and coordinating parent company of LOTTOITALIA S.r.l.

- **RELATED PARTY DISCLOSURE**
  Please refer to the present financial statements for the financial information between Lottomatica Holding S.r.l., the LOTTOITALIA S.r.l. directing and coordinating company, and the other Group subsidiaries pursuant to Article 2497-*bis* paragraph 5 of the Italian civil code.

- **OTHER INFORMATION**
  As specifically required by the statutory legislation, the Company informs that no research and development activities were directly carried out during the course of the reporting period. The

Company does not possess any treasury shares nor any shares in any Subsidiary, directly or through third party intermediaries or trust companies. No purchase or sale transactions took place throughout the reporting period, directly or through third party intermediaries or trust companies.

On 27 July 2018, the company signed, as consolidated, the regulation governing the institution of national tax consolidation, for the three-year period 2018-2020 with the consolidating company Lottomatica Holding S.r.l.

2018 Annual

Financial Statements

and

Footnotes

Non binding courtesy translation

"LOTTOITALIA S.r.l.
ROMA - VIALE DEL CAMPO BOARIO, 56/d
Issued Capital Euro 29,200,000.00
Fiscal Code and VAT No. 13854281006
R.E.A. No. RM-1477873
FINANCIAL STATEMENT AND FOOTNOTES
from 01.01.2018 to 12.31.2018"

STATEMENT OF FINANCIAL POSITION - ASSETS *in €*	*note*	**12/31/2018**	**12/31/2017**
A) Non current assets			
System, equipment and other assets related to contract, net	*3*	112,381,597	127,133,266
Other non current assets	*4*	595,755,555	681,888,889
Deferred tax assets	*5*	67,756	61,894
Total non current assets		**708,204,908**	**809,084,049**
B) Current assets			
Inventories	*6*	4,133,831	3,107,096
Trade and other receivables	*7*	7,927,544	6,427,171
Current financial assets	*8*	247,407,878	269,560,704
Other current assets	*9*	-	251,026
Total current assets		**259,469,253**	**279,345,997**
TOTAL ASSETS		**967,674,161**	**1,088,430,046**

STATEMENT OF FINANCIAL POSITION - LIABILITIES *in €*	*note*	**12/31/2018**	**12/31/2017**
A) Equity			
Issued capital		29,200,000	29,200,000
Legal reserve		5,840,000	5,840,000
Premium reserve		689,244,625	790,155,737
Net income		203,524,163	177,844,508
Total equity	*10*	**927,808,788**	**1,003,040,245**
B) Non current liabilities		-	-
C) Current liabilities			
Trade and other payables	*11*	22,296,420	26,627,992
Other current payables	*12*	15,802,988	1,915
Income tax payables	*13*	1,765,965	58,759,894
Total current payables		**39,865,373**	**85,389,801**
TOTAL EQUITY AND PAYABLES		**967,674,161**	**1,088,430,046**

STATEMENTS OF COMPREHENSIVE INCOME *in €*	*note*	**2018**	**2017**
Revenues from contract with customers	*14*	**395,485,527**	**363,322,948**
Raw materials and services	*15*	100,366,259	107,379,226
Depreciations and amortizations	*16*	15,553,760	10,842,083
Total costs		**115,920,019**	**118,221,309**
Operating income		**279,565,508**	**245,101,639**
Financial (income) expenses	*17*	(241,435)	(18,458)
Earning before taxes		**279,324,073**	**245,083,181**
Income tax and expenses	*18*	(75,799,910)	(67,238,673)
Net income	**19**	**203,524,163**	**177,844,508**
Other comprehensive income		-	-
Total comprehensive income for the year		**203,524,163**	**177,844,508**

CASH FLOW STATEMENT *(euro)*		2018	2017
Earning before taxes		**279,324,073**	**245,083,181**
Amortizations, depreciations and impairment loss			
- System, equipment and other assets depreciations		15,553,760	10,842,082
- "Surety policy" amortization		577,777	577,777
- "License Fee" amortization		85,555,555	85,555,555
	Total	**101,687,092**	**96,975,414**
Interest incomes and other incomes		11,781	18,457
	Total	**11,781**	**18,457**
Non monetary sub-total		**381,252,600**	**96,993,871**
Taxes paid		(118,436,566)	(14,883,608)
Cash flow from operating activities before changes in net working capital		**262,816,034**	**327,193,444**
Inventories		(1,026,735)	(1,356,324)
Trade and other reveivables		(1,500,373)	1,325,009
	Total	**(1,500,373)**	**1,325,009**
Trade and other payables:			
- Other payables		1,688,966	(8,588,996)
- Trade payables		(5,037,018)	14,015,774
	Total	**(3,348,052)**	**5,426,778**
Gioco del Lotto Concession			
Paid Investments		-	(170,000,000)
	Total	-	(170,000,000)
Changes in Net Working Capital		**(5,875,160)**	**(164,604,537)**
Net cash flow from operating activities		**256,940,874**	**162,588,907**
Acquisitions			
- Purchases of System, equipment and other assets		(802,090)	(135,793,507)
- Last year paid purchases		(96,650)	(2,202,232)
- Unpaid purchases		802,092	96,651
	Total Investments	(96,648)	(137,899,088)
- Surety policy		2	(5,151,851)
Net cash flow from investing activities		**(96,646)**	**(143,050,939)**
Financial positions			
- Intercompany Cash Pooling		22,164,607	(222,967,109)
	Total	**22,164,607**	**(222,967,109)**
- Net interests		(253,216)	**-**
- Reserves		(100,911,111)	(84,092,593)
- Dividends		(177,844,508)	(20,678,266)
- Payments for the year (quotaholders capital contribution)		-	308,200,000
	Total	**(279,008,835)**	**203,429,141**
New cash flow from (used in) financing activities		**(256,844,228)**	**(19,537,968)**
Net increase (decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year		-	-

STATEMENT OF CHANGES IN EQUITY at December 31, 2018

Statements of Changes in Equity *(in €)*	Issued Capital	Legal reserve	Premium Reserve	Net income	Total
Total at December 31, 2017	**29,200,000**	**5,840,000**	**790,155,737**	**177,844,508**	**1,003,040,245**
Net Income	-	-	-	203,524,163	203,524,163
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	203,524,163	203,524,163
Quotaholders' meeting (April 13, 2018)					
- Dividends	-	-	-	(177,844,508)	(177,844,508)
Quotaholders' return of capital:					
- April 13, 2018	-	-	(25,227,778)	-	(25,227,778)
- April 20, 2018	-	-	(25,227,778)	-	(25,227,778)
- July 24, 2018	-	-	(25,227,778)	-	(25,227,778)
- October 24, 2018	-	-	(25,227,778)	-	(25,227,778)
Total at December 31, 2018	**29,200,000**	**5,840,000**	**689,244,625**	**203,524,163**	**927,808,788**

STATEMENT OF CHANGES IN EQUITY at December 31, 2017

Statements of Changes in Equity *(in €)*	Issued Capital	Legal reserve	Premium Reserve	Net income	Total
Total at December 31, 2016	**25,000,000**	**-**	**575,000,000**	**21,766,596**	**621,766,596**
2017 Net Income	-	-	-	177,844,508	177,844,508
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	177,844,508	177,844,508
Capital increase (March 1, 2017)	4,200,000	-	304,000,000	-	308,200,000
Quotaholders' meeting (April 21, 2017)					
- Legal reserve	-	1,088,330	-	(1,088,330)	-
- Legal reserve destination	-	4,751,670	(4,751,670)	-	-
- Dividends	-	-	-	(20,678,266)	(20,678,266)
Quotaholders return of capital:					
- July 24, 2017	-	-	(58,864,815)	-	(58,864,815)
- October 26, 2017	-	-	(25,227,778)	-	(25,227,778)
Total at December 31, 2017	**29,200,000**	**5,840,000**	**790,155,737**	**177,844,508**	**1,003,040,245**

ACCOUNTING PRINCIPLES AND NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company's mission is to carry out all activities as required by the "automated Lotto game" concession and other fixed-odds games.
With effect from December 1, 2018, majority quotaholder of LOTTOITALIA S.r.l. passed from Lottomatica S.p.A. to Lottomatica Holding S.r.l. as result of the merger by incorporation of Lottomatica S.p.A. in the Holding.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on a historical cost basis, except as disclosed in the accounting policies below. The financial statements are presented in Euros (except share and per share data) unless otherwise indicated.
The financial statements for the year ended December 31, 2018 were approved for issuance in accordance with a resolution of the Board of Directors on February 22, 2019.
The data reported on the 2018 financial statements are subject to external audit.
The exchange rates used in the conversion transactions in the reporting period were provided by Banca d'Italia.

2.1 STATEMENT OF COMPLIANCE IAS/IFRS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.
The financial statements have been prepared according to the provisions set for by IAS 1 (Amended):

- the statements of financial position report assets and liabilities based on a current/non-current classification;
- the statements of comprehensive income analyze costs based on the nature of the expenses;
- the cash flow statements are presented using the indirect method;
- the statements of changes in equity.

The Company has reclassified the upfront fees on the cash flow statement for a better exposure.

2.2. AMENDMENTS TO ACCOUNTING PRINCIPLES AND DISCLOSURE

NEW AND AMENDED ACCOUNTING PRINCIPLES AND INTERPRETATIONS

The Company's accounting policies adopted in the preparation of the annual financial statements for the year ended December 31, 2018 are consistent with those used in the preparation of the annual financial statements as of December 31, 2017, except for the adoption of the new standards IFRS 15 and IFRS 9 issued by International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), effective as of January 1, 2018. The impact and nature of the changes following the adoption of these new accounting standards are described below. Several other amendments and interpretations apply for the first time in 2018, but have no impact on the Company's financial statements. The Company has not adopted in advance any other principle, interpretation or modification published but not yet in force.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures. The Company adopted IFRS 15 using the full retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient. The Company did not apply any of the other available optional practical expedients. Following the adoption of IFRS 15, the Company has not recorded significant impacts on its financial statements.

IFRS 9 Financial instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Company has applied IFRS 9 retrospectively

Following the adoption of IFRS 9, the Company has not recorded significant impacts on its financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Company’s financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Company’s financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.
The case is not applicable to the Company's financial statements. Therefore, these amendments do not have any impact on the Company's financial statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Company.

Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Company's financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Company's financial statements.

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Current versus non-current classification
The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.
A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period; or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Fair value measurement
The Company measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The fair value measurement is classified entirely in the same level of the fair value hierarchy in which the input of the lowest level of hierarchy used for the evaluation is classified.
For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Foreign currency translation
The Company's financial statements are presented in Euros, which is the Company's functional and presentation currency. Transactions in currencies other than the entity's functional currency (foreign currencies) are initially recorded at their respective functional currency rates retranslated at the functional currency spot exchange rate in effect at the transaction date.

i) Transactions and balances

At the end of each reporting period, foreign currency monetary items are retranslated at the functional currency spot exchange rate in effect at the reporting date. The resulting foreign currency exchange differences are recorded in our income statement with the exception of differences that arise on monetary items that constitute part of a net investment in a foreign operation. These are recognized in other comprehensive income until the disposal of the net investment, at which time they are recognized in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in comprehensive income statement. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

ii) Related parties
At the closing date of these financial statements, assets and liabilities of Related parties, as well as their income statements, are translated to the presentation currency of LOTTOITALIA S.r.l. (the Euro) using the exchange rates as of the reporting date. According with Banca d'Italia, the USD/Euro exchange rate as of December 31, 2018 is USD/Euro 1.1450 (USD/Euro 1.1993 as of December 31, 2017).

Systems, equipment and other assets related to contract, net
Systems, equipment and other assets are stated on the basis of cost, net of ordinary maintenance costs, less accumulated depreciation and/or accumulated impairment loss, if any. Repair and maintenance costs are recognized in the periods in which these costs have been incurred. When significant parts of systems, equipment and other assets have to be periodically substituted, the Company recognizes these parts as autonomous assets with definite useful lives and relative amortizations. Similarly, when important revisions are carried, the cost is included as a substitution in the carrying value of the plan or machinery. All other repair and maintenance costs are recognized in the income statement for the periods in which the costs were incurred. Land and property are recognized at fair value net of amortization and impairment, if any, recognized following the revaluation date. Reviews for impairment are carried out frequently in order to ensure that the fair value of the asset does not vary significantly from its carrying value.
Increases in carrying value following revaluation are recognized in the comprehensive income statement and accumulated in equity as revaluation reserves. In case of write off of a revaluation decrease of the same asset previously recorded as cost, the resulting increase is recognized as revenue. A decrease in varying value following revaluation is recognized as a cost, with the exception of a decrease that directly zeroes out a revaluation surplus. In this case, the decrease is deducted from the revaluation reserve.
An amount equal to the difference between amortization based on revaluated assets values and amortization based on historical cost is transferred annually from the revaluation reserve to carried-forward gains reserve. Furthermore, accumulated amortization provisions upon revaluation are eliminated by the compensation of the gross asset value. The net asset value is revaluated to fair value. Following the sale of an asset, any revaluation reserve is reclassified to carried-forward gains reserve.
The amortization of these costs will be carried out upon the effective use of the assets.
An asset is derecognized upon disposal or when no future economic benefits are expected from the assets' use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.
The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if appropriate.
Technological assets of the existing Lotto network, freely devolved by the previous concessionaire based on ADM indications, have been accounted at zero.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment loss. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and any expenditure is reflected in the income statement in the year in which the expenditure is incurred.
The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least annually, during the fourth quarter ending on December 31. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization expense on intangible assets with finite lives is recorded in our income statement.
Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Other non-curent assets - Lotto concession License Fee
LOTTOITALIA S.r.l. operates under the Lotto Concession of Lotto as "Agent" compared to ADM; accordingly, the item "Revenues from contract with customers" detects the commission as defined in the Concession (6% of total wagers). Moreover, having regard to the substance of the concession signed with ADM, the initial investment of the "License fee" - is considered the same way as an anticipated reduction in future commission to the Company; therefore, based on the provisions of IFRS 15, this multi-year cost is recognized under "Non-current assets" and the corresponding amortization, calculated on a straight-line basis over the duration of the Lotto concession, is classified as a direct reduction in revenues.

Impairment of non-current assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. If it is not possible to estimate the recoverable value of the individual asset, the entity must determine the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. The recoverable amount of a single asset can not be determined if: (a) the value in use of the asset is not estimated to be close to its fair value minus sales costs; and (b) the asset does not generate incoming cash flows that are largely independent of those arising from other assets. In these circumstances, the value in use and, consequently, the recoverable value, can be determined only with reference to the unit generating financial flows of the asset.
The recoverable amount is the greater of the fair value of an asset or CGU net of selling costs and its value in use and is determined for each individual asset, except when such activity generates no cash flows that are widely independent of those generated by other activities or groups of activities. If the book value of an asset is higher than its recoverable value, this asset has suffered an impairment loss and is consequently written down to bring it back to the recoverable value. In determining the value in use, the Company discounts estimated future cash flows using a pre-tax discount rate that reflects the market valuations on the time value of money. The impairment losses incurred by operating assets are recorded in the income statement under the item "Amortization, depreciation and impairment".
At December 31, 2018 there were no indicators of impairment of assets.

Financial assets

Initial recognition and measurement
The Company's financial assets include cash and short-term deposits, trade receivables and other receivables, loans and other receivables, listed and unlisted financial instruments, derivatives.
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.
The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section (e) Revenue from contracts with customers.
In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.
The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.
Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified as follow:

Financial assets at amortised cost (debt instruments)
This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.
The Company's financial assets at amortised cost includes trade receivables, and loan to an associate and loan to a director included under other non-current financial assets.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:
- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-

through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.
Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets
The Company recognizes a write-down for expected losses credit (ECL) for all financial assets represented by debt instruments not held at fair value. The ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, determined by estimating the probability of loss (probability of default "PD") and the "loss given" default "(LGD).
Expected losses are recorded in accordance with the "general model" in three stages. With regard to credit exposures whose credit risk is considered low, ie those whose risk has not significantly increased compared to the previous assessment (first stage), the losses are determined based on the estimate of default events that are possible within the next 12 months (12-month ECL). For credit exposures for which there has been a significant increase in credit risk from initial recognition (second stage), the expected losses that relate to the residual duration of the exposure must be fully recognized, regardless of when the event occurs default is expected to occur (''Lifetime ECL ''). For non-performing positions (c.d. "non-performing", third stage), the Company carries out a specific assessment of these positions.
For trade receivables and contract assets (so-called "contract assets") that do not include a significant financial component, the Company applies a simplified approach in calculating expected losses, as required by paragraph 5.5.15 of IFRS 9. Therefore, the Company does not monitor changes in credit risk, but fully recognizes the expected loss at each reference date. The Company has defined a matrix system based on historical information, reviewed to consider prospects with reference to the specific types of debtors and their economic environment, as a tool for determining expected losses.
The Company considers a financial asset in default when the contractual payments have expired for 90 days. In some cases, the Company may also consider that a financial asset is in default when internal or external information indicates that it is unlikely that the Company will fully recover the contractual amounts before considering the credit guarantees held by the Company, in which case the credit is considered "non-performing" and applied stage 3 of the "general model". A financial asset is eliminated when there is no reasonable expectation of recovery of contractual cash flows.

Cash and short-term deposits
Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.
For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Company's cash management.

Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.
Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.
Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings
This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method (Effective Interest Rate method). Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.
Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to

settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Inventories
Inventories are stated at the lower of original cost and market value. Inventories include amounts we manufacture or assemble for our long-term service contracts, which are transferred to systems, equipment and other assets related to contracts, net upon shipment. The cost method used is the estimated average cost.

Leases
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date and whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Finance leases
A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement.
Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases
Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

Revenues from contracts with customers
The Company's revenues derive almost exclusively from the Lotto Game concession and are recognized when the control of the goods and services is transferred to the customer for an amount that reflects the consideration that the Company expects to receive in exchange for such goods or services.
IFRS 15 establishes a five-phase model, shown below, for accounting revenues:

1. *Identification of the contract with the customer:* the Company has identified the Lotto Game as a contract and ADM as a customer;
2. *Identification of performance obligation:* the Company identified only one performance obligation in the context of the concession or the services necessary for the operation of the Lotto Game Grant;
3. *Determination of the contract price:* the contract price is the fee recognized by ADM to the Company for the management of Lotto Game Licenses. The fee is a fixed percentage of the total funding for the year;
4. *Allocate the contract price:* the contract price (the fee) is entirely allocated to the single performance obligation identified in step 2;

5. *Accounting for revenues when the contractual obligations are met:* the Company uses the practical "Right to invoice" device for recording revenues, which are recorded on a monthly basis on the basis of the invoices issued to the ADM customer.

Dividends
Dividends are recognized when the Quotaholders' right to receive payment is established.

Income taxes

Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income. Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.
Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred income tax asset to be recovered.
Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.
Tax assets and liabilities for deferred taxes are compensated when there is a legal right to do so. Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Value Added Taxes
Costs, revenues and assets are recognized net of value added taxes, except for cases in which:
- the value added tax is applied to non-deductible goods or services, upon which it is recognized as part of the acquisition cost of the asset and expenses in the income statement;
- trade receivables and payables including value added tax.

The net sum of indirect value added taxes on sales that may be recuperated or paid to the State are included in the financial statements in trade receivables or payables.

2.4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, and the disclosure of contingent liabilities, at the reporting date.
However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Estimates and Assumption
The preparation of the financial statements and related notes, in application of the IAS / IFRS, requires from the Company Management the making of estimates and assumptions that affect the values of the assets and liabilities in the financial statements and the disclosure relating to potential assets and liabilities at the balance sheet date. Therefore, the following are the key assumptions regarding the future and other important sources of uncertainty in the estimates at the balance sheet date, which could produce significant adjustments in the carrying amounts of assets and liabilities within the next financial year.

Provision for expected credit losses of trade receivables and contract assets
The Company uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).
The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.
The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Deferred Tax Assets
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is

required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Fair value measurement of financial instruments
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Cash Flow Statements
The cash flow statements reports the positive or negative differences in cash equivalents in the reporting period.
The individual financial cash flows are presented according to the following categories:
a. operating activities;
b. investment activities;
c. financing activities.

The cash flow statements are organized in the same order as above.
The operating activity cash flows are presented using the indirect method. Operating activities generally consist of cash flows deriving from acquisitions, manufacturing and distribution of goods and services, and any other cash flow not included in investment or financing activities.
The investment activity cash flows consist of flows deriving from any acquisition or sale transaction of tangible and intangible assets, financial assets or any other investments not included in cash equivalents.
The financing activity cash flows consist of flows deriving from receiving or returning cash equivalents in the form of risk or debt capital.
The negative and positive reports deriving from the treasury management for the parent company Lottomatica Holding S.r.l. are reported in the financial activities.

2.5. ACCOUNTING PRINCIPLES ISSUED BUT NOT YET EFFECTIVE

The following principles and interpretations have been issued but were not effective yet as of the date of the reporting period. The Company intends to adopt these principles, where applicable, when they become effective.

IFRS 16 Leases
IFRS 16 was published in January 2016 and substitutes IAS 17 Leasing, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases - Incentives and SIC-27 Evaluating the substance of transactions in the form of a legal lease.
IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leases, and requires Lessee to account all lease contracts on a single model basis similar to that used to account for financial leases as per IAS 17.
The principle provides two exceptions in terms of the recognition on behalf of the Lessee - leasing contracts for "low value" activities (for example personal computers) and short-term leasing contracts (for example, contracts expiring in 12 months or less). On the effective date of the leasing contract, the Lessee recognizes a liability against the lease payments due (that is lease liabilities) and an asset for the right to use the asset

for the duration of the contract (that is the right to asset use). The Lessee account for separately the interest accrued on the leasing liability and the amortization of the right to asset use.
The Lessee are required to re-measure the leasing liability when certain events take place (for example: a change in the lease contract terms and conditions, a change in future lease payments as a result of variations in interest rates). The Lessee generally recognized the re-measure amount of the lease liability as ad adjustment to the right of asset use.
The accounting of IFRS 16 for Lessees is substantially the same compared to the current accounting according to IAS 17. The Lessees continue to classify all leases using the same classification principles provided for by IAS 17, which distinguish two different types of leases: operating and financial leases.
IFRS 16 requires Lessors and Lessees to disclose further compare to IAS 17.

Transition to IFRS 16

The Company expects to adopt IFRS 16 adopting the "modified retrospective approach" (IFRS 16, paragraph C5 lett. b), the lessee must not recalculate the comparative information.
In 2018, the Company carried out a detailed analysis of the impact of IFRS 16. It is considered that the application of the standard will have no significant impact on the Company's financial statements.

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.
A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available. The Company will apply the interpretation from its effective date. Transition to IFRS 16. The application of the Interpretation should not have any effect on the financial statements and the information required. In addition, the Company may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.
The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

Amendmets to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Company will apply these amendments when they become effective.
As the Company does not hold any equity investments or joint ventures, the changes will have no impact on the financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or

settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.
The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. As the Company does not have personnel, the changes will have no impact on the financial statements.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.
The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.
The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

IFRS 3 *Business Combinations*
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments will apply on future business combinations of the Company.

IFRS 11 *Joint Arrangements*
A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.
An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions

IAS 12 Income Taxes
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity

applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

Footnotes

LOTTOITALIA S.r.l.

STATEMENTS OF FINANCIAL POSITION

NON-CURRENT ASSET

3. Systems, equipment and other assets related to contracts, net

Systems, equipment and other assets in 2018 total €/000 112,382 (€/000 127,133 at December 31, 2017) and refer entirely to *Freely distributed assets*" ("FDA") for the investment of new Lotto technological equipment.

Freely distributed assets amortized in the shortest period between useful lifecycle and the expiration date of the new automated Lotto and other numerical fixed-odd games concession. In details as of December 31, 2017 and December 31, 2018:

At December 31, 2017:

(thousands of euro)	12/31/2016	Increases	Writedowns	12/31/2017
Equipments and terminals	2,182	126,034	(10,783)	117,433
Furniture and equipment	-	1,000	(59)	941
Fixed assets in progress	-	8,759	-	8,759
Total	**2,182**	**135,793**	**(10,842)**	**127,133**

At December 31, 2018:

(thousands of euro)	12/31/2017	Increases	Writedowns	Reclassification	Impairment losses	12/31/2018
Equipments and terminals	117,433	802	(15,425)	6,653	(9)	109,454
Furniture and equipment	941	-	(119)	-	-	822
Fixed assets in progress	8,759	-	-	6,653	-	2,106
Total	**127,133**	**802**	**(15,544)**	**-**	**(9)**	**112,382**

The €/000 14,751 decreases of the period primary refered to depreciation.

The €/000 6,653 reclassifications, referred to the activation of technological equipment during the period.

4. Other non-current assets

Other non-current assets total €/000 595,756 (€/000 681,889 at December 31, 2017) and refer to:

- The automated Lotto and other numerical fixed-odd games ("New Lotto concession") License Fee totals €/000 591,759 (€/000 677,315 at December 31, 2017), net of amortization of €/000 178,241 (€/000 92,685 at December 31, 2017);
- The guarantee policy issued by an insurance company in favor of the Italian Authorities (ADM) for the new automated Lotto and other numerical fixed-odd games concession totals €/000 3,996 (€/000 4,574 at December 31, 2017).

Other non-Current Assets	December 31, 2018	December 31, 2017
– Historical cost	770,000	770,000
- Amortization	(178,241)	(92,685)
New Lotto Concession	**591,759**	**677,315**
Guaranty deferred expenses	**3,996**	**4,574**
TOTAL	**595,756**	**681,889**

As provided by the automated Lotto and other numerical fixed-odd games tender documentation, the License Fee, as at December 31, 2017, has been paid in full. The difference between 2018 and 2017 is primary refered to the New Lotto Concession amortization and, on a residual basis, the guaranty deferred expenses.

5. Deferred tax assets

Deferred tax assets in the reporting period total €/000 68 (€/000 62 at December 31, 2017). According to IAS 12, deferred tax assets were compensated by deferred tax liabilities where the legal right of compensation was deemed applicable.
For further information, please refer to the income tax section in the income statement.
Deferred tax assets entered according to the reasonable certainty of being able to generate comparable future taxable income.

CURRENT ASSETS

6. Inventories

Inventories in the reporting period total €/000 4,134 (€/000 3,107 at December 31, 2017) and refer mainly to automated Lotto and other numerical fixed-odd game tickets (€/000 1,146), playslips (€/000 959) and ribbon (€/000 2,028).

7. Trade and other receivables

Trade and other assets in the reporting period total €/000 7,928 (€/000 6,427 at December 31, 2017) and refer to:

- €/000 7,901 (€/000 6,427 at December 31, 2017) *in Customer assets* for assets due from the Italian regulator (ADM - Agenzia delle Dogane e Monopoli) for the activities and functions provided for by the automated Lotto and other numerical fixed-odd games concession for the last two session of December for Lotto competitions and for the last Million Day competitions of the month;
- €/000 26 (€/000 zero at December 31, 2017) for related parties receivables, refered to Zaska group a.s.

Trade and other receivables	12/31/2018	12/31/2017
Trade receivables	7,901	6,427
Related party receivables	26	-
TOTAL	**7,928**	**6,427**

The increase in the item is mainly referred to the increase in the collection of the month of December 2018 compared to the same period of 2017.

The allowance for doubtful accounts is €/000 zero (€/000 zero at December 31, 2017). Please refer to the paragraph *"Provision for expected losses on trade receivables and contract assets"* in the section *"Financial risk management objectives and policies"* in order to understand how the Company manages and detects credit quality.

8. Current financial assets

Current financial assets in the reporting period total €/000 247,408 (€/000 296,561 at December 31, 2017) and refer to financial assets towards the parent company Lottomatica Holding S.r.l. for intercompany cash-pooling operations.

9. Other current assets

Other current assets totals €/000 zero (€/000 251 at December 31, 2017). At December 31, 2017, the amount referred to a credit to the Tax Autority for IVA.

EQUITY

10. Equity

Equity in the reporting period totals €/000 927,809 (€/000 1,003,040 at December 31, 2017) and consists of:

- *Issued Capital*: €/ 000 29,200 (€/ 000 29,200 at December 31, 2017). The issued capital consists of four pro-rata shares of the following members, based on the respective interest participation percentages:

Lottomatica Holding S.r.l.	61.5%
Italian Gaming Holding a.s.	32.5%
Arianna 2001 S.p.A.	4%
Novomatic Italia S.p.A.	2%

With effect from December 1, 2018, majority quotaholder of LOTTOITALIA S.r.l. passed from Lottomatica S.p.A. to Lottomatica Holding S.r.l. as result of the merger by incorporation of Lottomatica S.p.A. in Lottomatica Holding S.r.l.

- *Legal Reserve* totals €/000 5,840 (€/000 5,840 at December 31, 2017) fully constituted according to Italian Law;

- *Premium reserve* totals €/000 689,245 (€/000 790,156 at December 31, 2017). The €/000 100,911 movement of the period, refered to April 3, 2018, April 20, 2018, July 24, 2018 and October 24, 2018 Assembly approvals, as follow described. The stratification is showed below:

Premium reserve	
Total at December 31 ,2016	**575,000**
Capital increase (March 1, 2017)	304,000
Used in Legal reserve (April 21, 2017)	(4,751)
Return of capital (July 24, 2017)	(58,865)
Return of capital (October 26, 2017)	(25,228)
Total at December 31, 2017	**790,156**
Return of capital (April 3, 2018)	(25,228)
Return of capital (April 20, 2018)	(25,228)
Return of capital (July 24, 2018)	(25,228)
Return of capital (October 24, 2018)	(25,228)
Total at December 31, 2018	**689,245**

- *Net Income:* positive balance of €/000 203,524 (€/000 177,845 at December 31, 2017).

On date **April 3, 2018** the Company approved the financial statements for the year ended December 31, 2017 and the management report illustrated by the CEO, which presents a profit for the year of **€ 177,844,507.68**.
It should be noted that the Company, has provided for a repayment plan for the share premium reserve.
Taking into account the above, it is approved to:

- Distribute to the members, all the profits for the period, equal to € 177,844,507.68;

- Return of capital equal to € 25,227,228, by paying unpaid shares for 2017 (Q^4)

On date **April 20, 2018** the Company approved a return of capital equal to € 25,227,228, regarding first quarter 2018.

On date **July 24, 2018** the Company approved a return of capital equal to € 25,227,228, regarding second quarter 2018.

On date **October 24, 2018** the Company approved a return of capital equal to € 25,227,228, regarding third quarter 2018.

Below you'll find the a detailed chart of Equity including the origin of said equity, the possibility of use and ability to distribute, pursuant to Article 2427, paragraph 7-bis of the Italian civil code:

Nature/Description (€ in thousands)	**Amount**	**Use**	**Distribution quota**
Capital	**29,200**		
Capital reserves	**689,245**		
- Premium reserve	689,245	A-B-C	689,245
Earning reserves	**5,840**		
- Legal reserve	5,840	B	
Total Reserves	**695,085**		**695,085**
Non-distributable quota			5,840
Remaining distributable quota			**689,245**

A: Capital increase
B: Loss reorganizzation
C: Distribution

CURRENT LIABILITIES

11. Trade and other payables

Trade and other liabilities in the reporting period total €/000 22,296 (€/000 26,628 at December 31, 2017) and consist of the following:

- "Trade payables" in the reporting period total €/000 9,903 (€/000 16,839 at December 31, 2017) and include bills and invoices recorded but not paid as of December 31, 2018, accrued liabilities for costs not invoiced as of December 31, 2018. The liabilities arise from the purchase of goods and services, and for investment programs in course;
- "Related parties payables" in the reporting period total €/000 12,393 (€/000 9,789 at December 31, 2017) for activities carried out during the normal management and performance of contracts signed with correlated Companies at normal market conditions. For details, please referred to "Related parties disclosure" note.

Trade and other payables	**12/31/2018**	**12/31/2017**
Trade payables	9,903	16,839
Related parties payables	12,393	9,789
TOTAL	**22,296**	**26,628**

Trade payables are normally settled in 30-60-90 days.

12. Other current liabilities

Other current liabilities generated in the reporting period total €/000 15,803 (€/000 2 at December 31, 2017), previously related to:

- IRES payables to Lottomatica Holding S.r.l. €/000 14,363 (€/000 zero at December 31, 2017). In this regard, it should be noted that the company signed on July 27, 2018 the regulation governing the institution of national tax consolidation, as a consolidated company, for the three-year period 2018-2020 with the consolidating company Lottomatica Holding S.r.l.;
- payables to the tax authorities for VAT equal to €/000 1,439 (€/000 zero at December 31, 2017). At December 31, 2017, the Company exhibited receivables from the tax authorities for VAT.

13. Current tax liabilities

Current tax liabilities generated in the reporting period total €/000 1,766 (€/000 58,760 at December 31, 2017) and refer to IRAP due in the reporting period.
On December 31, 2017, the company exposed current tax liabilities for €/000 58,760 related to the tax payable for IRAP and estimated IRES for the year. The difference, compared to the previous year, is related to the adhesion to the tax consolidation with Lottomatica Holding S.r.l. mentioned in note 12.
According to IAS 12, current tax assets have been offset by current tax liabilities where legally applicable.
For further information please refer to the Income Tax section below.

STATEMENT OF COMPREHENSIVE INCOME

14. Revenues from contract with customers

Revenues generated in the reporting period total €/000 395,486 (€/000 363,323 at 2017). Revenues are generated by a 6% wager fee received for the activities and functions required by the new automated Lotto and other numerical fixed-odd games concession for €/000 481,008 (€/000 448,877 at 2017), net of Lotto License Fee amortization for €/000 85,556 (€/000 85,556 at 2017).

Revenues from contract with customers	2018	2017	Change
Revenues from contract with customers	481,008	448,877	32,132
“License Fee” amortization	(85,556)	(85,556)	-
Net Revenues from contract with customers	**395,453**	**363,321**	**32,132**
Other Revenues from contract with customers	**33**	**2**	**31**
Total	**395,486**	**363,323**	**32,163**

3. Raw Materials, services and other costs

Raw materials, services and other costs sustain in the reporting period total €/000 100,366 (€/000 107,379 at 2017).

Raw material, services and other costs	2018	2017	Change
Row material costs	15,096	13,104	1,992
Service costs	88,088	94,146	(9,058)
Other operative costs	182	129	52
TOTAL	**100,366**	**107,379**	**(7,013)**

The individual items detailed below.

Raw Material costs

Primary refered to “Consumable materials” for €/000 10,300 (€/000 10,941 at 2017) which refer to the uses of the year, of which €/000 3,852 (€/000 4,611 at 2017) provided by the related Company PCC GS.

Service Costs

Service costs in the reporting period total €/000 85,088 (€/000 94,146 at 2017).

Service costs	2018	2017	Change
Office allocation	9,739	9,685	54
Promotional activities and advertising campaigns	11,973	16,956	(4,983)
Consulting costs and commercial services	1,700	1,911	(211)
Related party costs	60,013	64,144	(4,131)
Financial statement certification and other cost	150	68	82
Other costs	935	756	(447)
Bank services	578	626	(48)
TOTAL	**85,088**	**94,147**	**(9,058)**

Service Costs in 2018 consist mainly of:

- “Related Party costs” total €/000 60,013 (€/000 64,144 at 2017), primary referred to network management costs. For detail, referred to note 20;
- “Promotional activities and advertising campaigns” totals €/000 11,973 (€/000 16,956 at 2017) and include advertisement and sponsorship costs. The lower costs of advertising and promotion are mainly linked to a cut in the purchase of advertising space in the media for the effect of the Decree of July 12,

2018, n. 87, (so-called “Decreto Dignità”) and partly to lower costs incurred for the purchase of advertising materials for the point of sales;

- “Point of sale assistance” totals €/000 9,739 (€/000 9,685 at 2017) and include technical assistance costs from Lotto points of sale, of which €/000 8,000 (€/000 8,000) relative to Arianna 2001 ;
- ”Technical, legal and IT consulting" total €/000 1,700 (€/000 1,911 at 2017) and refer to different types of consulting services used during the 2018 reporting period;
- “Bank services” for €/000 578 (€/000 626 at 2017) relating to the amounts pertaining to the year of the guarantee costs for €/000 578 (€/000 578 in 2017).

4. Asset depreciation, amortization, impairment and credit write-downs

Asset depreciation, amortization, impairment and credit write-downs sustained in the reporting period total €/000 15,554 (€/000 10,842 at 2017).

Depreciation, amortization and write-downs	2018	2017	Change
Fixed asset impairment losses	**9**	**-**	**9**
FDA System, equipment and other asset depreciation	**15,545**	**10,842**	**4,703**
-) FDA Equipments and terminals	15,426	10,783	4,643
-) FDA Others equipments	119	59	60
TOTAL	**15,554**	**10,842**	**4,712**

5. Financial income and expense

The Company’s financial position reports a negative balance of €/000 241 (€/000 18 at 2017) and refer to related party incomes for 12 (€/000 21 at 2017).

Financial income and expense	2018	2017	Change
Related party incomes	12	21	(9)
Other expenses	(253)	(39)	(214)
TOTAL	**(241)**	**(18)**	**(223)**

6. Income taxes

Income taxes in 2018 total €/000 75,800 (€/000 67,239 at 2017) and consist of the following:

Income taxes	2018	2017	Variazione
IRAP	14,328	12,562	1,766
IRES	61,996	54,751	7,246
Deferred tax assets	(6)	(57)	51
Taxes carried forward	(519)	(17)	(502)
TOTAL	**75,800**	**67,239**	**8,561**

The tables on the following pages show a breakdown of the deferred tax assets and liabilities as well as the reconciliation between the ordinary and effective tax rate:

Deferred tax assets *(thousand of euro)*	***Statement of financial position*** *2018*	**Asset differences** *2018-2017*	**Economic differences** *2018-2017*	***Statement of financial position*** *2017*
Amortizations	68	-	6	62
Total	**68**	**-**	**6**	**62**

Deferred tax liabilities *(thousand of euro)*	***Statement of financial position*** *2018*	**Asset differences** *2018-2017*	**Economic differences** *2018-2017*	***Statement of financial position*** *2017*
Total	**-**	**-**	**-**	**-**
Net deferred tax assets	**68**	**-**	**6**	**62**
Total net deferred tax liabilities on Statement of comprehensive income				**6**

Reconciliation of effective income tax rate

2018

Determination of effective tax rate		%
Profit before income taxes	**279,324,072**	100.00%
IRES	(61,996,579)	-22.20%
IRAP	(14,328,014)	-5.13%
Current income taxes	(76,324,593)	-27.32%
Deferred tax assets / liabilities	5,863	0.00%
UNICO contingent income taxes	518,821	0.19%
UNICO contingent defferred income taxes	-	0.00%
Total	**(75,799,909)**	-27.14%
Net income	**203,524,163**	72.86%
Effective tax rate	**-27.14%**	

Reconciliation of effective tax rate	base	%	taxes	%
Nominal IRES tax rate	279,324,072	24.00%	(67,037,777)	-24.00%
IRES differences on permanent increases	141,285	24.00%	(33,908)	-0.01%
IRES differences on permanent decreases	(21,170,729)	24.00%	5,080,975	1.82%
IRES differences on temporary increases	24,451	24.00%	(5,868)	0.00%
IRES differences on temporary decreases	-	24.00%	-	0.00%
Taxes recovery (paid abroad)	-		-	0.00%
	258,319,079		(61,996,579)	-22.20%
Previous years losses	-	24.00%	-	0.00%
	258,319,079		**(61,996,579)**	**-22.20%**
Ordinary IRAP rate on gross income	279,324,072	5.12%	(14,301,392)	-5.12%
Taxable base adjustments	250,804	5.12%	(12,841)	0.00%
IRAP differences on permanent increases	2,719,909	5.12%	(139,259)	-0.05%
IRAP differences on permanent decreases	(2,450,769)	5.12%	125,479	0.04%
IRAP differences on temporary increases	-	5.12%	-	0.00%
IRAP differences on temporary decreases	-	5.12%	-	0.00%
Abroad productions	-	5.12%	-	0.00%
	279,844,016		**(14,328,014)**	**-5.13%**
Total current taxes			**(76,324,593)**	**-27.32%**
IRAP deferred tax assets			-	0.00%
Reversal IRAP deferred tax assets			-	0.00%
IRAP deferred tax liabilities			-	0.00%
Reversal IRAP deferred tax liabilities			-	0.00%
IRES deferred tax assets			5,863	0.00%
Reversal IRES deferred tax assets			-	0.00%
IRES deferred taxes liabilities			-	0.00%
Reversal IRES deferred tax liabilities			-	0.00%
Deferred tax liabilities adjustment			-	0.00%
Adjustment for tax assets credit			-	0.00%
Other			518,821	0.19%
Total			**524,684**	**0.19%**
Total taxes			**(75,799,909)**	**-27.14%**

2017

Determination of effective tax rate		%
Profit before income taxes	**245,083,181**	100.00%
IRES	(54,750,846)	-22.34%
IRAP	(12,562,049)	-5.13%
Current income taxes	(67,312,896)	-27.47%
Deferred tax assets / liabilities	57,169	0.02%
UNICO contingent income taxes	17,053	0.01%
UNICO contingent defferred income taxes	-	0.00%
Total	**(67,238,674)**	-27.44%
Net income	**177,844,508**	72.56%
Effective tax rate	**-27.44%**	

Reconciliation of effective tax rate	base	%	taxes	%
Nominal IRES tax rate	245,083,181	24.00%	(58,819,964)	-24.00%
IRES differences on permanent increases	126,260	24.00%	(30,302)	-0.01%
IRES differences on permanent decreases	(17,326,188)	24.00%	4,158,285	1.70%
IRES differences on temporary increases	245,273	24.00%	(58,866)	-0.02%
IRES differences on temporary decreases	-	24.00%	-	0.00%
Taxes recovery (paid abroad)	-		-	0.00%
	228,128,527		(54,750,846)	-22.34%
Previous years losses	-	24.00%	-	0.00%
	228,128,527		**(54,750,846)**	**-22.34%**
Ordinary IRAP rate on gross income	245,083,181	5.12%	(12,548,259)	-5.12%
Taxable base adjustments	18,457	5.12%	(945)	0.00%
IRAP differences on permanent increases	250,886	5.12%	(12,845)	-0.01%
IRAP differences on permanent decreases	-	5.12%	-	0.00%
IRAP differences on temporary increases	-	5.12%	-	0.00%
IRAP differences on temporary decreases	-	5.12%	-	0.00%
Abroad productions	-	5.12%	-	0.00%
	245,352,525		**(12,562,049)**	**-5.13%**
Total current taxes			**(67,312,896)**	**-27.47%**
IRAP deferred tax assets			-	0.00%
Reversal IRAP deferred tax assets			-	0.00%
IRAP deferred tax liabilities			-	0.00%
Reversal IRAP deferred tax liabilities			-	0.00%
IRES deferred tax assets			57,169	0.02%
Reversal IRES deferred tax assets			-	0.00%
IRES deferred taxes liabilities			-	0.00%
Reversal IRES deferred tax liabilities			-	0.00%
Deferred tax liabilities adjustment			-	0.00%
Adjustment for tax assets credit			-	0.00%
Other			17,053	0.01%
Total			**74,222**	**0.03%**
Total taxes			**(67,238,674)**	**-27.44%**

7. Net income

The LOTTOITALIA S.r.l. net income in 2018 totals €/000 203,524 (€/000 177,845 at 2017).

8. Related Party Disclosure

Below you find information on transactions with related parties to the Group at December 31, 2018.

RELATED PARTIES - STATEMENT OF COMPREHENSIVE INCOME					
	Related	**Nature**	**Amount**		**2018**
thousand of euro	**Parties**	**of transaction**	**2018**	**2017**	**%**
Raw materials	PCC Giochi e Servizi S.p.A.	Raw material and others	3.852	1.673	100,00%
		Total raw material	**3.852**	**1.673**	**100,00%**
	International Game Technology PLC	Audit Fees	-	70	0,00%
	Lottomatica scommesse Srl	Contest	315	-	0,46%
	LIS I.P. S.p.A.	Services	-	117	0,00%
	PCC Giochi e Servizi S.p.A..	Services	26	307	0,04%
	Arianna Spa	Receivers training	8.000	-	11,70%
	Lottomatica Holding S.r.l.	Guarantee	16	131	0,02%
	Lottomatica Holding S.r.l.	Services	59.997	-	87,77%
Services	Lottomatica S.p.A.	Services	-	5.786	0,00%
		Total services	**68.354**	**6.411**	**100,00%**
Financial income	Lottomatica Holding S.r.l.	Cash Pooling	12	21	100,00%
		Totale Financial Income	**12**	**21**	**100,00%**

RELATED PARTIES - STATEMENT OF FINANCIAL POSITION					
	Related	**Nature**	**Amount**	**Amount**	**2018**
thousand of euro	**Parties**	**of transaction**	**31.12.2018**	**31.12.2017**	**%**
	CartaLis Imel S.p.A.	Shipment rolls	-	2	0,00%
Trade and other receivables	Lottomatica Italia Servizi S.p.A.	Shipment rolls	-	5	0,00%
	Sazka Group A.S.	Audit fees	26	-	100,00%
		Total trade and otther receivables	**26**	**8**	**100,00%**
Financial receivables	Lottomatica Holding s.r.l.	Cash pooling and interest income on cash pooling	247.408	269.561	100,00%
		Total financial Receivables	**247.408**	**46.612**	**100,00%**
	LIS I.P. S.p.A.	Services	-	4	0,00%
	PCC Giochi e Servizi S.p.A.	Raw materials and others	1.659	1.890	13,39%
	International Game Technology PLC	Audit fees	-	58	0,00%
	Dea factor Spa	Services	1.189	330	9,59%
	Lottomatica Holding S.r.l.	Garantee	-	-	0,00%
	Lottomatica Holding S.r.l.	Services	6.979	214	56,32%
	Arianna Spa	Receivers training	2.293	2.293	18,51%
	Lottomatica scommesse Srl	Contest	272	82	2,20%
Trade and other payables	Lottomatica S.p.A.	Administrative and professional services	-	4.917	0,00%
		Total trade and other payables	**12.393**	**9.789**	**100,00%**
Other payables	Lottomatica Holding S.r.l.	Taxes	14.363	-	100,00%
		Total other payables	**14.363**	**-**	**100,00%**

All operations engaged in with the related parties, including the intra-group operations, executed at terms and conditions that are consistent with the market and refer to mutual administrative, financial and organizational rendered services. These operations are calculated at regular market conditions (where re-saleable) or based on specific regulations. No unusual and/or non-typical operations were recognized insofar as the Company's activities and operations fall within the regular business scope of the Group Companies.

These operations do not include any financial guarantees, granted or received, for assets or liabilities with related parties.

For the period ended December 31, 2018 the Company did not register any allowance for doubtful accounts accrual on amounts due from related parties.

9. GUARANTEES

At the closing of the 2018 reporting period the Company have bank guarantees for €/000 75,000 (€/000 75,000 at 2017) related to the new Lotto concession.

10. SIGNIFICANT JUDICIAL AND ARBITRATION PROCEEDINGS AS OF DECEMBER 31, 2018

B) Litigations without legal risk provisions

Stanleybet Vs ADM / LOTTOITALIA S.r.l. (Appeal against the automated Lotto and other numerical fixed-odd games tender's notice)

Stanley has served the appeal against the automated Lotto and other numerical fixed-odd games tender's notice.
The TAR of Lazio rejected the appeal, with judgment no. 4651 of April 21, 2016.
Stanley appealed the rejection before the State Council and on May 11, 2017 it was held on decision.
On June 12, 2017, the Council of State suspended the litigation, asking to the EJ Court to pronounce on three claims alleged by Stanley, concerning the legitimacy of the Italian Law (so called "Legge di stabilità 2015") and its relevant rules on automated Lotto and other numerical fixed-odd games Tender (i.e: monoprividing concession; initial asking price of the tender equal to euro 700 million; forfeiture from the concession in case of the awarded company carries out betting activities on cross-border basis).
On October 9, 2017 LOTTOITALIA S.r.l. has filed its observations to the Court of Justice. Belgium, Portugal and the European Commission also presented their memories.
On February 14, 2018, LOTTOITALIA S.r.l. has filed a public hearing request to discuss the case before the European Court of Justice in order to challenge the observations submitted by Stanleybet. The Court of Justice public hearing took place on 6 June.
On December 19, 2018 the Court of Justice, with a specific ruling, rejected the three questions presented by the Council of State on the legitimacy of the Lotto call.

Stanleybet vs ADM/LOTTOITALIA S.r.l. (Appeal against the automated Lotto and other fixed-odd games Tender's Award)

Stanley has also served the appeal before TAR of Lazio against the automated Lotto and other fixed-odd games tender's award to LOTTOITALIA S.r.l.
The hearing has been postponed until a later date.
Likely, the decision of TAR of Lazio will be a consequence of the decision of the State Council in the appeal against the automated Lotto and other fixed-odd games tender's notice, which will depend on the outcome of the judgment of the European Court of Justice having the same object.

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Fair value

The carrying value and the fair value of financial instruments of LOTTOITALIA S.r.l. reported below in detail:

	12/31/2018		12/31/2017	
(€ in thousand)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Trade and other receivables	7,928	7,928	6,427	6,427
Current financial assets	247,408	247,408	269,561	269,561
Other current assets	-	-	251	251
	255,335	**255,335**	**276,239**	**276,239**
Financial liabilities				
Trade and other liabilities	22,296	22,296	26,628	26,628
Other current payables	15,803	15,803	2	2
	38,099	**38,099**	**26,630**	**26,630**

Hierarchy of Fair Value

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For the 2018 reporting period, the Company's financial instruments were evaluated using a Level 2 hierarchy.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Credit risk

The Company's primary credit risk is derived from cash and trade accounts receivable balances. The balance sheet shows cash and credit only with solvent and known third parties. The recovery of receivables and the collectability of sales are valued on a customer-by-customer basis, creating adequate reserves. Trade receivables are shown net of the related write-down provision. Compensation for credit risks are recorded when there is objective evidence that the company can not recover from credit. Credits are considered bad debts only if identified. With respect to the credit risk deriving from the company's financial assets, which includes cash and cash equivalents and financial fixed assets, the Company only exposes itself to risk if it derives from the counterparty default, with a maximum exposure equal to the book value of these instruments. Exposure to credit risk is managed through negotiation with financially more solid counterparties, with a high degree of credit solvency and limiting exposure with other counterparties.

For the 2018 reporting period, past due customer credits that have not been depreciated are reported below:

	December 31, 2018		December 31, 2017	
(thousand of euro)	€	%		
Current	7,901	100.0%	6,427	100.0%
Past due:				
< 30 days	-	0.0%	-	0.0%

31-60 days	-	0.0%	-	0.0%
61-90 days	-	0.0%	-	0.0%
Over 90 days	-	0.0%	-	0.0%
	-	0.0%	-	0.0%
Total trade and other receivables	7,901	100.0%	6,427	100.0%

Other expiry profiles

Compliance with IFRS 7, a summary of the residual contractual expirations of payables to suppliers is provided. The following table summarizes the time profile of payables to suppliers of the Company at December 31, 2018 based on non-discounted contractual payments:

	December 31, 2018		December 31, 2017	
(Thousands of euro)	€	%	€	%
Current	1,592	16.1%	3,066	18.2%
Past due				
< 30 days	1,366	13.8%	2,184	13.0%
31-60 days	3,967	40.1%	6,499	38.6%
61-90 days	1,428	14.4%	2,705	16.1%
Over 90 days	1,550	15.7%	2,384	14.2%
	8,311	83.9%	13,772	81.8%
Total trade and other liabilities	9,903	100.0%	16,838	100.0%

Liquidity risk

The Company's balances are transferred to Lottomatica Holding S.r.l. daily through cash-pooling operations with zero balance. Lottomatica Holding S.r.l., with its ability to generate cash, satisfy its investor, ADM and quotaholders requirements as well as its own operative requirements, is able to sustain the different variations of cash flow in a Company.

Capital management

The main objective of capital management is to ensure a solid credit score and consistent with world-wide capital markers in order to support the company's activities and maximize the value of the share. The Company manages capital, or modifies its foundations based on varying economic conditions. The Company can adjust dividends paid to quotaholders, reimburse capital or issue new shares in order to maintain or adjust the structure.

Market risk

Interest rate market risch

The Company does not report any significant risks which can be attributed to variations in interest rates.

Exchange Rate risk

The Company does not report any significant risks which can be attributed to variations in interest rates.

12. LEASING

Operative Leases – Property leases

The Company has entered into operating lease contracts deriving from property leases. In accordance with IAS 17, the related fees are recognized as costs in the income statement broken down over the duration of the contract. The following are the minimum future leases for operating leases outstanding as at December 31, 2018:

	December 31,	
(thousand of euro)	2018	2017
In the year	48	49
After the year but no more than 5 years	72	122
More than 5 years	-	-
	120	171

13. PERSONNEL

The Company does not have any personnel, but rather seconds resources from other companies in the group.

14. EVENTS FOLLOWS DECEMBER 31, 2018

There are no significant events to report following the 2018 closing.

15. OTHER INFORMATION

Directors and Statutory Auditors Compensation

The Directors do not receive any remuneration, while the Board of Statutory Auditors appointed by the Constitution, receives remuneration as per Ordinary Quotaholders' Meeting.

Indipendent auditors compensation

Service *(thousand of euro)*	**2018**	**2017**
Audit services	150	65
Total	**150**	**65**

16. FINANCIAL STATEMENT OF DIRECTING AND COORDINATING COMPANY

A summary report of Lottomatica Holding S.r.l.'s most recent financial statement, certified according to Italian accounting principles, is presented below. The financial statements below were approved by the Shareholders' Lottomatica Holding S.r.l. Meeting on April 21, 2018. The Parent Company Lottomatica Holding S.r.l., pursuant to Article 2497-bis of the Italian civil code, carries out the activity of direction and control.

COMPANY BALANCE SHEETS - Lottomatica Holding S.r.l. €/000		December 31, 2017
A)	Receivables from quotaholders for capital contributions	-
B)	Tangible, intangible and financial assets	3,026,730
C)	Current assets	239,581
D)	Accruals and prepayments	831
Total assets		**3,267,142**
A)	Equity	
	Issued capital	88,392
	Legal reserve	17,678
	Share premium reserve	1,630,618
	Reteined earings	225,448
	Profit for the year	36,141
Total equity		1,998,277
B)	Provisions	-
C)	TFR fund	-
D)	Debts	1,268,865
E)	Accruals and prepayments	-
Total Equity and Liabilities		**3,267,142**

COMPANY INCOME STATEMENTS - Lottomatica Holding S.r.l. €/000		For the year ended December 31, 2017
A)	Production value	7,063
B)	Production costs	(14,447)
Difference between Production value and costs		**(7,384)**
C)	Financial incomes and expenses	31,878
D)	Value adjustments for financial assets	-
E)	Extraordinary incomes and expenses	-
Profit before income tax		**24,494**
Income tax		11,646
Profit for the year		**36,141**

17. Allocation of Net Income in the reporting period

If you agree with the above, we invite you to approve the financial statements for the year ended December 31, 2018 and the management report illustrated by the CEO, which presents a profit for the year of **€ 203,524,162.82** inviting you to adopt the appropriate resolutions regarding the destination and distribution of the result and available reserves. It should be noted that the legal reserve is already fully established pursuant to art. 2430 of the civil code.

Taking into account the above, it is proposed to:

- Distribute to the members, all the profits for the period, equal to € 203,524,162.82;
- Return of capital, by paying unpaid shares for 2018 (Q^4) for € 25,227,777.77

To the Board of Directors
The Chairman
Fabio Attilio Cairoli

Roma, February 22, 2019

LOTTOITALIA S.R.L.

Registered Office in ROMA, Viale del Campo Boario 56/d

Issued capital Euro 29,200,000.00=

VAT code and no. enrollment with the Registered of Enterprises of Rome 13854281006

Company subject to the direction and coordination of Lottomatica Holding S.r.l.

*****   ***   *****

REPORT OF THE BOARD OF STATUTORY AUDITORS
TO THE QUOTAHOLDERS' MEETING
pursuant to article 2429 co. 2 of Italian Civil Code

To the Quotaholders,

This report was approved jointly and in time for its filing at the Company's registered office, within 15 days prior to the date of the first call of the meeting to approve the financial statements subject to comment.

The Board of Directors made the following documents for the year ended December 31, 2018, approved on February 22, 2019:

- draft financial statements, complete with explanatory note;

- management report.

General information

Based on the consolidated knowledge that the Board of Statutory Auditors declares to have with regard to the Company and with regard to the type of activity performed and its organizational and accounting structure, also with consideration to the size and problems of the Company, it is reiterated that the "planning" phase of the supervisory activity - in which the intrinsic risks and the criticalities referred to the two parameters mentioned above must be assessed - was implemented by means of a positive feedback regarding already known based on the information over time acquired.

This report therefore summarizes the activity concerning the disclosure required by art. 2429, co. 2, Italian Civil Code. as follow:

- the 2018 results;

- the activity carried out in the fulfillment of the duties foreseen by law

- considerations and proposals regarding the financial statements, with particular reference to the possible use of the exception by the Board of Directors, pursuant to art. 2423, co. 4, Italian Civil Code;

- the eventual receipt of complaints by the quotaholders referred to art. 2408 of the Italian Civil Code.

Pursuant to art. 2404 of the Italian Civil Code, the activities carried out by the Board of Statutory Auditors concerned, from a temporal point of view, the entire year, and were regularly held meetings during the course of the same year. Of these meetings have been prepared reports duly signed by unanimous approval.

Supervisory activity

During the periodic audits, the Board took note of the evolution of the Company's activities, with particular attention to contingent and / or extraordinary problems in order to identify the economic and financial impact on the result for the year and on the financial structure, as well as any risks monitored with constant frequency.

The Board then assessed the adequacy of the organizational and functional structure of the Company and its possible changes with respect to the minimum requirements based on the Company performances. The Board has no observations to propose.

On the basis of what was possible to find during the activity carried out during the year, in conclusion, the Board of Statutory Auditors can state that:

- the quotaholders and Board of Directors decisions taken, have been in compliance with the Italian law and with the Company by-laws and such decisions have not been obviously imprudent or such as to definitively compromise the integrity of the Company’s issued capital;

- sufficient information was acquired regarding the general performance of operations and their foreseeable evolution, as well as the most significant transactions, in terms of size or characteristics, carried out by the Company;

- all the operations were also compliant with the Italian law and with the Company by-laws and they are not in potential conflict with the Quotaholders’ Meeting resolutions or such as to compromise the integrity of the Company's issued capital;

- no specific observations are made regarding the adequacy of the organizational structure of the Company, nor with regard to the adequacy of the administrative and accounting system, as well as the reliability of the latter in correctly representing the operating events;

- we monitored the financial reporting process;

- during the supervisory activity, as described above, no other significant facts emerged that would require other information on this report;

- no action was required due to omissions of the Board of Directors pursuant to art. 2406 of the Italian Civil Code;
- no complaints were received pursuant to art. 2408 of the Italian Civil Code;
- no complaints have been filed pursuant to art. 2409, co. 7, of the Italian Civil Code;
- during the year the Board of Auditors did not issue opinions.

Financial Statement

The financial statements proposal for the year ended December 31, 2018, which show a net equity of Euro 927,808,788, was approved by the Board of Directors and consists of statement of financial position, income statement, cash flow statement and explanatory notes.

Furthermore:

- the Management Report has been prepared by Board of Directors pursuant to art. 2428 of the Italian Civil Code;
- the documents have been handed over to the Board of Statutory Auditors in time to be deposited at the Company's headquarters accompanied by this report, regardless of the deadline set by art. 2429, co. 1, of the Italian Civil Code;
- the independent audit is entrusted to the auditing firm PRICEWATERHOUSE COOPERS S.p.A. who has prepared his report on March 11, 2019, pursuant to art. 14 Legislative Decree January 27, 2010, n. 39. His report does not highlight findings for significant deviations, or negative judgments or impossibility to express an opinion and therefore the judgment issued is positive.

Therefore, the financial statement proposal was examined, on which the following additional information is still provided:

- attention was given to the approach given to the financial statement proposal, to its general compliance with the Italian law as regards to its drafting and structure. There are no observations to be highlighted in this report;
- the Board of Directors, during the drafting of the financial statements, did not derogate from the legal provisions pursuant to art. 2423, co. 4, of the Italian Civil Code;
- the financial statements have been prepared by the Board of Directors on the basis of going concern assumption;
- The board reviewed the compliance of the financial statement with information and events available to his knowledge in the performance duties of this Board. Furthermore, this Board has no specific observations to report.

Net income

The net income verified by the Board of Directors for the year ended December 31, 2018 amounts of Euro 203,524,163 and the Board of Statutory Auditors agrees with the proposal of the Board of Directors reguarding its destination.

Final opinion

Based on the above and for what has been brought to the knowledge of the Board of Statutory Auditors and found by the periodic checks carried out, and also considering the results of the activities performed by the independent auditor contained in the audit report, to which is referred, the Board of Statutory Auditors deems that there are no impediments to your approval of the proposal of financial statements for the year ended December 31, 2018, as it was drafted and presented to you by the Board of Directors.

Finally, we would like to informe you that with the approval of the financial statements for the year ended December 31, 2018, the mandate given to us has expired, so as to thank you for the trust you have placed in us, we invite you to take action.

Roma, March 11, 2019

The Board of Statutory Auditors

Dott. Roberto Spada

Dott. Francesco Martinelli

Dott. Giuseppe Pizzorni

Independent auditor's report
in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010

LOTTOITALIA Srl

Financial statements as of 31 December 2018

pwc

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010

To the quotaholders of
LOTTOITALIA Srl

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of LOTTOITALIA Srl (the Company), which comprise the statements of financial position as of 31 December 2018, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C .F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010

Management of LOTTOITALIA Srl is responsible for preparing a report on operations of LOTTOITALIA Srl as of 31 December 2018, including its consistency with the relevant financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of LOTTOITALIA Srl as of 31 December 2018 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the financial statements of LOTTOITALIA Srl as of 31 December 2018 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Rome, 11 March 2019

PricewaterhouseCoopers SpA

Signed by

Massimiliano Loffredo
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers